ASSESSMENTS AND CONCLUSIONS
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The geographical distribution of known usable energy resources, the global distribution of consumption, and the characteristics of the demand and supply of energy resources make the interdependence in energy imperative. In addition, the characteristics of the demand and supply of these resources contribute more to the imperative of interdependence. As for example the short-run demand and supply of energy are distinguished from those of other commodities which are traded internationally by the following characteristics: Various sources of energy are complementary inputs in the production of almost all goods and services. Also, energy is a necessary complement to consumption. It is a necessary input for transportation, electricity, industrial power, space heating, and a feedstock ingredient. Therefore, reduction in the demand for energy without reducing aggregate economic activity is not possible except through conservation measures and efficient methods of production. But of these factors require a significant adjustment in methods as well as habits of production and consumption.

Substitution among alternative energy resources is very limited. Modern technology employed in processes of production and consumption has evolved almost exclusively for the use of a single energy resource among usable alternatives. Thus, substitution among alternative resources of energy is affected not only by their relative prices but also by the cost of
scrapping existing equipment and constructing new productive capacity that can utilize a substitute energy resource.

Though solid fuels are in abundant supply they are less efficient, less convenient and more damaging to the environment than oil and gas. In addition, technology and labour for efficient mining of coal is available only in few regions. These factors reduce further the substitution among alternative energy sources in the short run. The experience with quantitative and price controls in different countries has not been encouraging. The critical importance to economic activity renders inefficiencies of rationing very costly.

It follows that the strategic significance of petroleum for the normal functioning of economic life renders the perils of isolationism potentially devastating to the global safety and prosperity of mankind. Under these circumstances, the oil-producing and exporting countries cannot avoid their responsibility to the world's global welfare, as this is critically related to their export of petroleum. The optional path of pricing and production policies which maximize OPEC earnings in the past from petroleum is a subject of debate and controversy. Although some assessments of OPEC's decision relating to oil production and exports policies in the light of securing their foreign policy goals and Third World objectives in the light of NIEO have been discussed separately in some detail at the end of each preceding chapters, the following is an attempt to shed more light on the real capabilities of OPEC and to offer explanations to some of many fascinating myths.
It was a popular belief that the energy crisis (that is, the rising real cost of energy) has "caused" the world economic crisis. This, in a way, reverses the sequence of events. The rising real cost of energy was the result of the overload of the world system, not its cause. The fast rate of increase in oil consumption has led to a rapid depletion of non-renewable sources; this happened because the price of oil was kept artificially low by international oil companies for a long period. Paradoxically it was this artificially low price of oil which caused the eventual crisis by leading to an unregulated appetite for energy. If oil prices had not been set in relation to the cost of production - which was irrelevant in the West Asian and African context - but to the cost of alternatives, the adjustment process would not have become so abrupt and traumatic. It was widely believed that the oil prices were being kept artificially high at present through OPEC cartel like action; and with the dismantling of OPEC these prices would crash. Recent events have proved this to be a fallacy. The current spot price of oil is determined by the forces of demand and very little else. In fact, many OPEC members because of international considerations were producing more oil than is required by their own national revenue needs.

However, after the second oil price rise in 1979, a number of factors collaborated to create a present oil glut and threw OPEC into such disarray. First was the planned recession that
was imposed on the Western economies; second, the significance of non-OPEC oil; third, the high level of stock most companies held after the Iranian revolution; fourth, the urgent need of some OPEC members for revenues in 1980-82 and fifth, the conservation policies pursued by the industrial countries.

Finally, and most importantly, the real determining factor for the price of energy turned out to be on the demand side; the extent to which recessionist and conservation policies were pursued. Thus the price of energy was and still is, being determined today like the price of any other commodity. OPEC was never able to manipulate market forces; its action often lagged behind them.

The popular media drove home the belief that OPEC countries are extremely rich; that they "create" enormous financial surpluses which they cannot use themselves and which put considerable pressure on the world economy; and that they are responsible for compensating oil importing developing countries for the rise of their oil import bills, but are as yet providing inadequate financial assistance to them. Such reasoning only tries to put OPEC countries on the defensive, without having the benefit of objective analysis or leading to any constructive results. To begin with, most OPEC countries are not rich. Their economies are liquid but they are not wealthy, though liquidity and wealth are being freely confused these days. Besides, most OPEC nations are underdeveloped, with low literacy rates, short life expectancy, unskilled labour, a low level of technology and research, little diversified development outside the oil sector, and with all the problems of a single resource economy.
If we look at OPEC aid figures some surprising facts emerge. Before 1973 the Arab-Oil Exporting Countries were unable to give appreciable aid to other Third World countries, because the price of oil was depressed and therefore the revenues were correspondingly low. This situation changed by 1974. During that year OPEC countries gave aid to the Third World amounting to $2.5 billion, representing 1.7 percent of their GNP. During the same period the developed countries of DAC contributed no more than 0.33 percent of their GNP. The figures exclude other forms of assistance. If all forms of assistance are taken into account we obtain the staggering figure of $6 billion from OPEC, representing 3.69 percent of the donors' GNP. During 1975 OPEC's total aid to the Third World was $9 billion which was 50 percent more than the previous year, whereas for the same period DAC countries' aid was only increased by about 15 percent. What these figures bringout is that Gulf oil exporting countries are currently contributing a far greater share of their wealth to the development programmes of Third World countries than the Western industrialized nations.

Moreover, of all the aid granted by OPEC members, assistance provided by the OPEC Special Fund - now the OPEC Fund for International Development - has been least affected by any particular security - political, economic or other interests since this aid was not designed to help OPEC members achieve such goals. This fact, in turn, largely explains the low percentage of OPEC members aid channelled through their collective aid institutions. Yet this does not mean that OPEC
Fund aid has had no other purpose than the social and economic development of the recipients. Quite the contrary, it has been supposed to serve two important purposes: to help offset the negative impact of oil price increases on OPEC Third World relations and thus to gain goodwill for OPEC; and to preserve and enhance OPEC's prestige among Third World Countries.

In addition, its operations has also been influenced to some extent by principles developed in the context of the 'New International Economic Order' (NIEO). In fact, the Fund was created to demonstrate the solidarity of OPEC countries with aspirations of other developing countries, as articulated within the NIEO framework. The Fund's annual report states that, 'The OPEC special fund was established as one of the many instruments of change and policy tools required for shaping the New International Economic Order.'

Some other OPEC actions - largely carried out through the OPEC Fund - have also been justified as helping to achieve the objectives of the NIEO. These have included large contributions to the International Fund for Agricultural Development and contributions to help establish a common Fund within the context of UNCTAD's Integrated Programme for Commodities (IPC). The OPEC Fund's commitment to the objectives of the NIEO has also led it to assist projects that encourage cooperation among developing countries, since the expansion of intra-developing
country cooperation was highly recommended by the programme of action for the establishment of NIEO. A good example has been cooperation between the OPEC Fund and the United Nations Development Programme (UNDP) in providing technical assistance to regional projects.

Furthermore, as developing countries' OPEC members have shared many problems of other Third World countries - and thus have shared interests in some aspects of reforming the international economic system - there have also been significant and growing divergences of interests between these two groups of states. The most significant has concerned the price of oil and the vigour and speed with which alternative sources of energy should be developed. Logically, therefore, OPEC could not have been expected to press for reforms in the international economic system. In fact, had it not been for other reasons (for example, intra OPEC rivalries, OPEC members' internal weaknesses and contradictions, and pressures emanating from the nature of the international political system and regional sub-systems), formulas reconciling essential interests of OPEC members with those of the Third World countries could probably have been worked out.

On the other hand, the regional factors to which Gulf OPEC Countries are members have tended to mould their behaviour in certain direction over the number of concerned issues. For instance, the requirements of the oil rich countries of the Indian Ocean, region which has been on many occasions bedeviled by deep long standing conflicts and rivalries by outside Powers for their
own interests have compelled the Gulf members of OPEC to neglect their broader Third World objectives. Thus the combination of these factors and the like have both created special security problems for the West Asian countries and have imposed special demands on them in terms of their policy choices. For reasons elaborated earlier, key OPEC members have been particularly vulnerable to these pressures.

Basically, OPEC is a limited-purpose alliance of governments interested in maximizing their monetary returns from oil. Driving strength from that limitations, it has survived the most startling political anomalies. Iran continued to send oil to Israel despite three Arab wars; for years, it has supported the Kurdish rebels in Iraq. Territorial claims have been pressed by Iraq on Kuwait and by Iran on Bahrain. Iran and Saudi Arabia as mentioned before, have indulged in a multi billion arms race across the Persian Gulf. No love is lost between monarchies of the Arabian Peninsula and ideologues at Algiers, Tripoli and Baghdad, or indeed between one Arab "revolutionary" ideologue and another. Here too, the vulnerability of these countries has been manipulated effectively by the industrialized countries through, for example, offers of protection and support against internal and external challenges to the existing leaders in exchange for modernisation of oil prices or on the reform of international Economic system.

The most pressing demand that the West Asian regional factors have generated for most of its countries - namely the
Arab states - has related to the question of Israel and specially to the means for dealing with the Israel and for restoring Arab rights. The paramountcy of the Palestine Question for the Arab has meant that no other issue could be allowed to distract Arab attention and energy from the goal of dealing with Israel. However, there has been no inherent or logical contradiction between the goal of restoring Arab rights in Palestine and the goal of advancing Third World objectives in general.

The blame that OPEC has placed a burden of adjustment on the World economy in general, which is simply unmanageable. As argued earlier, oil prices should be treated like other prices which are determined by the dynamics of demand and supply and by the costs of alternatives. In total terms, oil imports account for less than 4 percent of the GNP of the industrialised nations - certainly a manageable sum which can be matched by the productivity and exports from these nations. The real cost is to the late comers in the game of economic development; the developing countries. They are faced with the prospect of developing their economies at increasing rising costs of energy and other inputs because the cheap era is over by now. In fact, this constitutes a powerful argument for early users of resources to compensate late comers through bilateral assistance policies, since the incremental cost of development has risen so high through the rapid depletion of certain non-renewable sources.

The energy problem thus can be seen in its proper perspective only if it is viewed as one of the many structural
transformations that the world is going through and if it is placed within the framework of the restructuring of national and international orders which have become increasingly urgent. All these concerns are demanding structural changes in the past patterns of development and international relations. The energy issue greatly sharpened the global perception of these other transitions by demonstrating the essential interdependence and vulnerability of all countries. It is within that broad perspective that the energy issue can be helpful as an engine of transition as long as it is linked with other related issues.

Today while falling oil prices are picking up the world economy, they are shaking it at the same time. Developing countries from Mexico to Indonesia, which had built their economies and their dreams on oil revenues, now watch in anguish as those hopes of prosperity evaporate. The repercussions could go well beyond economies as those countries express their resentment toward consuming countries, many of which are rich industrial lands. The crisis could inflame tensions in West Asia, in particular, where oil revenues have dropped from $237 billion in 1980 to an estimated $110 billion in 1985.

In the context of the aforementioned discussion it is necessary to analyse OPEC's general situation at present from four point of view, each distinct, but closely linked, to the others.

The first viewpoint is offered by the oil equation itself, in the following question: can the free world get along
without approximately 17-18 million barrels per day of OPEC oil? Quite simply, the answer is no; and this view holds true both in the short and the long term. This is to emphasize the fact that the member countries of the Organization:

1. supply the oil market with a volume equal to approximately one-third of the Free World's demand;

2. maintain a shut-in production capacity of some 10 - 12 m b/d, the only one available on such a large scale and the cheapest source of oil nowadays; and

3. account for 75 percent of the proven oil reserves of the Free World - enough to maintain their present rate of production for another 75 years.

These three reasons are very valuable cards on a long-term basis, but have been badly played, due to urgent situation in the short term.

The second viewpoint is from the strategist's tower: Can OPEC, under the present circumstances, simultaneously maintain its prices and protect its share of the world's Petroleum market? It cannot. What has been evident since 1981 is a cascade effect that has driven the organization to, alternately, lower its production levels and cut its official prices. By doing the former, it has given up the market to non-OPEC suppliers; by doing the latter, the socio-economic crisis which afflicts many of its member countries, has worsened.
Mercenary analysis point to these events in order to applaud the triumph of so-called 'market forces' over the 'undesirable' OPEC. Whereas, perhaps the real cause lies in some of the actions of the organization.

The third approach, obvious to any alert observer is: Can OPEC strengthen its position in the international energy system while its own members compete amongst themselves in the search for clients? The answer will always be no.

This competition within the Organization is a pernicious element eroding the basis of unity and support which was evident in OPEC during its early years; it deflects the attention of members towards secondary elements which could be handled through other operative channels; and it encourages mistrust within OPEC itself. Even worse, it has sanctioned the emergence of two very destabilizing mechanisms; the spot market and the futures market. This competition has also permitted the emergence of a finer weaving by serious analysts, who detect within the the Organization the existence of separatist elements, capable of overcoming the existing unifying forces. They cite, among others: wealthy OPEC versus poor OPEC; short-term OPEC versus long-term OPEC; and vertically-integrated OPEC versus non-integrated OPEC.

The fourth viewpoint focuses on this question: Where is the Organization's Achilles' heel? A situation of volatility in demand and prices - such as the one now prevailing in international oil markets - has helped feed persistent doubts by those OPEC
Countries most in need of petro-dollars about their ability to obtain such hard currency from export sales which are within the crude oil production quotes agreed upon by the Organization. These countries try to solve their doubts by 'irregular' marketing practices which, in the end erode OPEC's strength and even endanger its future.

It is obvious that these four viewpoints are closely linked: the indispensability of OPEC oil for the Free World; the Organization's difficulties, under the present circumstances, in simultaneously maintaining prices and holding its share of the oil market; the debilitating effects of inter-OPEC competition in the oil market; and the uncertain flow of petrodollars to the oil exporters most in need of hard currency, are the four pieces of a very difficult puzzle to put together.

Although it is difficult to separate the different aspects of the energy crisis, focusing on the strategic horizons would present us with a more realistic outlook on the problem and perhaps enable us to resolve it to the satisfaction of all concerned. For in the final analysis, the crux of the problem is in the West Asia where the oil producers insist on their right to make use of their valuable wealth in their efforts to achieve their own economic development, and it is within this context that they export oil and import modern technology. Unlike the consumer countries, they refuse to separate the two issues.

The oil producing rich countries of the region believe that the monopoly of the international oil companies limits
their freedom to exploit their national wealth and therefore see the solution to the energy crisis as being dependent on establishing direct trade relations with the consumer countries, thus limiting the role of the international oil companies and the support given them by the superpowers behind the smokescreen of 'guaranteeing' oil supply from the area.

Thus the problem of oil and security in the oil rich Gulf region can be resolved by an international agreement under the following conditions:

First: achieving a just and unanimously accepted settlement to all the problems in the area, most important among them being in the Palestine question.

Second: removing the foreign military bases from West Asian territories and neighbouring countries, as well as removing the naval fleets of the superpowers. These two steps would obviously lessen military competition and reduce the possibilities of the area being turned into an arena for international conflicts.

Third: coordinating the export of oil with a workable economic development plan that would encompass the Gulf region as a whole. This is the only positive step that would guarantee the transformation of the producer countries' temporary affluence, which is precariously based on cash liquidity, into a permanent
and viable state of prosperity established on a sound and
developed economic base. Such a result can be achieved only
if there is some kind of international agreement whereby the
West Asian oil producers exchange their oil for modern technology
and begin to adopt it in their industries.

Fourth: determining oil prices on the basis of a basket
of international currencies, instead of just the dollar, so as
not be at the mercy of the fluctuations in the exchange rate of
that single currency, nor the inflation rampant in the United
States and the industrialised countries. To secure the value
price of oil, the price of a barrel of crude oil must be
estimated in relation to the increase in the industrialised
countries' export prices; i.e. indexation.

Adopting this method of pricing would ensure the oil
producers stable returns, as well as enabling consumers to
predict the future pricing of oil.

Fifth: the need for the oil producers to establish a
unified policy within the framework of OPEC, for only then can
a strong international entity be created which would respond
to those who claim that there is a 'void' in the area and would
also remedy the ailments of weakness, dividedness and backwardness
which afflict the area at present. Unity would also help create
a coordinated economic format within the framework of a unified
regional planning system.

Given political stability in the West Asia, the guarantee
of the oil supply to the West can be realised; threats of
occupation of the oil wells can only intensify the dangers.
Whereas if OPEC is to maintain its long-term role as a moderating force in the international political and energy system, its Members must immediately adopt measures which, within a framework of operational flexibility and progressive change, point toward secure supplies and predictable prices.

In this vein, it would seem the hour is here for the Organization to induce its Members to adopt strict cartel practices, so that it can offer the Free World's oil market a guaranteed and secure package of some 15-16m b/d of crude oil, for two years, at a reference price of $ 26-28/b. This offer would be made on a 'take it or leave it' basis, with the understanding that any failure on the part of the purchaser to comply with the agreed acquisition would result in the automatic cancellation of any future OPEC supplies to that purchaser.

This proposal takes into account the fact that oil demand, the driving force of the system, is presently stagnant, due to the most severe economic contraction to afflict the industrialized world in the last 40 years. It also takes into account the fact that oil prices have declined 30 percent in the last four years, with the consequent worsening of the socio-economic crisis afflicting the oil exporting countries - OPEC Members as well as non-OPEC countries. Without a doubt, this decline in oil prices clearly establishes that there are other more important reasons besides the price of oil to explain the economic contraction in countries of the Free World, including those of the Organization for Economic Cooperation and Development.

The effects of a package proposal by OPEC - at the level, price and period already indicated - are the following:
1. it tends to slow down the growth of non-OPEC supplies since important oil importing nations, or large-scale refiners without their own oil sources, will not take the risk of losing OPEC supplies;

2. it helps to generate increased cooperation and greater sense of mutual interdependence amongst member OPEC countries against outside power pressures;

3. it helps to stabilize prices, since no other supplier will give in to the temptation of selling at lower prices;

4. it helps the strategy by finding a just and acceptable solution to the Palestine problem, stabilizing the area whereby guaranteeing a smooth oil supplies to the industrialized world;

5. it ends the uncertainty of Member Countries with respect to their ability to obtain petro-dollars from the sale of their production; and

6. it neutralizes inter-OPEC competition for markets or clients.

Even more important, this proposal establishes a stable basis from which to begin a progressive rise in prices, as oil demand increases step-by-step over the original level of 15-16m b/d, or as OPEC's offer is increased. In the medium-term, this
would bring about a reversal of the cascade effect, prevalent
during the last few years, which has undermined the Organization.

To carry out a package proposal by OPEC it would be
necessary to organise, within or outside of the Organization's
Secretariat, whichever is more convenient, a co-ordinating unit
for the marketing of OPEC oil. Such a unit should encourage
direct participation by the international marketing departments
of each OPEC national oil company. Another option for
consideration would be a single agency for the international
marketing of OPEC oil, such as the one mentioned at the recent

All the actions or measures recommended here are
necessary. None is sufficient by itself. The derive from
concurrent approaches and thus they complement each other.
Taken as a whole, they open new paths to strengthen the
Organization and to restore confidence in OPEC as a moderating
force in the international energy system.

With political determination on the part of the
Organization's Member Countries, current trends can be reversed
so that they do not become an inevitable destiny. This
reversal is essential for OPEC to have a future for itself
and for the world at large.