

Gutowski, Armin; Roth, Wolfgang

Article — Digitized Version

Reducing the oil hazards: A proposal for a contractual solution

Intereconomics

Suggested Citation: Gutowski, Armin; Roth, Wolfgang (1980) : Reducing the oil hazards: A proposal for a contractual solution, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 15, Iss. 5, pp. 213-214,
<https://doi.org/10.1007/BF02924573>

This Version is available at:

<https://hdl.handle.net/10419/139695>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Reducing the Oil Hazards

A Proposal for a Contractual Solution

As a result of the sharp increases in the price of oil, the OPEC countries will build up considerable current account surpluses during the next few years because their imports will not increase as strongly as they did after 1973.

If the OPEC states fear that the return in real terms on the investment of their surpluses will prove to be very small or even negative, they may well feel inclined to leave more oil in the ground and thus cause prices to rise. That in turn will subject economic development throughout the world to considerable strains.

The industrial states will undertake greater efforts to save energy and to exploit opportunities for substitution. If they recognize that they are continually subject to the threat of a surge in prices together with incipient shortages, these states will then enhance their endeavours to become independent of oil even to the point of accepting high costs. At the same time, however, they will have to put up with considerable sacrifices in terms of growth and employment.

Due to the explosion in oil prices the non-oil-producing developing countries now find themselves in an extremely difficult financial situation. The oil importing developing countries will encounter difficulties in obtaining additional loans for financing their deficits derived from increases in the price of oil, because the banks will rate the credit risk higher with a resulting impairment to the smooth course of recycling and because the industrialized donor states will prove less willing to grant more development aid in view of their less favourable outlook for growth. In addition to this, the non-oil-producing developing countries will have to greatly reduce their previous share in world trade (without oil), a matter which will result in an overall reduction of growth in world trade.

In view of the above, it would be advantageous for all the groups concerned to have a contractual solution designed to reduce these hazards and thus create more reliable expectations.

The following draft of a contractual Agreement between OPEC, industrial and developing countries meets this requirement. The OPEC states are offered secure, valuesafeguarded investment opportunities. The industrial states can rely on secure oil supplies and further exports to the Third World. The developing countries will survive economically.

By a contractual Agreement between OPEC, industrial and developing countries, the oil-exporting states undertake to supply crude oil to the oil-consuming states at uniform prices whose maximum increase shall be determined by a binding formula.

Each year, the industrial states offer the oil-exporting states securities up to a defined limit for the investment of the surpluses on their current account for which they guarantee an agreed rate of interest in real terms.

Part of these monies shall be placed in a Development Fund, which lends them on special terms to the developing nations. The cost of the favourable rate of interest is borne jointly by the oil-exporting and the industrial states.

The oil-producing states revert to a uniform system of oil prices. They agree on a binding basic price and stipulate generally accepted criteria to govern the assessment of qualities, production costs, etc.

The basic price valid upon the conclusion of the contractual Agreement forms the basis for calculating the future maximum basic price. The maximum basic price is increased on

April 1 each year by 2 %. In addition, it rises pursuant to the increase in the UN price index for exports of finished products in the preceding calendar year.

The oil-exporting states supply enough crude oil to ensure that the agreed maximum price is not exceeded. However, they do not need to supply more at the agreed price than they supplied in 1979.

If the price of crude oil on the free market (in Rotterdam) rises above the maximum basic price for six consecutive months by an average of over one dollar, the oil-exporting states may stipulate additional increases in the basic price.

In the event of temporary stoppages in production in individual producing countries, the supply of oil from other producing countries shall be expanded accordingly in order to avoid explosive price increases.

The industrial states shall found a Guarantee Fund for the investment of the oil-exporting states' current account surpluses. This institution shall issue securities denominated in special drawing rights (SDRs). With the exception of the sum to be transferred to a Development Fund, as pointed out below, the institution shall invest the earnings in the international capital market in an optimum manner. The oil-exporting states shall be offered up to 40 thousand million SDRs per year. The oil-exporting states must acquire securities every year amounting to at least the value of the sum payable to the Development Fund.

The Guarantee Fund guarantees the acquirers of the securities a real interest rate on their investment. If the institution's expenditure exceeds the earnings, the losses shall be borne by the industrial states in accordance with an apportionment formula which corresponds to their imports of oil in quantitative terms during the last 12 months. Profits shall be apportioned pursuant to the same formula among the industrial states or to the Development Fund.

The guaranteed rate of interest on the securities corresponds to the rate of increase in the price of oil as described above, adjusted, where necessary, for the change in the transaction value of the SDR in terms of the currency in which the basic price has been determined.

The period to maturity of the securities issued by the Guarantee Fund shall amount to ten years. These securities may be returned by the bearers to the institution in agreed monthly tranches subject to a period of notice of three months. The Guarantee Fund undertakes to exchange the returned securities into the desired currencies at the prevailing market rate for the special drawing rights.

Oil-exporting states which spend more on imports than they receive from the sale of oil may obtain funds from the Guarantee Fund for the financing of their current account deficit by forward selling of oil at the prevailing price.

Each year the Guarantee Fund shall pay at least ten thousand million SDRs into a Development Fund to be set up by the contracting parties for making loans on special terms to developing countries. The Fund pays the Guarantee Fund the same rate of interest as the oil-exporting states receive. The expenditure incurred by the Fund in respect of reduced interest rates and defaults on loan service shall be borne in equal parts by the oil-exporting and the industrial states. The Development Fund shall be jointly administered by the industrialized and the oil-producing countries and shall be a special institution of the World Bank.

Five years subsequent to the conclusion of the Agreement, the contracting parties shall renegotiate the terms of the Agreement.

This draft of a contractual Agreement can of course be no more than a first step. Negotiations between the states concerned are indispensable. This draft should, for instance, be subject of negotiations between the Heads of Government who will meet, on a proposal of Willy Brandt, in Mexico in the spring of next year.

Armin Gutowski/Wolfgang Roth