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## OPEC and the strategy of oil

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of the national income in 1963, 0.55 per cent in 1966). Technical aid in particular was increased in 1965 by two additional programmes.

After 1965 the Kingdom's territories overseas received almost the whole of the government's bilateral aid. In 1962 and 1963 the Netherlands joined the OECD-organisations for Greece and Turkey as well as the World Bank's organisations for Colombia, India, Nigeria, Pakistan, Sudan, and Tunisia. This led to a wider geographic distribution, but the main emphasis remained on the territories overseas (Surinam and the Dutch Antilles).

Dutch loans within the framework of development aid are divided into three parts: 1. Credits to assist the development plans of Surinam and the Dutch Antilles, these credits are in practice interest-free and run for 25 to 30 years. 2. Credits to countries belonging to one of the aid organisations; these credits carry on average an interest of 3 per cent and extend over a period of some 25 years with seven redemption-free years. 3. Credits to Latin-American countries (interest rate about 6 per cent).

Loans to countries belonging to an aid organisation invariably take the form of programme-aid and are granted on condition that any purchases arising from these loans must be effected in the Netherlands. With this one exception no aid is tied to any special programmes or projects, nor are there any conditions attached with regard to deliveries.

The foundation for the Swedish aid programme in its present form was laid in 1962 with the passing of the

Development Assistance Act. Since then Swedish government aid has steadily grown in volume; it trebled from 1961 to 1963, doubled from 1962 to 1965 and rose by nearly 50 per cent from 1965 to 1966.

In the field of technical aid Sweden distinguishes itself from other donor-countries through its pioneering efforts in the vocational training of women and girls especially in the middle-range professions and in family-planning programmes. Moreover, Sweden is the only country to have voluntarily increased its contributions to the IDA. The percentage-share of net contributions to multilateral organisations has declined, it is true (1960: 85 per cent; 1965: 54 per cent), but the main emphasis of Swedish aid has remained on these endeavours. The principal beneficiaries of bilateral grants are India, Pakistan and Ethiopia. Technical aid is concentrated on relatively few countries. Credits for purposes of financing capital projects run for an average of 20 years, remain redemption-free for five years and carry an interest of 2 per cent. Such credits have only been granted, on a bilateral basis, since 1963 as part of an experimental programme. In the meantime the same conditions obtain for all credits. Since 1963 when the bilateral credit-programme came into being all loans, with the exception of those granted to India, have been for special projects — projects that are mainly concerned to build up the infrastructures for farming and the fishing industries. On principle Sweden in granting credits does not insist on any Swedish goods being bought by the recipient country.

## Arabian Gulf

# OPEC and the Strategy of Oil

by Professor Dr M. R. Kumara Swamy and Ali Jaidah, Doha/Qatar

**Q**atar's oil bearing potential was discovered in 1930, but only after World War II field activities started on a large scale. Two companies are producing crude oil in Qatar, the Qatar Petroleum Co Ltd—an affiliate of Iraq Petroleum Company—and the Shell Company of Qatar Ltd, which received concessions for offshore exploration. With that the Royal Dutch-Shell Group is by far the biggest oil producer in Qatar, for it possesses 23.7 per cent of Iraq Petroleum Company, too. In 1966 the two companies extracted 13.7 mn barrels of crude oil, nearly all of which was exported.

### **Dependency on Oil**

Qatar lives on oil, it is the most important economic factor and the main source of government revenue. Oil gave the incentive to setting up some other in-

dustries and offers the hope for further development. Oil has brought many upheavals to Qatar and social norms and customs have had to adjust accordingly. The process is still going on. As its legislative fabric has gradually consolidated, Qatar has been able to modernise its social patterns within the framework of its Arab patrimony, religion and traditions. This has been a major factor in the nation's orderly development. Universal education is by far the most important factor in the country's society. A lion's share of Qatar's total oil revenue is allocated to this purpose.

Qatar, the unknown country at the Arabian gulf represents nevertheless all problems of oil-producing countries which depend heavily on one or two foreign companies. Therefore the Organisation of Petroleum Exporting Countries (OPEC) was established at a

conference held in Baghdad by the five major oil-exporting countries Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Qatar attended the Conference in 1960 as an observer and joined in 1961; Libya and Indonesia joined in 1962 and Abu Dhabi became the ninth member in 1967.

OPEC has grown to play an important role in symbolising the common cause of oil exporting countries, representing their legitimate interests and negotiating on their behalf on issues that are linked by definition with the very foundation of OPEC.

### **Creation of OPEC**

The immediate cause that led to the creation of OPEC, however, was the substantial reductions in the posted prices of oil in the entire Middle East on the basis of which Government revenues are calculated and which were effected by the oil companies in February 1959 and August 1960. These reductions, which averaged a total of \$ 0.27 per barrel, were a clear reminder of the oil companies deliberate misuse of monopoly rights thus hindering economic development. Since member countries were paid 50 per cent of the net profits calculated on posted prices, this meant that a country with a production of 1,000,000 barrels per day, has lost a total of \$ 135,000 a day since the price cuts. Although price cutting may, in the short run, seem desirable in the case of consumers, it is highly unprofitable in the case of oil producers. Through OPEC, the exporting countries could, for the first time, face the international major oil companies as a team. Previously, the major companies were in a position, through joint ownership of concessionaire companies in the Middle East, to practise collective bargaining in their dealings with the exporting countries on the issues of royalties. Elimination of allowances are of vital interest to all oil producing countries in the Middle East. OPEC Resolution IV. 33 of June 8, 1962, which deals with the royalty issue states: "that companies enjoying in member countries the right of extracting petroleum which is a wasting asset should in conformity with the principle recognized and the practices observed generally in the world, compensate the countries for the intrinsic value of such petroleum apart from their obligations falling under the heading of income tax." Thus, in resolving that oil royalty should be treated as an expense and not as a credit against income tax liabilities, OPEC logic was pure and simple; royalty should be treated as a cost because it is a cost. The oil companies them-

selves treat it as such in their books and there is no reason why it should be treated otherwise when dealing with the Governments of the host countries. The financial effects of stabilising the posted price level at a higher level through royalty expensing in addition to the elimination market discount and other allowances are to increase the oil revenues of the member countries.

### **Weak Position of Oil-Producing Countries**

What has alarmed member countries most of all is the prospect of prices spiralling downwards in the face of a long range world wide surplus in producing capacity and concurrent against what appears to be a long term trend towards increasing prices of manufactured goods, almost all their requirements of which they have to import. The danger they feel to face is of being driven into the almost disastrous position where some producers of primary commodities now find themselves. An additional concern is that petrol is a wasting asset — it is doubtful whether there will be any petroleum left after say 50 years.

Member countries are painfully aware that they cannot afford to see their natural resources squandered at low prices, particularly as these prices do not benefit the ultimate consumer in any appreciable measure, because refined products are submitted to extremely heavy taxation in consuming countries. For example, the UK in one year collects more in excise taxes on motor gasoline than Iran and Saudi Arabia together receive in revenue on their total crude production. All these instances do indicate that the oil companies who are contractors for the host countries are taking advantage of their cartel rights putting the producing countries at a huge loss and hence hindering economic development.

It would be something if price decreases could be expected to eliminate surplus producing capacity so that an increase of stability would be restored through the working of normal market forces. But unfortunately, the industry does not respond freely to normal market forces, and member countries are thus treated to the spectacle of world wide exploratory efforts in which many millions of dollars are spent in the search for oil by those very companies which hold large surpluses in producing capacity inside member countries. The reason that companies continue their search for oil while holding surpluses is that they wish to attain greater security of supply through diversifica-



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tion of their sources, the net result of which is that the low cost producers in the Middle East are in effect penalised.

### **Manipulation of Export Prices**

Sometimes indeed the price at the point of exportation appears to bear very little relation to what it is when the commodity enters the processing country. Naturally, there will be some difference because of freight and insurance, but the rise in prices during the voyage may be several times as much as could be accounted for by normal shipping charges. The price of one well known "crude" jumps over 30 per cent in a voyage of a few hundred miles. The reason for this is that a subsidiary company registered in a "tax haven" (such as Panama or the Bahamas) acts as an intermediary, so that part of the profit is tax free. Another difficulty is that a share of the overhead expenses of head offices is often included on the cost side of the declaration. Just how much overhead should be charged against a particular branch is a difficult problem, even for expert tax officials in developed countries, let alone for the member countries' tax staff. Again the companies can suit their own convenience, and it would not be hard for them to arrange matters so that the total of the administrative expenses (or service fees) declared in all the countries where they operate exceeded the total actually paid, yet the companies' estimates of the cost of operation are often passed without even a check. Therefore, there is an urgent call for a concerted action among the member countries in that they, through OPEC, exchange pricing information for different types of crude.

It seems that OPEC will continue to play an increasing role regarding the fixing of crude oil prices. The oil companies will increasingly lose their influence on price making. By this method one can expect to obtain a stable price needed for a rational economic development.

OPEC should continue to take a greater and greater share in the economic development of these countries by rendering technical and financial assistance needed for smooth economic growth.

### **Lack of Information**

Similarly the data published may be conspicuously uninformative regarding the most important industry in the country. If one asks for the reason of this state of affairs, one is answered that precisely because such

companies are so important, a government may be afraid to ask them awkward questions lest they should pack up and go away. Sometimes the tax authorities are warned by the politicians not to be too inquisitive and foreign companies may be exempted from a census of production. Often the governments get in taxes whatever the companies decide to hand over. The trouble is that governments do not know what their bargaining position is, and they do not by themselves even know how to find out. Foreign oil companies try to spread the idea that their local activities are barely worthwhile (QPC letter of February 1968 to the Government of Qatar), and are kept going because of sentiment rather than business strategy; and this propaganda makes some impression where it cannot be answered. The metaphor of the golden egg and the goose is often cited, and it is sometimes to the point — but one must be suspicious when it comes from the mouth of the goose.

A different set of problems arises when a country like Qatar is trying to attract companies to invest in developing geological deposits. They need information; it is important for them to know just what profits the company would need to choose Qatar. Because of ignorance on these questions, member governments do not merely lose taxes that are due to them. They often misjudge what incentives such as tax "holidays" or depletion allowances are needed to induce foreign companies to establish or extend productive facilities; they cannot easily make up their minds what the rate of tax should be; they are not in a position to decide whether more effective use could be made of concessions or of land belonging to the companies concerned.

### **Cooperation among OPEC Members**

It would be of help if member governments exchanged data on the tax declarations of the oil companies concerned. Difficulties of cooperation arise, however, when the governments are exporting the same type of crude, and companies can point to the principle of confidentiality of a tax return. OPEC should certainly use its negotiations with the companies with regard to an exchange of information on tax returns. OPEC could on request of member governments provide technical assistance to tax collection offering its highly qualified staff and information from trade papers, sending out questionnaires, etc. Further, OPEC can brief member governments on the structure of the industry concerned — the position of various firms,



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the sales trends in different areas, tax laws in other countries, and so on. Still further, OPEC could help draft standard tax and other legislation, so as to reduce competitive bidding for new entrants from abroad. Finally, OPEC may voluntarily advise member governments on how they should proceed in their relations with foreign firms.

OPEC may find it worthwhile to adopt a standard method of obtaining adequate information pertaining to all development activities as, for instance, developing the geological deposits and including such things as profits, expenses, prices, length of lease, depletion allowances and other technical data for the oil companies.

## **Indonesia**

# **Regional Development and Migration Policy**

by Dr Azhari Zahri (University of Singapore)

**T**he rapid growth and the unequal geographic distribution of population are two aspects of the demographic problems facing Indonesia. Three measures for solving these problems that have been supported by the Indonesian Government, as provided in the first Five and Eight Year Plans, are: transmigration to other islands; community development, including agricultural improvement; and industrialization.

The migration program is a crucial necessity for Indonesia, not only because industrialization alone cannot solve the problems, but also because the shortage of labor for expanding the production of foodstuffs and export materials in the leading export islands outside Java can be alleviated only if there is sufficient migration from Java. However, to say that the migration program is a crucial measure is not enough. The success of the program depends on the success of the government in promoting regional development outside Java. The construction and rehabilitation of various kinds of infrastructures ranging from irrigation projects, roads, railways, and electricity supplies to hospitals and schools, are necessary for the promotion of internal migration.

### **Population Problems**

Although many Indonesians thought that the achievement of complete independence would automatically eliminate poverty, the failure of production to expand faster than the population—at least during the past seven years—has destroyed this hope. The hopes for a higher standard of living and a better life, which inspired the Indonesian people during their struggle for liberation and the war for independence, have not yet been realized.

It is generally accepted that the gravest social and economic problem facing most less developed countries is the rapid growth of their populations. In Indonesia, however, the rapid growth of the population is complicated by its unequal distribution. The Government of Indonesia, like the Dutch Colonial

Administration, seems to be concerned more with the latter than the former aspect, and the government has made many attempts to solve the problem of uneven distribution of population, notably by internal migration. However, there has been very little effort made, if any, to control the rapid growth of population in the country. As birth control is neither popular nor practical and the public health programs have reduced the death rate, the rate of population growth will probably remain high.

### **Uneven Distribution of Population**

Overpopulation in Indonesia exists primarily on Java and in some parts of Celebes and Sumatra. The island of Kalimantan (Borneo), the Lesser Sunda Islands, the Moluccas and West Irian are still underpopulated. This demographic distribution was originally brought about by the central geographic and economic position of Java and subsequently aggravated by the location of Dutch colonial headquarters on the island. Two-thirds of the Indonesian people live on Java, the area of which comprises only seven per cent of the whole archipelago. The density of population on the island of Java was 308 persons per square kilometer on the average in 1930, while in the outer regions it was about 10, and for Indonesia as a whole it was 31. The total population was 109.6 million in 1966, of which about 71 million live on Java and 38.6 million in the outer regions. With an area of 132,000 square kilometers, Java has a current density of approximately 537 persons per square kilometer. The outer islands of Indonesia, with an area of 1,772,000 square kilometers, have a density of only 21 persons per square kilometer, and the country as a whole has an average density of 57 persons per square kilometer. The distribution of population is also uneven in the outer islands. An island like Bali, for instance, has a density of 321 persons per square kilometer, but West New Guinea and Kalimantan, have figures that are even below the general density figures for the islands other than Java, about 1.8 and 7.8 persons respectively.