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OPEC: Slippery oil

Intereconomics

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COMMENTS

EC Transport Policy

A Negative Report

The statement in the EC Commission's report for 1974 that the past year was marked by a reorientation of the common transport policy has amazed outside experts as much as those engaged in the transport industry. Even the well-meaning observer of the Brussels scene will look in vain for evidence of the acclaimed new course. Exaggerated enthusiasm about a noticeable improvement of the atmosphere in the Council of Ministers must not lead to the assumption that the failures of the past will soon be followed by tangible and durable achievements. There are still many tasks to be accomplished. The old and ever new question whether the transport market is to be liberalized before the terms of competition are harmonized or not is still a bone of contention although a modest partial success has indeed been achieved on "pick-a-back" transport. The same applies to the efforts for a common policy on shipping, ports and aviation and to many individual problems such as the system of road cost allocations.

It would be cheap and wrong to blame the Commission for irresolution in marking out a clear course for the European transport policy. On the contrary, by setting up working groups and putting out various reports it has shown an assiduity which would do credit to many a national government and the men responsible for transport policies. Faith alone however does not remove mountains — at least not while national self-interest and obstinacy make the design and pursuit of a jointly sustained European transport concept impossible. Once again the achievement has fallen short of the objective. The transport industry is not alone in having to learn a bitter lesson.

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UNCTAD

No Charter for the Industrial Countries

The dreaded clash between industrialized and developing countries did not occur at the spring meeting of the UNCTAD Raw Materials Committee which sat in Geneva for three weeks. On its agenda was the "Integrated Action Programme for Raw Materials" for which UNCTAD Secretary General Gamani Corea submitted the concept. It envisages a package of multilateral agreements

between the producers and consumers of the 18 most important raw materials concerning market regulation, price ranges, delivery and purchase commitments, stabilization pools and stockpiles and the encouragement of processing industries in the developing countries. The decision that the plan is to be studied and discussed further before action is taken as a victory for the moderates among developing countries who hope to accomplish their objectives by cooperation rather than confrontation with the industrialized countries. They have evidently come to realise that the raw material countries generally cannot emulate the example of the oil exporting countries and that to achieve a viable new economic order for the world, the mutual dependence of industrialized and developing countries must be taken into consideration.

This does not mean that the industrialized countries have now been given a charter for the continuation until further notice of the delaying tactics which they have tried out at many international conferences. The Corea-plan has been deferred but not shelved. Unacceptable though it may appear to be to the industrialized countries in its present form, it proposes to tackle problems with which the international community will sooner or later have to come to grips. The gulf between poor and rich countries is widening so rapidly that the plan cannot simply be dismissed as incompatible with market laws and needs. A constructive alternative must be offered to the countries of the Third World before long if an ultimate collision with them is to be avoided.

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OPEC

Slippery Oil

The scenario in the oil sector is still one of great activity. Never before have all the parties displayed such willingness to negotiate amongst themselves and also with the people on the other side. But while the western industrial countries are still searching high and low for a common basis which allows them to appear at the big meeting as a solid bloc, the OPEC has marked out its positions since Vienna and Algiers and has plastered over its internal differences.

When President Boumedienne declared in this opening speech at Algiers that the OPEC must defend and consolidate the achievements of pre-

vious struggles, he put his finger upon the problem which is posed by the common price and production policy. With energy consumption on the downgrade, surplus oil pressing on the world markets and other sources of energy being opened up energetically, the aim can no longer be to secure higher prices, but it must rather be to hold the prices at their present level albeit at the cost of further output cutbacks. The most important result of the oil summit is probably that the OPEC countries are now willing to freeze their prices for an infinite period provided the consuming countries consent to oil price indexation. This idea of the oil chiefs may be a hit at their energy conference with the consuming countries, for many of the industrial nations as well as the big oil groups are interested in making sure of a minimum price to keep prices from falling so far that they have a paralysing effect on investments to develop alternative sources of energy.

The time when the OPEC was able to dictate prices has gone for ever, and so it is now ready to negotiate. Talk of price cuts and a break-up of the oil cartel may be premature, but the oil producing countries seem to show more realism. The law of supply and demand is once more in operation.

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Iran

SDR Parity for the Rial

Teheran has severed the rial's link with the dollar. In future the Iranian currency will be fixed in relation to the SDR. This step is in full accord with the — in the meantime almost forgotten — Committee of Twenty recommendations for the introduction of a system of exchange rates which are in principle fixed in relation to the SDR as the central reserve medium. That it is one of the oil states which leads the way to more stable currency relations may surprise many observers, but it is not really so very surprising seeing that the oil producers have necessarily a special interest in the principle of firm currency parities.

When the dollar depreciates, firm linkage of the oil producers' currencies to the dollar tends to worsen their terms of trade with countries whose currencies do not follow the dollar on the way down. And even if their currencies are not tied to the dollar, their terms of trade will still worsen if the selling prices for their oil are expressed in dollars and their imports are mostly settled on a dollar basis.

To avoid such losses at least in part, Iran will have to fix its oil prices in rial, in addition to

severing its link with the dollar and basing the rial's rate of exchange on the SDR. That would of course entail bigger oil bills for the USA and for all the other countries whose currencies are linked with the dollar. The question is whether Iran by itself is strong enough to enforce such a realignment. The solidarity of the other OPEC countries will be absolutely essential. Such solidarity would compel the USA to give a new external orientation to its economic policy. If it did, an important cornerstone would have been laid for a more stable monetary order.

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FRG

Fair Competition Policy

The so-called "Monopoly Commission" in the Federal Republic of Germany has now presented its report on fair competition. It gives it as its expert opinion that price control is not a suitable means of ensuring fair competition and preventing abuses by enterprises in a dominant market position. It also rejects as a general rule that the supervision for the prevention of restrictive practices should conform to short-term objectives of an anticyclical policy. The primary aim of a policy concerning competition should rather be to ensure as wide competition as possible by working on the market structures.

It is only logical that as a complement to the supervision for the prevention of restrictive practices the Commission should wish to authorize the cartel authority in Berlin to forbid any conduct which would further curtail the remaining possibilities for competition in certain markets where restrictive practices are "suspected" to prevail. In specific cases the cartel authority is to carry out sector analyses for this purpose, but it is to exercise restraint regarding exact checks of price levels. This recommendation does not seem to be without its problems, especially in regard to multinational groups. One need only think of the oil sector.

The comments on the Commission's report have in general been mostly muted, which in view of the problems involved is not surprising. The problem of the price controls does not seem to have been fully elucidated by the public discussion, especially insofar as it concerns the multinationals. Arrangements on the basis of international law will ultimately have to be worked out together with Germany's trading partners to provide the Federal Cartel Office with a foundation for successful work.

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