

Alkazaz, Aziz

**Article**

## Oil problems seen from the arab point of view

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☐ Preservation of the (external) purchasing power of the accumulated currency reserves.

The crude oil production is stagnating in Algeria as in most other traditional oil producing countries. In 1971 the potential annual output was still semi-officially put at 90 mn tons. Under the Four Year Plan a production of 65 mn tons is envisaged, and this compares with

an actual output (in 1974) of a little under 50 mn tons.

Algeria is no longer one of the poor countries of the Third World. The comparatively high revenues from the oil industry (an estimate for 1974 is DA 6.5 bn) and the other natural, infrastructural and social conditions enable Algeria to pursue an independent domestic and foreign policy and to act as spokes-

man in trade controversies between industrial states and raw material producers. The country's whole development strategy is based on a realistic assessment of the internal economic situation. Directly or indirectly the actual and potential regional effects of the activities connected with the Algerian oil occupy a prominent place in Algeria's strategy.

## Oil Problems Seen from the Arab Point of View

by Aziz Alkazaz, Hamburg\*

**T**he discussion about the problems involved in determining the price of crude oil as a source of primary energy has been dominated until now by aspects bearing on its repercussions on the balances of payment and economic development of the industrialized countries. This one-sided approach can lead to wrong decisions which would have grave consequences for the further development of the world economy. That the industrial states have come in for "unpleasant surprises" in the course of the so-called energy crisis is essentially due to the fact that their energy policies in the past score of years were governed by two basic objectives, namely:

☐ to obtain the oil at the most favourable price, and

☐ to make sure of regular supplies.

The interest of the oil producing states and other raw material countries, on the other hand, were neglected. The current problems cannot however be

solved unless the mutual interests of all the parties concerned receive full consideration.

In dealing with the problem of price determination it is advisable to make the medium- and long-term availability of the energy materials on a global scale the starting point. In the last two decades the world energy consumption has been increasing at an average rate of 5 p.c. per annum, and the contribution of mineral oils to the total energy supply doubled between 1960 and 1973, from 28 to 57 p.c.; the petroleum thus bore the brunt of the rising world demand for energy. The fact that the oil prices had been kept down to a low level for 25 years was relevant to the rapid expansion of energy consumption and the simultaneous substitution of mineral oils for solid fuels. The low price of oil enabled the industrial nations to develop their growth industries on the basis of cheap energy, but made it impossible to develop substitute energy sources and energy-consuming technologies in good time.

In the last seven years alone the world has been using up 116 bn barrels of crude oil (1 barrel = 159 litres) — an amount equal to about one-sixth of the total proven reserves of 635 bn barrels at the end of 1973. In this time the world used more oil than it had done in the preceding 18 years, from 1949 to 1966. Its total usable reserves would last 30 years at present output rates (compared with 36 years in 1955). If, as was forecast before the recent price increases, world oil consumption were to increase by 7.5 p.c. annually until 1980, no less than 200 bn barrels of oil reserves would have to be found in the ground in the next seven years merely to maintain the same ratio of reserves to consumption. That however is inconceivable.

On the assumption that the world oil reserves can be augmented at rates of 3, 4 or 5 p.c. a year and world oil production increases by 6 p.c. annually, the world output would on technical grounds go into a steep dive in 13, 17 or 25 years respectively.

\* German Orient Institute.

The outcome is similarly unfavourable if the calculation is confined to the OPEC countries. On the optimistic assumption that the OPEC reserves will increase by 8 p.c. while the output rises by 9, 10, 11 or 12 p.c., the reserves would be exhausted in 50, 29, 21 or 17 years respectively. In 1973, it should be noted, the OPEC production rose by 13.2 p.c. although the Arab oil output was reduced after the October war.

Faced with this situation, the oil producing states are bound to intensify their conservation policy, which will in turn induce the oil-consuming industrialized states to take more effective measures to reduce their energy consumption while at the same time endeavouring to make the best possible use of their own energy reserves (especially in the form of coal) and to open up and develop new sources of energy.

#### Differences between the Oil Countries

As far as conservation policies are concerned, the OPEC states may be divided into three categories:

□ Countries at the "take-off" stage with the essential prerequisites to rapid industrialization, *Iraq, Algeria, Iran and Venezuela* in particular. These countries will need more and more oil and natural gas for their own industries (especially for petrochemicals) and take appropriate measures to safeguard their own supplies over the long term. Venezuela for instance has cut back the crude oil output by 5 p.c. in order to conserve the natural gas which is so important for the petrochemicals industry and was previously flared off. The politicians in these four states have been appealing to the OECD states again and again to develop alternative energy sources so as to keep the oil

and natural gas chiefly for industrial purposes and not to use them on the present scale as motor fuels and for electricity generation.

□ Countries with very large capital and investment needs, on the one hand, and low oil outputs, on the other, especially *Indonesia, Nigeria, Ecuador and Gabon*. These countries cannot afford to lower their oil production and may even, in the interest of their own economic development, have to raise their output.

□ Countries with high reserves and outputs and with national economies which cannot in the short term absorb all their oil revenues, including *Saudi Arabia, Kuwait, Qatar, the United Arab Emirates and Libya* in particular. These states are in a very complex situation. They have to seek foreign investment outlets for a large part of their revenues and see the value of their capital investments dwindle as a result of the inflationary trend, fluctuations in the exchange rates and other economic and political factors. With the economic and political changes currently taking place in the world nobody can guarantee that the present value of their financial investments abroad will be fully preserved for the next generation. The oil revenues of these countries have led to extremely high rates of domestic inflation because their own production capacities are small. The cost of living in Abu Dhabi for instance is now higher than in New York although this sheikhdom has no import duties and hands out large subsidies. Such a situation affects the low income groups adversely and leads to social and political conflicts.

Faced with this kind of situation the responsible authorities in many of the states concerned have reached the conclusion that "excessive oil

outputs" must be avoided in the interest of the present and next generation. Saudi Arabia could, according to Oil Minister Ahmad Zaki al-Yamani, cut its production by over 50 p.c. without impairing its economic development. He said: "... In Saudi Arabia we can easily cut down by about 5.5 mn barrels a day, and live in comfort and meet our requirements inside and outside Saudi Arabia ..."

#### No "Excessive Production"

This being the case, influential political forces in the Middle East find it difficult to understand why Saudi Arabia should increase its production in cooperation with the USA to 20 mn barrels a day by 1980. This would cause the world's largest and most important reserves (which are in Saudi Arabia) to be exhausted within 20 years. This elementary fact and the domestic and foreign criticisms to which it has given rise will have a growing impact on the Saudi Arabian oil policy.

It must be emphasized in this context that the OPEC countries are well able in the prevailing circumstances to defend their crude oil prices by appropriate regulation of their outputs for the world market. That certain price reductions were made some time ago was mainly due to the production policy of Saudi Arabia which came out in favour of lower OPEC prices and in 1974 raised its crude output although the total world demand was declining. It will depend chiefly upon a general understanding with the OECD countries whether Saudi Arabia will continue this policy. Saudi politicians have been pointing out recently that in the absence of a fruitful dialogue with the OECD states they would want to align their price and production policies more closely to those of the other OPEC countries.