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## OIL MARKETS

# Structural Changes in World Crude Oil Trade

## Increased Government Involvement and Implications for Consuming Countries

by Jochen H. Mohnfeld, Paris\*

**The way in which international trade in crude oil is conducted has changed drastically since the beginning of 1979. Who has access to crude oil in producing countries, in what quantity, at what prices, and for how long is in question. Jochen Mohnfeld analyses recent trends and future developments, paying special regard to the producer countries' tendency to require more state involvement of importing countries in crude oil trade and drawing some tentative conclusions for the latter's energy policies.**

Since the beginning of the 1970s the erosion of the traditional concession system set the conditions for a gradual shift of market power and control out of the hands of consuming countries and their big international oil companies into the hands of producing countries. Until 1973 the big international oil companies largely dominated international crude oil trade. Only a relatively small number of big companies had direct access to crude oil. They sold large quantities of oil not needed for their own operations to other market participants (other integrated oil companies of various sizes, independent refiners, traders). They were regarded as "common suppliers". With their control over crude oil production they were able to balance out world markets. Since the early 1970s OPEC became the driving force behind producing countries' demand for a greater share in the economic benefits of oil production in general and particularly for greater "participation", i. e. equity in the activities of oil companies operating in their countries. The wave of nationalisation started with the complete

take-over in Iraq<sup>1</sup> in 1972 and the full seizure of control over all aspects of oil production in Iran by the state company NIOC early in 1973, and the movement continued after the 1973 embargo.

Participation today varies from 50 to 100 %<sup>2</sup>. Producing countries have, irrespective of their equity share, a complete control over pricing and production levels<sup>3</sup>. After 1973 private oil companies were, however, able to maintain access to most of the oil of their former concessions through buy-back

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<sup>1</sup> As early as 1961 the Iraqi Government expropriated 99 % of the concessions of the Iraq Petroleum Company (IPC) which was the principal concessionaire of the country.

<sup>2</sup> Iran, Iraq, Kuwait, Qatar and Venezuela each 100 %; the Saudi Arabian Government still holds only a 60 % interest in ARAMCO which is by far the largest producing company in the country but take-over can be completed any day; Abu Dhabi between 51 % and 60 %; Nigeria 60 %; Libya: some joint ventures (50 %), production sharing agreements of various types, and partly complete ownership; Algeria: 49 to 51 % partnerships; for further details on ARAMCO see footnote 8.

<sup>3</sup> The inability of the OPEC Ministerial Meeting in December 1979 in Caracas to agree on a fixed price structure does not deprive individual member countries of their control over export prices.

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agreements and other long-term special lifting arrangements with producing countries. Thus although the international oil companies had lost by 1978 a large share of their concessions and equity interests in crude oil production, they still were responsible for marketing a substantial proportion of the crude oil available for export. The quantity of crude oil at the disposal of the seven biggest international oil companies, the so-called majors,<sup>4</sup> just before the Iranian crisis in 1978 was still in excess of the requirements for their own affiliates. While supply positions within this group of companies were varying they had, in the third quarter 1978, still an aggregate surplus of about 3.7 mbd<sup>5</sup> which they sold to third parties. These sales to other oil companies and traders were until the Iranian shake-up a regular feature of their business although decreasing in importance. The stoppage of exports from Iran from late December 1978 to February 1979 deprived the majors of about 3.3 mbd of crude oil which was almost equal to their previous net aggregate surplus.

### Impact of the Iranian Revolution

The individual majors were affected in quite differing degrees by the Iran cut-off. They had to apply *force majeure* to their third party contracts according to the extent to which they were affected. Through interlocking supply contracts the repercussions of the primary disruptions in Iran were quickly transmitted to the entire oil industry. Major oil companies reduced their third party contracts over the year 1979 by 60 % to 1.5 mbd. They started to revise their long-term policies. Some majors are phasing out crude sales to third parties completely, others reduce them greatly in volume and introduce contract clauses giving them the possibility of reducing or interrupting deliveries at any time circumstances change. Those companies which phase out contract sales are in future theoretically even free to sell surpluses on the spot market. The

principal aim of major international oil companies is now a full supply of their own refining operations with still relatively inexpensive deliveries from producing countries at official prices.

After the gradual resumption of Iranian exports on a reduced level in March 1979, the previous status of the Consortium<sup>6</sup> was not restored. The new government cancelled the agreement with the Consortium and contracted relatively small amounts with a large number of customers (over 50). The majors together received only 0.9 mbd, 2.2 mbd less than previously.

Changes in trading patterns are also taking place in other producing countries (e. g. Saudi Arabia, Iraq, Nigeria, Venezuela). Liftings of the big international companies are reduced in favour of state companies of industrialised and developing countries and private independents which so far had no or little direct access to crude oil in the producing country. Some of the majors' lost supplies are also being sold in the spot market.

The following figures illustrate the changes in distribution patterns over a longer time span. Whereas supplies to majors under term contracts accounted still for 75 % of all *crude traded internationally* (between producing and consuming countries but excluding intra-OECD trade)<sup>7</sup> before the first oil crisis in 1973, their share dropped steadily to about 50 % in 1978 and again steeply to 42 % at the end of 1979. Their crude oil availability (from own concessions and under term contracts) from all sources fell from about 30 mbd in 1973 to about 21.3 mbd in 1978 and to about 19.5 mbd in 1979. Spot purchases which increased in volume in the last 12 months are not included in these figures. The last line of Table 1 shows how the majors have lost ground in the redistribution of crude oil.

**Table 1**  
**Crude Oil Availability to Major Oil Companies**  
**on the Basis of Long-term Contracts**

		1973	1978	1979
total availability	(mbd)	30.0	21.3	19.5
of which				
outside OECD-countries	(mbd)	25.0	16.9	19.5
share in crude oil traded				
internationally <sup>1</sup>	(%)	75	50	42
majors' third party				
sales	(mbd)	6-7	3.7	1.5

<sup>1</sup>Outside OECD, COMECON and China.

<sup>4</sup> BP, Exxon, Gulf, Mobil, Shell, Socal, Texaco.

<sup>5</sup> mbd = million barrels per day; 1 mbd = 50 million metric tons.

<sup>6</sup> The Iran Consortium was formed in 1954 after Prime Minister Mossadegh had nationalised all Iranian oil resources in 1951; it developed, operated, and effectively controlled Iran's major oil fields (90 % of production) until 1973. Members of the Consortium were: BP (40 %), Royal Dutch/Shell (14 %), Gulf, Mobil, Exxon, Socal, Texaco (each 7 %), CFP (6 %), a group of smaller American companies (5 %). In March 1973 the National Iranian Oil Company (NIOC) took over complete control over production, reducing the Consortium to the role of a technical adviser, contractor of services, and purchaser of crude oil on a long-term contractual basis.

<sup>7</sup> This regional definition for "international crude oil trade" is based on own estimates which should be regarded only as an approximation: 1973 - 34 mbd, 1978 - 34 mbd, 1979 - 34.5 mbd; percentages in Table 1 relate to availabilities outside OECD-area, COMECON and China.

Corresponding to the reduction of the share of major international oil companies other forms of lifting and

distributing crude oil internationally have increased from 25 % in 1973 to nearly 60 % today.

### **Interests of the Producing Countries**

The tight balance in world oil markets since the beginning of 1979 has enabled producing countries to strengthen and speed up the process in which they gained greater control over the destinations of their crude oil. Greater control is not an end in itself. It is prompted mainly by the desire to gain further advantages from crude production in addition to the price paid, namely:

- economic advantages, e. g. in the form of favourable terms for economic co-operation with the industrialised countries and of technology transfer;
- political advantages, e. g. a more co-operative attitude towards their political ideas and aims on the part of purchasing countries. This ranges from an improvement in the general climate of foreign policy relations to military aid and to such special objectives as the Iraqi demand to include boycott clauses in supply contracts.

It is obvious that these aims and wishes cannot or can only partially be fulfilled by commercial enterprises and are inherently a matter for governments.

Governments of consumer countries are then to some extent the heirs of the private oil companies. They obtain better access to crude oil as a result of political decisions by producing countries.

Economic and political components are interwoven in the long-term strategies of producing countries. When during the 1970s it became apparent that their reserves were finite (owing to the declining reserve-production ratios and even declining net additions to reserves), it became increasingly necessary to ensure a smooth transition to the post-oil age. It became more and more urgent to initiate a sustained economic development to assure new sources of national income. The oil countries do not wish to rely solely on the investment which they can buy from private enterprises with their money, but turn directly to the governments of industrialised countries and try to commit them to active participation in their economic development.

### **Increased Government Involvement**

The available information on supply contracts at government level or with government involvement is only fragmentary and the concept itself remains somewhat vague. Since we are interested in the

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**Rolf Sutter**

### **NATIONALE WIRTSCHAFTSPOLITIK UND INTERNATIONALE UNTERNEHMEN IN MALAYSIA**

**(National Economic Policy and International Enterprises in Malaysia)**

Owing to the lack of capital and technical know-how alone, an accelerated industrialisation is hardly conceivable in many developing countries without support from foreign enterprises. The present study, using Malaysia as an example, examines whether a developing country is able to realise its economic policy objectives by means of the usual instruments or whether the decision in favour of the participation of foreign enterprises implies of necessity the renunciation of an independent development. (In German).

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**V E R L A G W E L T A R C H I V G M B H - H A M B U R G**

broader implications of the changes in the world trade in oil, we have chosen a broad definition for the concept of "government involvement" which includes the following three principal stages:

□ The government of a consuming country or one of its agencies negotiates, or is a party to, the contract for purchase of crude oil (or products) from oil exporting countries.

□ The import is effected through state-owned or state-controlled companies. Within this category there are, however, wide differences in state involvement: in some countries state companies receive at least with regard to important contracts direct government instructions, whereas in others they act just like other commercial enterprises. If they benefit from government action or negotiations with exporting countries which are aimed at the promotion of direct contracts with the producer, these contracts are included in the definition.

□ Besides these varying degrees of intervention in favour of state companies of consuming countries, government policy can aim at providing a favourable framework or umbrella for contracts by their private domestic companies with producing countries. It is admittedly not easy to find unambiguous criteria to cover cases where for example economic or technological co-operation between producing and consuming countries induces the former to supply crude oil. We include direct purchases of Japanese companies in this category because the Government seems to have influenced the negotiations by concrete project help (e. g. Iran), strong administrative guidance and even involvement in price negotiations.

**Table 2**  
**Government Involvement in Crude Oil Acquisitions**  
**(outside the Centrally Planned Economies)**  
**by Importing Region**  
(in mbd<sup>1</sup>)

		1973	1978	1979	1980 (est.)
total	below	1.0	3.9	6.0	8.0
of which exports					
to Japan		n.a.	1.0	1.7	
to Europe		n.a.	1.6	2.5	
to LDCs		n.a.	1.3	1.9	

<sup>1</sup>Volumes at year end.

If we use this broader definition for transactions with government involvement, we arrive at the following rough estimate: These crude oil purchases rose from about 3.9 mbd at the end of 1978 to 6 mbd at the end of 1979 (for details see Table 2), whereas in 1973 they totalled well under 1 mbd. According to the information

available so far on contracts concluded for 1980 and under negotiation, the figure should certainly exceed 8 mbd in the current year.

**Table 3**  
**Crude Oil Disposals under Government Involvement**  
**by Producing Country**  
(year end 1979)

	mbd	% of total exports
Iraq	2.3	75
Iran	1.0	35
Libya	0.5	30
Kuwait	0.2	10
Nigeria	0.2	10
Saudi Arabia	0.8	8
others	1.0	13
Total	6.0	average % 20

Table 3 breaks the total estimates down by producing country.

This breakdown shows that Iraq plays a key part in government contracts. For many years it has been a strong advocate of such sales and also the driving force behind the politicisation of the oil trade. By using strict contract language the Iraq Government is also trying to exert control over the final destination of its crude oil (e. g. by forbidding resale and by means of boycott clauses). Libya also, in its traditional role as pioneer in restructuring relations between oil companies and producing countries, has a large share of government contracts. Only after the revolution and after cutting out the Consortium did Iran make direct sales on a large scale both to state and to private companies under the umbrella of government negotiations (especially with Japan). The Saudi Arabian state company Petromin has raised its share of production considerably in recent years (1978: 0.55 mbd, 1979: 1.4 mbd), thereby reducing the share in exports held by the majors (ARAMCO partners)<sup>8</sup>. Although state involvement on the part of the consuming nations seems not to be an explicit condition for new contracts with Petromin, a considerable proportion of the new direct deliveries in 1979 went to state companies.

Other producing countries also have recently shown keen interest in expanding their direct sales to

<sup>8</sup> The "Arabian American Oil Company" is the main concessionaire and responsible for most of the oil production in Saudi Arabia. In June 1974 the share of the Saudi Arabian Government rose to 60 %; the 40 % interest of the American shareholders is divided up as follows (as of January 1, 1980): Socal, Texaco, Exxon each 28 1/3 %, Mobil 15 %.

governments. In negotiating new sales contracts for 1980, Venezuela has deliberately applied principles leading to a reduced role for the international oil companies (larger direct sales and more government contracts, fewer intermediaries and preference to supplies for neighbouring Caribbean and Central American countries). This brings down to about 50 % the majors' share of exports, which was still 75 % in 1976 when the oil industry was nationalised and 60 % in 1979.

### Reactions of the Consuming Countries

Some industrialised consumer countries (mainly France, Italy, Spain and Greece) and a number of developing countries have for some time been obtaining their crude from the producing countries partly or entirely through official channels. The structure of the oil industry in these countries is marked by a smaller share of the large international companies in imports, while the opposite is the case in countries with a liberal trade policy.

The growing uncertainty since the beginning of 1979 regarding future supplies of OPEC oil through the traditional distribution channels is a general reason why the governments of a number of importing countries have played a bigger part in purchasing crude. Since the Iranian revolution the third-party customers of the large international companies in these countries have lost a considerable part of their crude supplies. Insofar as supply contracts were renewed at a reduced level, they are threatened by further reductions which are probably to be expected. If these customers of the international companies do not wish to resort to the extremely expensive spot market, their only alternative will be to increase their direct purchases from producing countries. In some cases these independent companies have also succeeded in concluding contracts directly with producing countries, but in many cases importing countries' governments have intervened and assumed more responsibility for supplies of crude, either by means of direct government contracts or by creating more favourable background conditions. For governments which had so far not been directly involved in importing crude, this step was a reaction rather than a deliberate policy. For example, the rapid fall in third-party sales to independent Japanese companies, which in 1978 still supplied about a third of the Japanese market, placed Japan with its great dependence on imported oil in a difficult position and made the government play a bigger part in oil policy.

The steeply rising prices of oil products on the spot markets, which were sometimes up to 100 % higher than the crude oil equivalent at official prices, were a further important reason why governments took on new responsibilities or extended their existing contracts. Countries in which a large part of the market was traditionally supplied by independent importers had a special interest in becoming less dependent on importing products from the expensive spot market (e. g. Sweden, Ireland and Belgium).

**Table 4**  
**Crude Oil Acquisitions under Government**  
**Involvement by Importing Country**  
(volumes at year end)

	mbd		% of imports	
	1979	1978	1979	1978
Europe	2.50	1.65	18	12
Austria	0.04	0.04	16	17
France	1.00	0.75	40	30
Greece	0.13	0.07	48	28
Italy	0.50	0.25	25	15
Portugal	0.05	0.03	40	25
Sweden	0.07	0.02	11	3
Spain	0.50	0.35	55	35
others	0.21	0.14		
Japan	1.70	1.00	31	19
LDCs	1.90	1.35	47	34
Total <sup>1</sup>	5.95	3.75		

<sup>1</sup>Excluding imports/exports of centrally planned economies.

Table 4 summarises the changes in the pattern of imports from the end of 1978 to the end of 1979. It should be stressed that these figures are only approximations based on information generally available and that they give, at a certain point in time, a picture of a restructuring process which has by no means ended. During these 12 months purchases with government involvement (according to our definition) increased world-wide by about 2.1 mbd or 55 % to almost 6 mbd (excluding imports and exports by centrally planned economy countries), which was a sixth of total world trade.

In order to show how much importing countries depend on purchases with direct or indirect government involvement, these purchases have been related to total imports (last column of Table 4). The greatest degree of dependence, namely 47 %, was found in the group of oil-importing developing countries. Some of these countries have replaced imports through private international companies almost completely by government contracts; thus in Brazil and India the share held by those contracts rose from about 50 % to 90 %. In the case of Brazil as much as 80 % of its oil comes from Iraq.

### Increasing Importance of Spot Markets

In 1979 a further factor helped to reduce the role of the large international oil companies as world dealers in crude. High spot market prices for crude, which had been between 50 and 100 % higher than the official prices since the beginning of the Iran crisis, were incentives for producing countries to take a larger share of the economic rent from the free trade in crude. Consequently the elimination of intermediaries is an important aspect of certain oil countries' contract policies. Some producing countries reduced supplies to their customers (despite contracts in force) or renewed expiring contracts at a lower level and sold the oil saved thereby at spot market prices (e. g. Iran, Libya, Dubai, Oman and Qatar). Other countries resorted to more elaborate techniques, e. g. by delivering extra quantities under contract options to their customers only at higher spot market prices (Kuwait) or on payment of "key money" for concluding new contracts (Iraq, Nigeria and Iran). A considerable part of these sales does not come under the original definition of "spot market". It is difficult to quantify this pseudo-spot market created by the producing countries themselves; according to the information available, it might total about 3 mbd (i. e. about a tenth of OPEC's production), but it might also be considerably more.

The international spot market has changed considerably in volume and character. Before 1979 it consisted principally of oil products and only occasionally did some cargoes of crude oil change hands on a spot basis. Under conditions of ample supply which prevailed for decades, it balanced out for short-term surpluses and shortages of oil products and, apart from crisis situations (in 1967 and 1973), its prices were slightly below contract prices. Crude oil and oil products traded on this basis together accounted for from 3 to 5 % of all oil traded internationally. Including pseudo-spot sales, this market has today expanded to at least 10 % and possibly as much as 20 % of the total and deals mainly in crude. In contrast to its previous rather marginal function, it has now become an important trade channel for certain producing countries on the one hand and for international oil companies, independent companies, dealers and importing countries' governments on the other hand.

The increasing volume as well as the changing character of oil spot markets have attracted a great deal of political attention since early 1979, and led to a desire on the part of some governments of importing

countries to exert a greater degree of control. In most industrialised countries, however, the opinion has emerged that spot market turbulence is primarily the symptom and not the actual cause of the steep price rises. Thus, political initiatives are now rather aimed at corrective measures to improve the framework (transparency in particular) than interferences with the pricing mechanism itself.

### Increased Uncertainties

Although the overall supply/demand situation for oil has continuously improved during 1979 and is presently in balance, this overall picture has contributed less to calming down the market than one might expect. Considerable uncertainties and disturbing news from producing countries' capitals darken future supply prospects. In addition to these risks for oil production levels, changes in the international oil distribution system have contributed to the general uncertainty. International oil companies are uncertain whether they will actually be able to lift contracted volumes because they fear producing countries may either cut their liftings in favour of new contracts involving governments of consuming countries or in favour of spot market disposals or discontinue contracts for purely political reasons (as Nigeria has done in the case of BP). Third-party customers of international oil companies feel even more insecure in view of their experience in 1979. Their confidence in the continuation of contracts with majors is eroded. They must live with these risks for the present, but they will try to obtain a firm supply contract directly from the only presently available source, namely a producing country. For these quantities the producer finds two potential buyers: the present offtaker as well as its customer. Thus, producing countries see an inflated demand and find less resistance to high prices and unfavourable contract terms. Within the oil industry, the perception of stiff competition for crude supplies prevails. The fragmentation of the crude oil demand side into smaller units has shifted market power even further into the hands of the supply oligopoly.

The uncertainty prevailing in the market will remain a source of upward pressure on prices unless and until the new distribution patterns become more stable or unless a buffer of excess supply capacity reappears in the world oil market to reduce overall nervousness. Thus it is not so much the redistribution of control over oil as such which causes friction but rather the speed at which the transition takes place and the nature of the present tight market.

An additional source of friction is the desire of all market participants and end consumers to hold higher stocks to protect them against higher perceived risks. World-wide stocks of crude and products are higher than ever before; commercial stocks (on land) in the 20 member states of the International Energy Agency<sup>9</sup> were at an all time high on January 1, 1980.

Weaker and more unstable market structures for crude oil do not necessarily mean that the market shares and profits of the large oil companies will suffer. Their share of handling crude oil in international markets over and above the quantities necessary to cover the needs of their affiliates is not really a measure of economic strength. Some of the oil which is presently in the hands of newcomers will eventually end up in the hands of established companies who have the logistics and extensive refining and marketing infrastructure as well as the experience to bring the oil to the end consumer.

The process of change has mainly taken place at the well-head. In consumer markets, the large international oil companies continue to be strong and a real change is not in sight. Whereas before 1973 and in the past few years the independent companies and traders had cheaper supplies than the majors, the situation today is reversed. The independent sector now must to a large extent rely on expensive spot

markets, if it does not have own crude production in industrialised countries or direct access to supplies from producing countries at official prices. Although the abnormal situation of 1979 has permitted good profits for all market participants, the margins of the independents could be considerably reduced in the future. Profit margins of all sections of the industry with either own crude or imports at official prices are very comfortable and likely to continue so in the short term. A gradual return to a more stable market situation will probably be accompanied by a return of company profits to lower levels.

As the majors have lost some of their balancing function the world oil supply system as a whole has lost a degree of flexibility. Matching crude oil supply to product demand characteristics becomes more difficult, at least in the short term. The resulting necessity of relying more heavily on spot markets introduces, under tight supply conditions, a further instability which may quickly lead to speculative overheating.

The trend towards bilateral supply contracts on government levels further reduces the flexibility of the distribution system. Flexibility of supplies for a country means the ability to change quickly from one crude oil source to another. Here seems to lie the main advantage of international oil companies with their multitude of crude oil sources versus direct (bilateral) supplies. Most countries which are so far not directly

<sup>9</sup> Members: all OECD-countries except France, Iceland, Portugal, Finland.

## **PUBLICATIONS OF THE HWWA-INSTITUT FÜR WIRTSCHAFTSFORSCHUNG - HAMBURG**

**Hajo Hasenpflug (Ed.)**

### **DIE EG-AUSSENBEZIEHUNGEN – Stand und Perspektiven**

**(The EC-External Relations – State and Perspectives)**

In view of the increasingly external trade and foreign policy oriented Community policies, the manifold EC-external relations in their entirety are to be analysed in this volume. It is to show the present state of relations with the individual countries or regions, respectively. Conurrences and complexes of problems are presented and an attempt is made to assess possible developments or shifts, respectively, vis-à-vis other industrial nations, the developing countries as well as the Eastern-bloc states and China. (In German.)

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involved in crude oil buying are hesitating to give up this versatility and diversification but the actions of those countries who are making direct deals are already undermining it. This flexibility may, of course, to a higher or lesser degree be approximated by a larger number of direct contracts with different producers. But the pool from which one country can draw if it is supplied by international companies is larger than under direct supply contracts. It probably also takes longer to negotiate a government contract than a private one (if quick replacement should be necessary), and political disturbances of relations will probably also last longer than disagreements over commercial terms.

While the aspect of flexibility did not present a problem in the past, it will require strong efforts in the future to preserve it. The lost flexibility in crude production and distribution will have to be made up by an increased downstream flexibility.

### Increased Politicisation

The security of oil supply is today a more important factor in energy policy of consuming countries than ever before no matter whether governments prefer an international approach (with international oil companies as main suppliers), or a more national one (by direct and indirect government involvement). The widely differing starting points in industrialised countries require different tools to achieve "security". Countries which have only recently increased their public commitment to the task of securing oil, may view it as an unavoidable alternative even though they may not like it. For this reason most of these countries want to maintain the role of established companies. It remains, however, to be seen whether the state can engage more heavily in acquiring crude oil without affecting useful supply structures.

The increase in government involvement in crude oil purchases and the underlying political intentions of producing countries have created a new risk factor which may endanger the existence of contracts more than under purely commercial terms. Some examples do exist:

- Iraq's demand to sign the boycott clause and its demand to the Canadian Government not to transfer its embassy in Israel from Tel Aviv to Jerusalem;
- the refusal by Iran to supply the Philippines because of alleged oppression of the Moslem minority.

It is evident that consumer governments are more exposed to political pressure the higher their involvement in oil imports. It is true that consumer governments were usually not the initiators of the recent increase of oil purchases under government auspices, but it will depend on their reactions whether the process of decommercialisation of oil trade will continue.

Contract durability became quite an unpredictable factor recently. In general, contract lifetimes have been shortened for purely commercial as well as government contracts, not only in Iran but also elsewhere. Under present market conditions, a shorter contract gives the producer a better leverage to impose its commercial as well as political conditions.

### Manageability of the IEA Emergency System

Increased government involvement in oil imports creates some imponderabilities for the functioning of the emergency allocation system of the International Energy Agency (IEA). This emergency system is, together with the long-term cooperation programme, the essence of common energy policies of IEA-countries.

The question is whether a single member country is more likely to come into an emergency trigger situation (supply shortfalls above 7 %) if its government is involved in importing oil. The answer apparently depends on the diversification of supplies. If individual government contracts represent no major part of supplies, the risk of sliding into an emergency situation should hardly be rated higher than when supplies come entirely through private enterprises. But this may not be easy to achieve in view of the available alternatives.

But since the growing volume of contracts under state influence reflects the intention of producer countries to gain a stricter control over the final destination of their crude oil, more and more oil may eventually be "locked in" and potentially unavailable for exchange in emergency situations. So far strict positive destination controls are known from some contracts with Iraq and Libya, but it is to be feared that such restrictions will spread since they are somehow built into the logic of producer governments' desire to deal directly with consumer governments. A widespread earmarking of oil at loading ports for specific destinations would affect the ability of IEA to act effectively in an emergency situation. Although the present situation gives no cause for concern at the moment, there are disturbing trends on the horizon.