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OAPEC

## The Power of the Oil Countries

by Juan Carlos Arriagada, Hamburg \*

**What will be the consequences of the oil producing countries' strong market position for these states themselves as well as for the industrial nations relying on the inflow of oil?**

Regardless of their one-sided mono-“culture” the oil producing countries have a market position allowing them to a far reaching extent to determine the trade conditions for their product. The demand for mineral oil grows continuously and is already so high that the suppliers benefit from the advantages of a sellers market in the shape of rising prices, guaranteeing them steadily increasing foreign exchange income. This situation has its repercussions in the oil countries themselves as well as on the oil imports of the industrial countries relying on the inflow of oil.

### **Safeguarding of Energy or Recession**

A vital problem, in this context, is the future safeguarding of energy. Present events bear witness to the fears about the possibility of an oil embargo by the Arab oil exporters as a means of political pressure against support of Israel by some industrial countries. The first move in this direction has been the scaling-down of oil deliveries to the Netherlands. Further measures followed in the wake of a meeting of the OAPEC-countries<sup>1</sup> towards the middle of October in Kuwait. Having decided originally on a curtailment of production by 5 p.c. each month, the OAPEC-countries subsequently, at the beginning of November, decided to reduce the oil production immediately by 25 p.c., and even this rate of reduction is to be extended by further 5 p.c. per month probably from January on.

These measures are apt to hit the industrial countries noticeably. A lasting supply-bottleneck could very quickly lead to an economic recession of yet unforeseeable proportions. The victims of the oil embargo are not only private households but also quite a few key industries, which could be the beginning of a cumulative process of general recession.

The OAPEC-countries have ample means at their command to maintain their boycott for quite some

time. But it is still uncertain whether it could be carried on indefinitely. After all, it must not be overlooked that those countries themselves are not directly participating in the activities of war, that they are in need of their export revenues especially if and when it is their intention to help finance the armament of other Arab countries, and, furthermore that commercial considerations may in the end well prove weightier than many a political aspect. All the same, though, the energy problem entails increasing dependence of the industrial countries on a small number of oil suppliers. There has been talk for some time of “the oil suppliers becoming masters over the industrial countries”<sup>2</sup>. The world's future energy requirements, to say the least of it, lead to the suspicion that the trend is going in this direction. It has, for instance, in the USA been ascertained that in order to reach the expected increase of the standard of living a stepping up of productivity would be a pre-requisite that, in turn, would increase the per-head consumption of energy in 1985 by 66 p.c. against 1970<sup>3</sup>. The same would in principle also apply to the other industrial countries.

### **Dangers for the World Monetary System**

It is feasible that the achieving of a higher standard of living in many developing countries and the population increase throughout the world could have similar effects on the world's energy requirements. This underlines the growth of the demand that will fall upon the OPEC-countries in the next decade. Some of these countries, mainly those in the vicinity of the Persian Gulf, have already budgets exceeding all domestic needs. Financial experts find themselves confronted with the unique question whether there might perhaps not have to be an upper limit for a state's revenue “beyond which it could be cumbersome or even dangerous

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<sup>1</sup> OAPEC: Organisation of the Arab Oil Exporting Countries.

<sup>2</sup> „Öllieferanten werden zu Herren der Industriestaaten“ (Oil suppliers become masters over the industrial countries) in: Süddeutsche Zeitung No. 82, Munich, April 7, 1973.

<sup>3</sup> The Chase Manhattan Bank: Outlook for Energy in the United States to 1985; June 1972, page 12.

Table 1  
Export revenue of the OAPEC-countries 1966–1972  
(US-\$ in mn)

	1968	1969	1970	1971	1972
Algeria	831	938	1,009	915	1,254
Iraq	1,037	1,049	1,105	1,532	1,525
Libya	1,866	2,167	2,366	2,419	2,470
Kuwait	1,675	1,898	1,877	2,447	2,790
Saudi-Arabia	1,691	2,103	2,424	3,889	5,221
United Arab Emirates	198	213	241	363	571
Total OAPEC	7,298	8,168	9,022	11,565	13,835
Indonesia	751	831	1,009	1,242	1,733
Iran	1,870	2,094	2,412	3,457	3,941
Venezuela	2,854	2,897	3,203	3,295	3,414
Total OPEC	12,769	13,990	15,646	19,559	22,923

Source: IMF-Direction of Trade, Annual 1968–72.

for any state" <sup>4</sup>. In this connexion, the thoughts of monetary experts are occupied with the dangers for a properly functioning world monetary system stemming possibly from an inadequate utilisation of those accumulated sums of money.

The far reaching and lasting activation of the performance balance of a few former LDCs has led to a hitherto unknown monetary situation. One of the symptoms is that in some oil countries enormous foreign exchange balances have been accumulated that are, as a rule, employed by them in the Euromarkets. But apart from this, the foreign exchange flow into these countries tends to increase substantially; between 1970 and 1972 for example the export proceeds of the Arab oil countries grew from 9 to 14 bn US-Dollars.

Already today some Persian Gulf countries and Libya can call upon enough purchasing power effectively to upset any one of the reserve currencies by purchases, or sales, of this particular reserve currency. The revenues of these countries last year alone would have been sufficient for the buying-up of the 10 largest public limited companies in Germany at their present market valuation <sup>5</sup>.

It is not possible to put one's finger on the exact size of international liquidity of the oil countries. About this, a line has to be drawn between official and private liquidity. On the strength of the vast difference between the trade surpluses accumulated by the OPEC-countries in the last 4 years on the one hand, and the size of their reserves plus net foreign exchange balances of the commercial banks and the dollar-claims on the USA, on the other hand, it may be assumed that there are massive sums of money in the international money markets that belong to the rulers of those countries personally or are the personal property of the

owners of the oil fields – sums of money which are of course not shown in international reserve statistics.

Compared with their foreign exchange income expected during the next few years, the present currency reserves of the OPEC-countries appear but small. The results of estimates are rather different because many imponderabilities have to be taken account of over a relatively long period of time. But it is fairly safe to assume that by 1985 the OPEC-countries will have accumulated something like 150 bn US-dollars <sup>6</sup>. The consequences for the industrial countries are bound to be very significant. In the first place they will be forced to earn the foreign exchange necessary for the import of crude oil. The better the performance balance of a country as a result of other activities, the more there is a guarantee of safe oil supplies, provided, of course, no country will be able to finance chains of deficits by way of newly created international liquidity.

#### Domestic Investment of Foreign Exchange Income

The most appropriate utilisation is the re-investment of the export proceeds in their own country: the import of means of production, installations, raw materials, semi-finished products and technical and commercial "know-how" for the building-up of their industries, their trade and their distribution systems with the target of expediting their economic and social development. But there is

<sup>4</sup> Total revenues of these countries will between 1973 and 1985 amount to approximately 250 bn US-dollars and "their capital requirements for investments in their own sphere will at the same time be 110 bn dollars at most". From: Petroleum Press Service, "Discussion about Energy Problems", Yr. XL, No. 5, May 1973, page 77.

Table 2  
Official international liquidity of the OPEC-countries <sup>1</sup> at December 31, 1972  
(US-\$ in mn)

Country	Reserves of the Central Banks <sup>2</sup>	Total IMF position <sup>3</sup>	Big banks net	Claims on the USA <sup>4</sup>	Total
Algeria	493	307	-49	32	783
Iraq	733	297	26	10	1,066
Libya	2,925	52	47	399	3,417
Kuwait	363	146	1,454	39	2,002
Saudi-Arabia	2,512	290	265	344	3,411
Total OAPEC	7,026	1,092	1,743	818	10,679
Indonesia	563	558	—	108	1,229
Iran	993	447	—	83	1,533
Venezuela	1,732	686	105	1,438	3,961
Total OPEC	10,314	2,783	1,848	2,457	17,402

<sup>1</sup> Without United Arab Emirates.

<sup>2</sup> Foreign exchange reserves and other foreign exchange claims of the Central Banks.

<sup>3</sup> IMF quota and credit tranches less credits taken up.

<sup>4</sup> Dollar assets reported by US.

Source: IMF International Financial Statistics, Vol. XXVI, No. 9, September 1973.

<sup>4</sup> Problems for Billionaires, In: Petroleum Press Service, Yr. XL, No. 2, London, February 1973, page 42.

<sup>5</sup> See footnote 2 above.

room and opportunity for this investment possibility in but a few countries. The fact is that in some of the smaller and less populated oil producing countries, particularly in Libya and the Arab countries on the Persian Gulf, the income from the export of oil is so high that even at most intensive investment activity only a fraction of it can be deployed domestically.

At present the bulk of these surplusses preferably flows into the international money and capital markets. Considering that the existing foreign exchange balances of the OPEC-countries are already a major uncertainty potential for ailing currencies, one can only think of their future danger potential as to be of incredible dimension. In view of the fact that a further spread of the evil of vagabondising currencies would benefit no-one, all countries within the monetary community should try to find new ways and means for the long-term utilisation of those balances.

There have been attempts in this direction. For instance, some Arab countries participate, through state-owned companies, in the processing and distributing of oil products. The beginnings are looked upon as modest ones so far. The initial phase of this development is characterised by public companies' participation in all plants for the production of mineral oil and natural gas inside their home country. On 1st January "agreements on participation have come into force between the important Arab oil producing countries on the Persian Gulf and the international oil concerns in the instance of Saudi-Arabia and Abu Dhabi, and they have been followed in the cases of Kuwait and Qatar"<sup>7</sup>. Occasionally there are excesses of this sort of policy, like, for instance, the expropriation of the international oil companies operating in Libya. On the one side, increasing participations

by the oil producing countries bring about a growth of their financial share in search and production activities. But, on the other side, they achieve higher export income as a result of growing profit shares. Seeing the problem from this aspect, a policy of participations in their country can lessen the burden only over the short or medium term.

### Aspects of a "Downstream" Policy

It therefore stands out that what one will have to aim at would be the opening of attractive possibilities for these countries to export capital. Some endeavours in this direction aim at participation of Arab public companies in the processing and the distribution of oil products abroad, which is to say in the consumer centres. So, for instance, Saudi-Arabia is interested in the obtaining of a special position in the American market. Thereagainst, it offers to take upon it a share in the investments of the oil industry and is also prepared to give certain supply guarantees. Iran, too, shows an interest in similar projects. This "downstream" policy might indeed lead to a back-flow of part of those foreign exchange revenues to the oil importing countries and additionally have some other positive effects, because "the deeper the oil producer becomes engaged in this business, the less likely an oil embargo for political motives would be"<sup>8</sup>.

A further aspect of the downstream policy is the handing-over of the transportation of the crude oil to the producers. Also in this field, there have already been beginnings. Early in 1973, the Kuwait National Petroleum Company ordered 10 large oil tankers valued at 400 mn US-dollars. There are at present investigations by the community of Arab oil producing countries into the question of the building-up of a Pan-Arab tanker fleet<sup>9</sup>. In view of the necessarily rapid growth of carrying capacities, this aspect need not inevitably be to the disadvantage of the already existing tanker companies; a substantial part of oil shipments is anyhow carried out by way of chartering of loading capacities.

The aspect of a shifting of oil refining into the production countries has also been discussed. But it has been found, as result of deeper investigations, that the cost of the transportation of refinery products would be higher than those of the shipping of crude oil<sup>10</sup>. For commercial reasons it will therefore be more advantageous to process the crude oil in the consumer centres. In spite of this, Iran

<sup>7</sup> "New Deal" in the Middle East, in: Petroleum Press Service, Yr. XL, No. 2, London, February 1973, page 44.

Table 3  
Trade surplusses of the OPEC-countries,  
1968-1972  
(US-\$ in mn)

Country	1968	1969	1970	1971	1972	Total
Algeria	23	-71	-248	-550	-534	-1,379
Iraq	624	616	601	704	482	3,027
Libya	1,215	1,491	1,811	1,603	1,185	7,305
Kuwait	1,063	1,052	1,254	1,597	2,027	6,993
Saudi-Arabia	1,199	1,356	1,713	2,971	3,973	11,212
United Arab Emirates	78	60	100	166	277	680
Total OAPEC	4,203	4,505	5,231	6,490	7,410	27,838
Indonesia	-11	-56	-80	43	77	-26
Iran	477	709	670	1,242	1,266	4,364
Venezuela	1,296	1,324	1,432	1,454	1,213	6,719
Total OPEC	5,964	6,483	7,254	9,229	9,966	38,896

Source: Own calculations from IMF-Direction of Trade, Annual 1968-72.

<sup>8</sup> See "Wohin fließen die OPEC-Milliarden?" (Where do the OPEC-billions flow to?), in: Finanz und Wirtschaft No. 22, Zürich, 21st March 1973.

<sup>9</sup> Problems for Billionaires, in: Petroleum Press Service, see above, page 43.

<sup>10</sup> See: "Die Scheiche kommen" (The Sheikhs Are Coming), in: "Die Zeit", No. 4, Hamburg, 19th January 1973.

has approached the German Federal Government with the offer to supply 25 mn tons of mineral oil products annually if this quantity was to be refined in Iran<sup>11</sup>. For reasons of the supply guarantee as part and parcel of the offer, and because of international political considerations, this offer might yet be accepted.

### Participation In International Oil Concerns

A further possibility which is already being partly practised is the overseas search for, and the production of, crude oil by the national oil companies. The National Iranian Oil Company is presently a partner in the North Sea production. As the international oil concerns are at present faced with a liquidity bottleneck they should welcome a financial participation. It is estimated that more than 365 mn US-dollars will have to be found until 1980 for the exploitation of oil fields and the processing of the crude oil, a sum of money which the oil concerns can in view of their unfavourable profitability ratio just not muster<sup>12</sup>.

The inclination of the oil countries towards investing exclusively in the oil industry and, secondly, in the industrial countries, springs to mind. But it is understandable. Oil, after all, is the only branch of industry and the economy where they feel to be on their own ground, and the industrial countries were, and are, their sole partner. During the process of becoming rich fast, there was no time to enter into new ties. With the thought in mind that especially the industrial countries should, in view of the potential dangers for the world monetary order, be interested in those masses of money being permanently invested, one could expect that they might support the oil countries with their first ventures into other branches of industry.

### Alternatives In Developing Countries

Somewhat further afield, investments in LDCs would seem to be nonetheless an even more

desirable investment alternative. Direct investments of this nature could at once substantially further the development of the poorer nations suffering, as it were, continuously from financial obstacles. Secondly, much further reaching investment possibilities would thus offer themselves to the oil countries than can be the case with the restricting of investments to the almost saturated markets of countries that have already reached certain growth limits. Thirdly, such a policy would also benefit the industrial countries inasmuch as there would then be less anxiety about their own currency and the national monetary policies as a result of a boundless widening of the international foreign exchange markets. Finally, there would also be advantages for the entire world economy because of investments flowing to fields where they are needed most. Any improvement of prosperity in LDCs also helps the trend of the industrial countries' exports and thus a widening of the margin of their balance-of-payments required for energy imports.

The reasons of the obstacles against direct investments by the oil countries in other LDCs are to be found chiefly in their pronounced striving after security and their lacking knowledge of concrete projects in an alien regional and structural environment. They also do not possess the technical and commercial know-how. It is therefore rather unlikely for them to become active in this direction in the foreseeable future. But what could be launched already today are financial participations by the oil countries in direct investments of firms from industrial countries in third countries. Whereas, for that matter, the oil countries lack the transparency, the relations and the specific know-how necessary for direct investments under their own steam, companies on their part more often than not are short of the frequently enormous financial means in order to make headway with investments advantageous for the investor. This parallelism of the interests might conceivably contribute towards the solution of the problem of securing a more rational utilisation of future foreign exchange income of the OPEC-countries in many respects.

<sup>11</sup> See: Federal Ministry of Economics, Daily Bulletins, Bonn, 16th August 1973, page 2.

<sup>12</sup> "The Sheikhs are coming", op-cit., and Petroleum Press Service, Discussion about Energy Problems, page 39.



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