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Article

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Intereconomics

Oil Countries Want Independence

Lessons from the Teheran-Conference

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The international oil groups, through their economic power and their worldwide cooperation in the past, had always been able to exert a strong influence on those LDCs which produce crude oil, mainly in order to secure concession agreements favourable to themselves. The reasons were obvious: LDCs had always been short on technical skills and finance for taking over the production of crude oil. However, when in Teheran, recently, the oil companies were threatened with a total embargo on crude shipments, they had, for the first time in their whole history, to yield to the demands of OPEC [1] countries.

Results of Pressure

The agreement which resulted from the Teheran negotiations is to run for five years. Its immediate effect is the lifting of posted prices for crude by 35 US cents per barrel. In addition, there are to be gradual list price increases, of 5 cents per barrel every time, the first of which comes into force in June, 1971, and the subsequent ones always on the 1st of January, 1973, 1974, and 1975. Moreover, on the same due dates, all crude producing countries are to be paid a surcharge of 2.5 p.c. on the posted prices then in forth, in order to compensate them for price inflation in the industrialised countries. Then, the oil companies have to pay increased premiums on posted prices for higher-quality crudes. And finally, they had to agree to a lifting of income tax rates, payable on their net profits earned in the host countries, from 50 to 55 p.c. Though a number of OPEC countries are not among the signatories and beneficiaries of the Teheran agreement, it is highly likely they, too, as the example of Libya shows, will take their guidelines for future policy from its principles.

The reasons given by OPEC countries for their demands were that crude oil prices had remained static for so long, whilst prices for imported goods from industrialised countries had at the same time increased. They argued that their own cif price for crude of roundabout 1 US-Dollar per barrel was much too low, compared to a selling price charged by the oil companies of about 14 US-Dollars per barrel. They sharply criticised grossly inflated fiscal taxes and duties levied on mineral oils by all the industrialised countries, whose average is 5 US-Dollars per barrel. The oil groups countered the OPEC negotiators' arguments with the plea that they are not able simply to pass on costs and oil duties to consumers in their selling prices.

In what way one wishes to judge these opposing pleas, they are immaterial to the fact that the negotiating success of OPEC countries in Teheran was the result of a test of strength, which would have been impossible without the OPEC countries acting jointly and in pre-planned cooperation. Since world demand for crude is also rising steadily, whilst new production from oilfields in Alaska and the North Sea is still a number of years away and the competitive pressures from other forms of energy are weak and mainly a potential threat of the long-term future, the organised strength of crude producing countries, in such a seller's market, vis-à-vis the oil groups has grown decisively.

Claim for a High Market Share

During the 'sixties alone, oil consumption by western industrialised nations has risen by roundabout 120 p.c. and most recent forward estimates of future consumption do not exclude the distinct possibility of this being doubled again by 1980. Growth rates, in different countries, are naturally also different from case to case. Right out in front of growth countries is Japan, whose consumption, during the recent decade, jumped to

[1] OPEC, the Organisation of Petroleum Exporting Countries, was set up in 1960 and its aims are to work out a joint strategy for strengthening the negotiating position of its member countries vis-à-vis the oil groups. The present membership of OPEC consists of Abu Dhabi, Algeria, Indonesia, Iraq, Iran, Qatar, Kuwait, Libya, Saudi Arabia, and Venezuela.

more than fivefold the initial figure, and of Japan, it is believed, that its oil use will again treble by 1980. Oil consumption in Western Europe, during the last ten years, also grew rapidly, though not so vehemently as in Japan, for it "only" trebled. On the other hand, growth in the US remained far below world average, at 46 p.c. during the 'sixties, and also in future, US growth rates are expected to decline further.

World crude output increased by 122 p.c. in the period 1960–70, reaching about 2.3 bn tons in 1970. To supplying the whole world with this crude, LDCs make a remarkably high contribution. In 1960, they produced a "mere" 47 p.c. of all the oil of the world, whilst their share had crept up by 1970 to 56 p.c. OPEC countries alone jointly lift 46 p.c. This rapid rise was due mainly to the opening up of new sources of production in Africa and in the Middle East. Africa's share in total oil output of the world had been quite negligible, at only 1 p.c., in 1960, but the prolific Libyan and Nigerian discoveries pushed it up to 12 p.c. in 1970. Big successes were also reported by Middle Eastern countries. Claiming a share of 30 p.c. of total world oil production in 1970, these countries have become the foremost suppliers of crude to the world (see Table 1).

Table 1

Crude Production in 1960-70: Regional Breakdown

	1960		1965		1970	
	mn tons	in p.c. of Total	mn tons	in p.c. of Total	mn tons	in p.c. of Total
All developing countries	495	47.2	790	52.5	1,312	56.2
of which:						
Middle East	265	25.2	419	27.9	711	30.5
Far East [1]	27	2.6	32	2.1	61	2.6
Africa [2]	10	1.0	100	6.6	272	11.6
Latin America	193	18.4	239	15.9	268	11.5
North America	373	35.5	423	28.1	604	25.9
Western Europe, Australia/Japan	16	1.5	20	1.3	25	1.0
Western Countries	389	37.0	443	29.5	629	27.0
Eastern Countries	167	15.9	271	18.0	393	16.8
World Total	1,051	100	1,504	100	2,334	100

[1] Excluding Japan and Australia. [2] Excluding Egypt.

Source: Based on articles and statistical tables in: Petroleum Press Service, London, Vol. 29, 1962, No. 1, p. 34; Vol. 34, 1967, No. 1, p. 8; and Vol. 38, 1971, No. 1, p. 7.

Oil Needs of Europe

It is only this enormous output by LDCs which is capable of stilling the thirst for oil in industrialised countries. Canada and the US alone are in the privileged position, to be able to produce a sizeable part of their oil requirements on their own ground. Western Europe, on the other hand, has an indigenous production which covers only about 4 p.c. of its requirements. Well above 90 p.c. of oil imports to Western Europe are shipped from the Middle East and from African countries [2].

Table 2

Proved Crude Reserves in 1969

	mn tons	in p.c. of Total	Proved Reserves/ Current Annual Production Ratio
Developing countries, Total	57,981	89.3	50.0
of which:			
Saudi Arabia	18,822	29.0	127.7
Kuwait	9,363	14.4	68.6
Iran	7,463	11.5	45.4
Libya	4,610	7.1	31.3
Iraq	3,690	5.7	49.7
Abu Dhabi	2,135	3.3	72.8
Venezuela	1,979	3.1	11.3
Indonesia	1,225	1.9	33.5
North America	6,399	9.9	12.6
Eastern Countries	.	.	.
World Total	64,950	100	38.5

Sources: Erdöl und Kohle, Vol. 23, 1970, No. 8, p. 541; also author's own estimates.

On the basis of proved reserve figures, it is clear that industralised countries will remain heavily dependent, in the foreseeable future, on crude shipments by oil exporting countries (cf. Table 2). When new reserves (of about 3 to 6 bn tons) were discovered in Alaska and oil strikes were reported from the North Sea, high hopes were raised in both the US and Europe of having, at last, secured oil supplies from geographical areas which are not prone to potential political trouble. However, in the short term, there is no chance for this, because massive shipments from Alaska are conditional on first tackling enormously difficult transport problems. And recurring disappointments have already been experienced and are bound to continue until it will be possible to lay the planned Trans-Alaska pipeline or to organise regular tanker shipments from the North Slope. It is now anticipated that the Alaskan pipeline cannot be completed before 1975, with an initial capacity of 25 mn tons p.a., to be raised till 1980 to 110 mn tons. But even the eventual, higher capacity will be capable only of supplying about 17 p.c. of oil consumption in the US [3].

Crude that has been located in the North Sea, likewise, will not be able to make a worthwhile impact on supply to Western Europe, because lifting the crude itself presents formidable engi-

[2] The Federal Republic of Germany, in 1970, drew 43 p.c. of its crude imports from Libya, and another 33 p.c. from the Middle East.

[3] Cf. Petroleum Press Service, Vol. 37, 1970, No. 8, p. 281.

neering problems to the oil industry. True, the production of crude from these sources would certainly be of great benefit to certain oil companies and countries, but potential output here could not cover Europe's high oil demand. As far as can be seen, this means that the oil groups' hopes for Alaskan and North Sea crude helping to make them more independent of oil-exporting are bound to come to grief LDCs. Quite apart from this, neither the crude from Alaska nor that from the bottom of the North Sea could possibly be marketed at a cheaper price than that from LDCs.

Competing Energy Forms

In the long term, the industrialised countries can pin their only realist hope for by-passing the pressures exerted by OPEC on the large-scale substitution of other types of fuel for oil. As far as can be predicted now on the available evidence, however, it appears that even these chances are not great. To date, member countries of OECD are dependent on oil for their fuel and energy requirements to an average of about 50 p.c., whilst in 1950, this share was only 30, and in 1960, 40 p.c. Nor will natural gas become a really serious competitor for oil, for on the one hand, natural gas production is mainly in the hands of oil companies, who certainly will not start competing against themselves. On the other hand, more and more oil will be needed for non-energy uses, e.g. for chemical processing. Atomic energy and hydroelectric power, during the 'seventies, will not be capable of assailing the predominant position of oil either. Truly big expansion of nuclear power cannot be expected before 1980. Moreover, as coal production continues to go downhill [4], there will be sufficient scope for new outlets for natural gas and nuclear power, without oil's importance being threatened.

Price Increases Unavoidable

Constantly rising demand, coupled with increased prices for crude oil, is bound to have important effects on the consumers of finished oil products in industrialised countries. As almost everybody is affected, directly or indirectly, by such price rises, the oil companies are compelled to canvass the public for an understanding attitude. In order to do so, they try to spread the view that the sole cause for the rises is the action of oil-exporting LDCs. But this accusation is unjustified in so far as oil producing countries, after a long period of having been underpaid for their production, are now demanding "fairer" prices, which will certainly always be higher than in the past.

Rising prices for crude do not only hitch the export takings of LDCs up to the rising level of prices worldwide but, as many countries are heavily dependent on earnings from their crude exports, their only really big sources of foreign currency income will now become more prolific [5]. Admittedly, the GNP of oil-exporting countries has greatly risen in recent years, but their overall economic situation has remained parlous, and for developing their own economies, foreign currency income is still sorely needed for financing essential imports from industrialised countries [6]. In the long-term, it will be inevitable that their income from oil exports will decline, because even their vast crude reserves have their limits, and therefore, LDCs must exploit their present financial possibilities for what the traffic will bear.

Stability of Oil Prices?

But all this does not inevitably mean that oil prices must rise in the industrialised countries, because the rise in crude costs can be passed on to consumers only if and when market conditions permit it. In this field, a well-thought-out and deliberate government policy on competition and energy might see to it that oil companies are not allowed to lift their prices more or less as they like. Price rises for oil products have already been published, and others have been foreshadowed, but these are quite disproportionate to the increase in crude costs. Moreover, higher crude prices could be fully absorbed by further streamlining and rationalising the oil industry. And, since the transarabian pipeline is now working again, and it is to be expected that the Suez Canal may be reopened soon, inflated tanker freight costs of today are already on the way down. In the longer run, building of more and more big crude tankers and the creation of new pipeline systems will enable the oil industry to cut their costs decisively in the near future. It is therefore not true that increases in the price of crude cannot but inevitably lead to a general price inflation for oil products marketed in industrialised countries.

[4] Coal's share in total energy supplies in the countries of the OECD has dropped from 55 p.c. in 1950 to 37 p.c. in 1960 and to 25 p.c. in 1970. For 1980, the forecast is for a further reduction to 20 p.c. Cf. Petroleum Press Service, Vol. 36, 1969, No. 9, p. 332.

[5] As an example, oil exports, in p.c. of total exports, were above 99 p.c. in the cases of Libya, Kuwait, and Saudi Arabia, and more than 80 p.c. in those of Iran and Iraq.

[6] The immense importance of oil revenues is shown by the fact that they represent about 50 p.c. of all government revenue in Iran and Iraq, approximately 85 p.c. in Saudi Arabia, and over 90 p.c. in Kuwait. Development programmes and projects are relying on finance from oil income to the extent of 75 p.c. of total oil revenues in Iran, 50 p.c. in Iraq, and 45 p.c. in Saudi Arabia.