CHAPTER VI

OPEC

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In the year 1959 the oil companies reduced the posted price by eighteen (18%) per cent and again in the year 1960 they reduced it by fourteen (14%) per cent, as in this year oil's price was lesser than the price in the year 1954.

Port's name: Type of oil API 1954 1957 1959 1960

MAHSHAHR 34 degree 1.91 2.04 1.86 1.78
ABADAN 34 degree 1.86 1.99 1.81 1.73

The five nations met in Baghdad in a mood of excited confidence. It was quite clear from the start that the price cuts might precipitate the establishment of what some delegates chose to call "a cartel to confront the cartel". It had precisely that effect. They decided on the foundation of the organization of petroleum exporting countries or OPEC. The first resolution made it clear that their chief enemy was the oil companies and it stated:

That members can no longer remain indifferent to the attitude here-to-fore adopted by the oil companies in affecting price modifications; that members shall demand that oil companies maintain their price steady and free from all unnecessary fluctuation; that members shall endeavour, by all means available to them, to restore present prices to the levels prevailing before the reduction. The preamble expounded the common predicament of all the oil exporters, with unexceptioned logic: that they all depended on oil income to finance their development and balance their budgets; that oil was a wasting asset, which must be replaced by other assets; and that flu-
otations in the price of oil dislocated not only their own economics, but those of all consuming nations.

Would OPEC, or some such body, have formed itself at about this time, without the urgent prodding from the oil companies? Certainly the tide was already flowing toward militancy. The tide which moved the Mexicans to nationalization, which gave the Venezuelans their toughness, and which swept Mossadegh into power in Iran was now carrying the Arabs to the awareness of their potential, and these countries would have found common cause before long. But the critical point about Exxon's decision was that it was unilateral, with no attempt at consultation; and it compelled the countries to respond in the same fashion. Confronted by the unity of the seven, they had to oppose with the same kind of unity. The founders of OPEC owed much to the oil companies, and to their critics in the West. The new generation of young Arab Technocrats like Tariq Knew the history of conservation in Texas, and they had followed carefully each attack on the "oil cartel". The facts from the federal Trade Commission's report in 1952 were repeated through OPEC speeches. Like the anticolonialists in the British Empire, they took their weapons from their masters, and the awakening could be interpreted as a reflection of American democracy as much as of Arab nationalism. The concept of the cartel provided an ideal common enemy; and the oil companies were very conscious of being isolated and unloved. As one director of Shell recalled: "OPEC could count on some support from the consuming countries in putting forward their notion of a cartel. When the industry was attacked, it was
OPEC began with a flourish. A month after it foundation, the ARAB Petroleum congress held another meeting in BEIRUT, attended by oil company men. TARIKI took the opportunity to lash out at them accusing them of rigging their profits to deprive the producing countries of more than two billion dollars over the previous seven year. He accused ARAMCO of having concealed from the Saudi Arabians that they received a discount on their oil; so that the fifty-fifty agreement was really 38-62. The oil companies protested, but would not reveal the true figures; the extent of their Middle East profits, buried in their complex accounting remains hidden to this day. TARIKI had made his point to the other delegates, that the companies were concealing the facts, and the common indignation gave a new fillip to OPEC.

The new organisation was duly set up in Geneva, with an Iranian Secretary General, Fuad Rouhani. He was an urbane and very moderate man, an international lawyer and a talented musician and he was determined to keep OPEC out of both politics and religion. He would tour the offices to make sure that officials stuck to oil and economies. But he soon realized that the oil companies were determined to pretend that OPEC simply did not exist; and insisted on negotiating separately with each country. So he turned up at each negotiation, "wearing a different hat" while the companies insisted that OPEC was a would be cartel, Rouhani observed that the companies were clearly incshoots, co-ordinating their terms with each country.
From the beginning, OPEC achieved one important aim: it prevented further reductions in the posted price, even though competition was becoming still more intense. As Madim Pachachi, a later Secretary General, described it, OPEC froze the managerial prerogative of unilateral fixing of prices. The companies tried to get individual countries to give tax rebates in return for extra production, but they stood firm and resisted the temptation (James Akins, "The Oil crisis" Foreign Affairs, April 1973) But it did not restore the posted prices to the previous levels, which was another of its aims. And more serious, its members could not agree about how to fix prices, or to restrict production. At the second conference, in CARACAS in January, 1961, OPEC resolved to make a detailed study to arrive at a "Just pricing formula." But each of the members desperately wanted a bigger share of the market, and the nation of conservation, however much preached by the Venezuelans, had little appeal in the free-for-all. The countries were back in the predicament of the oil drillers in Pennsylvania a century before; divided and ruled by the men who controlled the market. And the Russians, who could have helped the Arabs to cut back the glut, were still spoiling the market. At one point they actually showed interest, through Rouhani, in becoming members of OPEC, but they took it no further. Instead they explained to successive meetings of the Arab petroleum congress that they wanted to get back their position as major oil exporters, and they would not support artificially high prices. For the time the Russians were the chief bogey, both for the Arabs and the companies, and the Americans became
increasingly worried that the Russian "dumping" of oil was an attempt to sabotage the West. In November 1962 the National petroleum council in Washington produced a long report analyzing the dangers, which reckoned that Soviet exports had cut the income of producing countries by $490 million in five years. However, the Russian threat soon faded away, as the Russians needed more oil for themselves and their satellites; by the late sixties they were actually importing oil from the Middle East.

The first surge of OPEC unity did not last long. The Iraqis, preoccupied with their own problems, did not turn up at the meetings. The radical Arabs resented the moderate Rouhani; he was eventually succeeded by an Iraqi, Abdul Rahman Bazzaz, who encouraged talk of both religion and politics. TARIKI fell into disfavor and was replaced as Oil Minister in March 1962 by a young lawyer who seemed a much more pro-western influence. Sheikh Zaki Yamani, then only thirty-two, was the son of a judge in MECCA, who had studied law first at Cairo, then at New York University, then at Harvard. He had come back to Saudi Arabia, sophisticated and westernized, to start a private law practice. His appointment as Oil Minister and as director of ARAMCO was very welcome to the four companies in ARAMCO; he became friendly with the directors, and loved visiting New York. And the state department, as well as Aramco, had taken pains to cultivate the Saudi royal family. King Saud, who had succeeded his father IBN SAUD in 1953, had been an increasing embarrassment to the diplomats; but by 1962 he had been ousted by his brother King Faisal,
whose hooked nose and sinister expression had so struck De
Ache-som sixteen years earlier. Kind Faisal was still impla-
cable on the question of ISRAEL, but he was also deeply con-
servative and very wary of the Arab radicals, particularly af
ter Nasser was threatening the Saudis through the war in Yem-
men. The King looked to Washington as an anti-communist only,
to maintain the most special of special relationships. Moreo-
ever Kind Faisal, though his revenues were increasing, could
always spend more, and had no wish to hold back production
to help his Arab rivals.

OPEC was still totally failing to achieve any kind of effec-
tive propration of oil production between its members,
of the kind that had maintained prices in Texas for the past
thirty years. Saudi Arabia was becoming the Texas of the Mid-
dle East, if they would not restrict production, no one else
would. But they showed no interest in restriction, and the
problem was now harder than in 1960, for new oil producers
were starting up all the time, including Nigeria, which was
right outside OPEC. Iran and Iraq were proposing "Programma-
ing" production according to population - both having large popul-
at ions but others wanted programming according to need. At
the ninth OPEC conference, in TRIPOLI in July 1965, members
set limits for each country's increase on an experimental
basis: Saudi Arabia and Iraq would go up 9% in the next year,
Iran 14%, Kuwait 5%, Libya 33%. But Saudi Arabia was not at
the meeting, having had a row with Iraq about an apology, and
the Saudis vetoed the decision: their increase for the year
was in fact 15%. The argument was really nothing to do with
programming as such." Said Yamani afterwards. "It was about resources and economic factors." By 1967 OPEC had given up the attempt.

The companies were not now seriously worried by the threat of OPEC. They continued to deal separately with each Government, and to play them against each other, while the Governments remained in some awe of the power of the companies. But OPEC did have one significant achievement. In June 1962 they resolved to establish a uniform rate for royalties in each country, which would not be deductible from the income tax paid to them. The companies resisted stubbornly, claiming at one point that it would reduce their profits by a quarter and the argument dragged on for over two years. Eventually in Geneva in December 1964 they reluctantly agreed, thus enabling the producers to increase their revenue at a time when the price was going down. To the oil companies it seemed a generous concession, involving an extra four cents a barrel, and to OPEC, it seemed a great victory. But they had not touched the central question of the price of oil, for they were quite unable to control the flow of it.

One man who did take OPEC seriously was the veteran lawyer-administrator John Jay Mccloy, who was then regarded as a kind of chairman of the American "Establishment" (Richard Rovere: The American Establishment, New York, 1962, P.11) and was to become the key figure in oil diplomacy. Mccloy, then sixty-six, had moved effortlessly through the revolving doors of government and business. His origins were modest; he was born as he liked to recall, on the wrong side of the tracks in
in Philadelphia, and worked his way up through Harvard Law school. Patient, Philosophical and humorous, he was a natural mediator, and before long he was a top lawyer in Wall Street, and a confidant of the Rockefellers. During the war he was Assistant Secretary of War, and he had been High Commissioner for Germany, President of the World Bank, and Chairman of the Chase Manhattan.

When President Kennedy took office in January 1961 Mccloy advised him on such questions as arms control, security, defence and Germany. At the same time he was practicing as a very highly paid lawyer, in the prestigious firm in Mid Bank, Tweed, Hadley and Maccloy and from that office, it later transpired, he represented the anti-trust interests of all seven of the seven sisters (multinational Hearings: Part 6, P.230) "My Job." as he described it to me later, "was to keep them out of Jail.". In the midst of a world of conflicting and disconnected interests, Mccloy appeared as part of the discreet "Supragovernment" which remains while presidents come and go, and it was natural that Kennedy should turn to him for advice on oil, too.

Kennedy was concerned about a Middle East confrontation with the Russians after his talk with Khrushchev in Vienna in June 1961. He talked to Mccloy, who then warned Kennedy about the possible consequences of OPEC, if OPEC were to succeed in joint action, he said it might be necessary for the oil companies on their said to be given authority for collective bargaining. Kennedy "right then and there" arranged for Mccloy to see his brother Robert, the Attorney
General, to whom Macloy repeated the warning. Robert Kennedy assured him that, if and when the companies contemplated joint action, he would be glad to discuss the possibility. Macloy thereafter made it his business to call on each successive attorney general, to repeat the warning: first to Katzenbach, then to Clark, then to Mitchell; though it was a decade before the expected eventuality arose (Multinational Hearings Part 5, pp: 256-7). The principle was established: that for the sake of security of oil supplies and for reasons of foreign policy, the Antitrust laws would be waived again.

THE BALLOON

While OPEC was failing to control production, it was the oil companies who were trying to reconcile the demands of the countries, and in effect determining their future growth rates. Each country was desperate to push up production to secure a higher revenue without worrying too much about the world low price: the companies were trying to hold back the production to prevent the price going lower the precise opposite of the apparent situation a decade later.

It was clear that in the midst of the glut the companies were agreeing between themselves to hold back production. However, the producing governments could not discover exactly how they were taking their decisions, and their arrangements were carefully shrouded. What was evident was that, since the formation of the Iranian Consortium (which included all seven or eight) all the states were interlinked in joint ventures, which made the task much more manageable. At the center of the ring was Exxon, who was a partner in Aramco,
and in the Iranian Consortium, and in the Iraq Petroleum Company; and the right master was their Middle East negotiator, Howard Page, their director for twenty years, who had already shown his ingenuity in Iran in 1954. Patient, conciliatory and calculating, it was Page who master-minded the strategy to restrain the demands and to divide and rule the potentates.

Page's provenance was unlikely for diplomacy: he was a Californian brought up at the refinery at Olema, near San Francisco, which his father ran for Union Oil; and to young Howard the acrid smell of a refinery had always been the smell of home. He rose up, like most senior oilmen, through the pipeline of chemical engineering, and designed refineries in Texas. Then he joined Exxon, who posted him to supervise refineries in Europe, where he encountered a quite different world. He lived in Paris, married an English girl working for Exxon, and learned to speak French. Dealing with continentals, he became aware of quite other views: "I began to think that perhaps they could not all be wrong except me." After the war when he worked in Washington, he began to work for Exxon in the Middle East; coming fresh to it, he did not have the fixed assumptions of the old-timers, or any emotional involvement with "the sanctity of contracts". He was essentially a pragmatist. He had learned his cardinal rule in negotiating: always prepare before hand a range of alternative solutions, so that, if one proposal breaks down, you can be immediately ready with another: sometimes the most unlikely alternative was the most acceptable. With this experience behind him, Page came to Tehran, a quiet, unassuming man, with an easy
smile and sharp eyes; the look of a genial lizard.

Page saw the market like a bulging balloon, "Push it in one place, it comes out in another, if we acceded to all these demands, all of us, we would get it in the neck." The Balloon was pressed harder with each new discovery. New sources of oil were opening up along the Gulf, in Qatar, in Dubai, in Oman, and most spectacularly in the small Sheikhdom of Abu Dhabi, which by 1970 was producing a million barrels a day. And the irresistible new opportunity was in Libya, where Exxon was the leader. But the more they took from the new sources, the less they could take from Iran or Saudi Arabia. Although Exxon was spending huge sums on new exploration the last thing they wanted was new production. Howard Page was once told by one of the Exxon geologists, who had just come back from Oman, "I am sure there's a ten billion oil field there."

Page replied, "Well then, I'm absolutely sure that we do not want to go into it, and that settles it. I might put some money in it, if I was sure that we were not going to get some oil, but not if we are going to get oil, because we are liable to lose the Aramco Concessions. (Multinational Hearings, Part 7, P-309).

Any country that made too many difficulties for the oil companies provided a useful excuse to cut back, as Howard Page put it, "sometimes they made it easy to cut down by breaking an agreement, as in Iraq; then we could tell'em to go to hell". Iraq was held out as a new warning to the others, like Iran under MOSSADEQ, to "Cooperate, or else ...."

But in fact Iraq had good reason to be skeptical of the
oil companies' good faith, ever since the Iraq Petroleum Company had begun operations in 1928. The company had refused to grant the Iraqis 20 per cent participation, and had repeatedly delayed new production, against the stipulations of the original San Remo agreement. The delaying tactics of the IPC had been criticised in the Federal Trade Commission's report of 1952, but this portion had been excised for reason of "national security," and was not published until 1974.

The resentment of Iraq against the companies became much fiercer after the revolution of 1958. Iraq helped to radicalize the other Arabs, and to bring about OPEC, but in the meantime her oil production lagged behind — even though her reserves were bigger than Iran's. With the past history of delays and concealments, the Iraqis promulgated in 1962 the contentious Law 80, which proposed to nationalise most of the concessions. It began a long period of uncertainty, and the confusion increased after the assassination in 1963 of Qasim, and his replacement by a succession of dictators. The oil companies, the partners in IPC, all now had large sources of oil elsewhere, and most were quite glad to restrict production and investment, and even to take away investments from Iraq. If Iraq had produced more, Page's task would have been harder; as it was, when he was asked "Can you swallow this amount of oil?" he replied "Of course, with Iraq down".

The two main oil producers were now Iran and Saudi Arabia, and in spite of their coming together in OPEC they were old rivals with quite different motivations. Iran had a population of thirty million, relatively short-lived oil reserves,
Saudi Arabia was thought to have only around six million people (there had been no proper census) with vast oil reserves, and with sporadic ideas about what to do with the money. Each country wanted to be master in the Persian Gulf — or the Arabian Gulf. Exxon and the other sisters tried to hold the ring between them, to prevent too much oil reaching the market. The balancing act was made much easier by the fact that the four sisters in Saudi Arabia were also partners in the Iranian Consortium with Exxon as the chief go-between.

Ever since 1964, when Iran began exporting oil again after the Mossadeq crisis, the balance had been precarious. Howard Page had persuaded the old king, Ibn Saud, with some difficulty, to restrict his expansion to make room for Iran, to prevent it from going Communist. The Shah first insisted on a fixed rate of increase of eight per cent a year, but Page eventually dissuaded him on the grounds that anything above that fixed rate would be demanded by the Saudis, and gave the Shah instead a promise that the Consortium's growth would keep pace with the Middle East. In fact, with the prevailing oil boom, the Iranians soon increased production by much more than eight per cent. But as the Shah found his confidence and learned the game, he became more ambitious, and he realized that Iran had not regained its position before the Mossadeq crisis of being the biggest oil producer in the Middle East.

But it was a long time before the Shah learned the secret system of how the companies actually agreed to restrict production. Both Iran and Saudi Arabia had secret "Off-take
agreements" by which a partner was penalized if he took more oil than a carefully calculated means of all the partners' total demands. So that the biggest companies could set a norm for production, above which the others would have to pay higher price. The big companies could justify this commercially on the grounds that each had contributed its share to the capital cost of development, and it was unfair for any company to take more than its share without paying extra. But the mechanism was really a device for restricting production, and as such it was politically explosive.

In the first place the companies that desperately needed more oil were exasperated by the companies that had too much oil—particularly Exxon, SoCal and Texaco. In ARAMCO it was those three, the "thirty per centers", who wanted to hold back production, while Mobil, who had only a ten per cent share, consistently wanted more oil. Mobil even threatened to do a deal with BP to take oil from Kuwait unless the agreement was modified. In Iran, it was again Exxon, SoCal and Texaco, together with Gulf ("the four bears") who wanted to hold back production; while the French company CFP and the American independents were continually trying to increase it. The big companies tried to close their ranks, while the new comers tried to break in, fighting both the giants and each other: "These larger companies showed us no mercy," said E.L. Shafer of Conoco, "but I also did not see any mercy from any of my brother independent competitors."

But in the second place these restrictive agreements were ammunition to the producing governments, for they implied
that the economic growth of their countries was being secretly dictated by the broadrooms of private companies, and in the growing mood of nationalism and self-awareness this was increasingly unacceptable.

The Saudis were becoming more worried by the Iranian competition, and King Faisal could not make full use of his oil revenues with his long-term plans for economic development. His oil minister, YAMANI, suspected that Howard Page was basically pro-Iranian, having negotiated the Iranian settlement, and always suspected the Shah of getting a better deal. Page had to persuade both sides that he was not playing favorites, and even resorted at one point to the different Iranian calendar in order to avoid straight comparisons. "It was not really a system," said Page's deputy and letter successor as Middle East director, George Piercy; "it was really a game of each as catch can."

But the Shah was the more demanding. By 1966, he had become impatient of restraints, particularly in the light of this ambitious fourth five-year plan and his growing military expenditure. He inspired a press campaign attacking the companies and threatening to deprive them of part of the concession, or to sell oil to the East. The Shah was convinced that the Iranian agreement was more restrictive than Saudi Arabia's and he complained to BP, who complained to the British government, who in turn complained to the State Department. In October 1966, the five American Sisters went to Washington to seek help from the State Department, who promised that the American ambassador would do his best to keep
the lid on the Shah's demands. But the companies made clear that they did not want the government involved in the substance of this problem. The Shah was still unsatisfied and the situation was precarious. On November 16 a very specific warning reached Eugene Rostow, the Under Secretary for political affairs in the State Department, from Walter Levy, the international oil consultant in New York. Levy told Rostow about the Iranian secret off-take agreement, revealing that it carried much higher penalties for "Overlifting" than the Saudi Arabian agreement: if negotiations broke down, he warned, "the very fact that a restricted secret agreement exists would be political dynamite in the hands of the Iranians."

"But a state department memo stressed that the agreement was "a highly sensitive, intercompany commercial policy matter" and it was "desirable for the U.S. government to limit its involvement."

Levy's apprehensions were shared by others, including the British ambassador in Iran, Sir Denis Wright, and they soon proved well-justified. The French partners in the Consortium, CPP - infuriated by the restrictions on their own production - soon leaked (their partners alleged) the secret partner's agreement including the controversial clause to the Shah, and the fat was in the fire. By September 1967 Howard Page, on behalf of the big companies was forced to modify the agreement to allow a "half-way price," which halved the extra cost to the partners of oil lifted beyond the mean. This still did not satisfy either the Shah or the smaller companies - who both had the same interest in increasing production - and soon
afterward the Shah learned that ARAMCO had settled on a "quar-
ter-way" agreement which still further reduced the cost of
extra oil: the other partners suspected Mobil, now desper-
ate for more oil, of leaking this one.

The Shah complained to the State Department and the oil
expert in the American embassy, Robert Dowell, added his own
misgivings in a revealing letter to the State Department's
oil expert, Jim Akins. Dowell reckoned that the American
Sisters, particularly Texaco, were using the agreement to do
down their competitors and complained that "the net prac-
tical effect amounts to restraint of trade."

Akins, in his reply, was shocked by Dowell's use of that
phrase, and his reply was equally revealing about sensitivi-
ty to criticism of the oil companies.

Akins could not agree with the Shah's complaints, and
suggested that if the Iranians were to be aggressive, they would
share the fate of Iraq. The companies reluctantly agreed to
a compromise. The Consortium would relinquish a quarter of
its concession, and give up some oil to the National Iranian
Oil Company, who in turn agreed that, to avoid upsetting the
Western markets, it would only sell its oil in exchange for
goods behind the Iron curtain.

Was this balancing act simply a discreet extension of
the old cartel of the Seven? John Blair, the irrepressible
economist who had been responsible for the famous Federal
Trade Commission report of 1962, later produced his own ana-
lysis of the new system. He maintained that the period from
late twenties until the late forties was the "Cartelera" in
in the international oil, while the postwar era was the period of "oligopolistic interdependence." The seven majors, he insisted, without necessarily direct collusion, shared common assumptions about the rate at which the industry should expand. The seven companies had achieved an amazingly stable increase in output between 1960 and 1972, averaging at 9.66 per cent a year. In spite of sudden drops from individual countries, like Iran in 1951 or Iraq in 1957, or sudden new sources, like Libya or Nigeria, the majors were able to "orchestrate" the countries into a smooth and uninterrupted upward trend in overall supply. And the majors instinctively limited their expansion and underestimated demand, knowing that their rivals were doing likewise, according to the pattern of "Imperfect competition".

Certainly this control system, as Dowell complained, "Smacked of restraint of trade." The Joint ventures among the Seven Sisters in each country provided a network of understanding and gave each company an interest in not damaging the others. But unlike the pre-war cartel, the system was visibly unsuccessful in keeping up prices to artificial levels; and by the late sixties it was hard to see (as Howard Page insisted) how prices could have fallen much lower. If more independents had moved into the Middle East, with a free hand, they could have done more quick deals to sell surplus oil cheaply, in countries like Libya. But they would also be much more vulnerable to pressures and squeezes from the producing countries as was to happen in Libya. It is quite possible, as many oilmen argue, that the rule of the seven, as opposed to seventy-seven, could keep prices down, by holding a firm front
against the claims of the producers. It may have been a cartel, but it was a cartel on the side of the consumers. Its principal purpose, in other words, was to screw the producers.

Certainly to the producing governments it was an increasingly sinister cartel, for it was keeping prices low at a time when most other commodities were rapidly climbing. They began to realize that forced with a more fragmented industry, the producing countries would be much stronger. And if they wanted an example to prove it, they only had to block across Africa, to Libya.

THE SIX-DAY WAR

In the meantime the growing tensions between Israel and the Arabs were threatening to short-circuit the two opposite elements of American foreign policy. To produce an explosion on June 4, 1967, Israel invaded Egypt. President Nasser immediately claimed that Israel was supported by Britain and the United States and the foreign ministers of the Arab states gathered in Baghdad. King Faisal of Saudi Arabia, who had only three weeks before talked in London about his fears of Nasser’s aggression, was now committed to support his Arab Brother in time of need. Following the lead of Iraq, the Arab states agreed to shut down the oil wells and to boycott the Western imperialists. The war, it seemed, had given the Arabs the crucial incentive to unity.

But it was very short-lived the oil producers quickly realized that they were damaging themselves more than anyone else, for two key members of OPEC, Iran and Venezuela, had no intention of joining the boycott and were soon benefiting from
the resulting shortage. King Faisal was faced with an imminent financial crisis, and on the advice of Yamani he quickly limited the boycott to the two countries that were regarded as the aggressors, Britain and the United States (neither of whom, anyway, then took much oil from Saudi Arabia). By the end of the month after the Saudis had lost $30 million in revenue, ARAMCO was allowed to resume normal exports; and the other Arab States followed to.

The end of the six-day war left the Arab members of OPEC much worse off than before. Iran had taken advantage of the boycott to push up her exports to Britain and West Germany; Venezuela, too, had moved further into Europe; and even Libya was able to export more to West Germany. The United States, which was supposed to suffer most from the boycott, had hardly been touched. And the closing of the Suez Canal which resulted from the war had not seriously damaged the west, for the new giant tankers, anyway went round the Cape.

Sheikh Yamani admitted that the use of the oil weapon had been a fiasco. "If we do not use it properly", he said, "we are behaving like someone who fires a bullet into the air, missing the enemy and allowing it to rebound on himself." At an Arab summit in Khartoum, two months after the war, the oil-producing countries had to face up to their failure and each agreed to follow its own policy for the export of oil.

Some of the Arabs also decided to form their own club parallel with OPEC, called CAFEC, which first met in Beirut in September, 1963. It seemed at the time a retreat from political action. The first members were Saudi Arabia, Kuwait and
Libya who had all been damaged by the failed boycott and excluded Egypt and Syria, while Iraq refused to join. The first Secretary General was Sheikh Yamani, and he and the Saudis insisted that the organization must keep out of politics. By 1970 after the revolution in Libya, OPEC had taken on a more radical character, with new members including Algeria, and eventually the Saudis were compelled to agree to let in Iraq. Bold projects were approved including an Arab tanker fleet, an Arab dry dock in the Gulf and an Arab service company. But OPEC was still not taken very seriously by the oil companies, for it was a forum for all the squabbles between its desperate members, and it seemed to be undermining OPEC rather than enforcing it.

The Shah was determined to extract the maximum reward for not having joined the Arab Boycott. By November 1967 he was insisting to the State Department that he must have an increase in production of twenty per cent a year, compared to the past average of twelve per cent. This would be partly as a reward for running “grave political risks,” but also (as the diplomats privately revealed) because he had miscalculated the oil income for his fourth five-year plan an error which he could not publicly admit. He now wanted his oil income to be linked to the cost of the plan. The State Department replied that the companies could not allocate production in terms of reward or need.

But in March 1968 Eugene Rostow nevertheless called the five American Giants to the State Department, headed by Ken Jamieson and George Piercey from Exxon, together with two inde-
pendents, Gendron of Atlantic and Shafer of Conoco. Rostow explained that the Middle East situation had deteriorated and that Iran might join a future Arab embargo if the companies refused to increase production. The Sisters replied that Iran must be given equal treatment with Saudi Arabia and the independents complained that they were still not given enough incentive to lift extra oil. The Shah insisted on more revenue and as a desperate expedient the companies shifted their annual payments from the Gregorian calendar to the Persian calendar to buy three months' time.

As for OPEC, the whole basis of its unanimity now seemed to be in ruins. The Shah was trying to make gains at the expense of the Arabs, while the Arabs, after the fiasco of the war, were again disunited. Nasser and Egypt were discredited in the eyes of the Saudis, and the ARAMCO partners were again confident that they could safely depend on Saudi Arabia for increased supplies. King Faisal would not again ally himself with the militant states to the north. "Exxon seemed certain that the Arabs could never get together," recalled a former Exxon executive; "their image of the Arabs was taken from the film of LAWRENCE of Arabia." And in Washington, too, the sensational victory of ISRAEL had encouraged the disdain for the Arabs, and the conviction that oil and Israel could still be kept in separate compartments.

OPEC MEMBERSHIP

Every country which can export a deal of oil can be a member of the OPEC but its membership should be approved by the
other members. In the second conference the membership of Qatar and in the fourth conference the membership of the Libya and Andonesea was accepted in the year 1962 in Geneva. In the year 1967 Abuzabi, Algeria, Negaria, Gabon, Rocvador, were accepted as OPEC members.

In accordance with the fundamentals of OPEC the membership of each country should be accepted by the at least 3/4 of all members and all founder members.

INTERNAL ORGANIZATION OF OPEC

In the internal organization of OPEC three important pillars can be mentioned:

I - Conferences

II - Board of Dircotors OR Board of Governors

III - Secretary

I - Conference

It is the highest level of the organization which is formed by the Oil or Finance or Economic Ministers, and it meets at least twice in a year in Geneva or in the country of a member.

In this conference each country has the right of only one vote and all decisions which have been made in this meeting should be approved by the Government of the establisher member countries.

Most important functions of Conference

1 - Determination of the organization targets and how to achieve these targets through the limited means.

2 - Investigation of applications for membership

3 - Confirmation of appointment of members of Board of Directors for two years and determining of Director of Managing for
one year.
4 - Investigation of Board of Directors’ report about current affair of organization and investigation of accounts and audit report and approve of organization budget.
5 - Guide The Board of Directors for preparing of reports and necessary recommendations.
6 - Determination of Secretary General and its deputy of the organization.
II - Board of Governors

All the members should introduce an agent for the Board of Governors which should be confirmed by the Conference members. Board of Governors meets twice a year and each member has right of only one vote.

Most important functions of the Board of Governors are:
1 - Direct, and supervising of organization affairs, and execution of decisions which have been made by Conference.
2 - Preparing of reports and necessary recommendations to the Conference.
3 - Regulation and preparing of yearly budget and appointing the Auditor for one year, to declare financial statement and Auditors’ report and present it to the Conference for approval.
4 - Approval of appointments.
5 - Determination of the subjects which should be discussed by the Conference.
III - Secretary Office

Secretary is responsible for execution of affairs of the organization. Secretary office has a Secretary General and Deputy Secretary General and sufficient Clerks. The Secretary
will be appointed for one year.

Secretary General is responsible for organisation, administration and supervision of Secretary Office.

Secretary office has 5 offices -

1 - Administration Office
2 - Law office
3 - Information office
4 - Economic office
5 - Technical office

Secretary office center was in Geneva in the year 1961-1965 and from the year 1966 it was transferred to VIENNA.

Conclusions of OPEC Activities

1 - Oil price establishment.

Before OPEC formation, the oil companies were reducing posted price of oil unilaterally without any reasonable cause. But after OPEC formation these companies could not decrease the oil prices and the obstruction of Suez Canal in the year 1967 and the unexpected increase in transportation cost from the Persian Gulf to the West side of the Suez countries could be a proper pretext for oil price deduction (Because of parallel between the Middle East and North Africa. The posted prices of Middle East oil should be deducted or the North African oil price should be increased). But OPEC could prevent the oil deduction price of Middle East.

2 - Annexed Contract (cost charging of Interest)

Before of conclusion of this type of contract the commercial oil companies which were the members of The Consortium were
paying 12.5% of exported crude oil value to the Government of Iran and they were deducting this amount from the tax payable and were paying the difference to the Government of producer countries. In this case if the tax payable was less than the 12.5% of export oil value the oil companies were paying only 12.5% to the producer countries. But always tax payable by these companies was more than 12.5%.

With the concluding of Annexed Contract the situation changed and from that date the 12.5% of exported oil value was determined as a fixed payment to Government of producer country, and this was not deducted from tax of the companies. The companies were charging this amount (12.5%) as a cost against the gross profit of commercial oil companies. As a result the income of producer countries went up with the Annexed Contract.

In this type of contract was forecast some concession (discount) for the companies. For example:

- 8.5% in the year 1964
- 7.5% in the year 1965
- 6.5% in the year 1966

3 - Reduction Marketing cost from 1.78 $/ to 0.50 $  
4 - Production plan.

Regulation of production plan in the OPEC members was for the purpose of preventing of extra production from the year 1966, and target was production of each member on the basis of factors like oils resources, rate of increase of production in the past, the capacity for extra production, population, dependency of Government of producer countries on the income from oil.

This type of production plan could never be performed
completely.

5 - Establishment of common principle for conclusion of contracts:

Preparation and regulation of common principle for conclusion of oil contract especially in making uniform tax law for member countries for the purpose of incoetax of oil companies.

6 - Development of relations among the members:

Help to the member countries in evaluation and analysis of conditions which dominated in oil industry, training of subordinates of member countries, research and study of various problems in oil fields.

7 - Close co-operation among National oil companies of member countries.

Co-operation to prevent competition among these companies.

8 - The positive decision No. 120 of OPEC:

In December of 1970 OPEC conference in CARACAS made its famous decision No.120 which is the most important decision made by OPEC, as follows:

A - The minimum of tax rate on income of oil companies increased up to 56%.

B - Omission of inequalities which existed in posted prices of crude oil.

C - Totally increase in posted prices which improved the conditions of world market of oil.

D - To have similar manner for change in posted price.

E - Omission of all discounts (concession) to oil companies from the first of January 1971.
9 - Tehran Contract

After several discussions in Tehran between oil companies and producer countries, in the year 1972 they signed Tehran Contract which provides following advantages for Persian Gulf producer countries.

A - Increase by 0.33 $ in all posted prices.
B - Equalization of specific gravity which averagely increased posted prices by 0.05 $
C - Yearly increase of 2.5% on posted price for inflation compensation.
D - Yearly increase by 5 cents in posted price for absorbing cost increase in future. Totally, after Tehran contract there was 42 cents increase in posted price of Persian Gulf oil and also abolition of all concessions which were given previously to the oil companies.

10 - Tripoli Contract:

When Tehran discussion was going on there were some problems between LIBIAN Government and international oil companies, some of the problems were as follows:

A - Financial problems between them
B - Obligation of oil companies for their investment in LIBIA.
C - Increase in posted price of crude oil because of short way between production resources and consumption market and increase in price of crude oil of North AFRICAN because of SUEZ CANAL closing.

As a result of discussion in April 1971 the parties conclusioned TRIPOLY contract. TRIPOLY contract has all the advantages of Tehran contract and beside of rights of better qualities
and shorter distance after the closing of the SUEZ Canal.

A - Right related to the distance difference:

As a result of energy crisis, cost of transportation with carriers had gone up and because of the short distance of oil resources of LIBIA and ALGERIA to the consumption market, these countries wanted increase in the posted price for these countries.

So, as a result of TRIPOLY conference the decision made 0.13 $ increase in posted price of each barrel only for oil produced in ALGERIA And LIBIA.

B - Right related to the closing of the SUEZ Canal:

The closing of the SUEZ Canal caused some advantage for the oil produced in North AFRICA and compare with the Middle East oil which was carried to the European countries. So, in accordance with TRIPOLY contract the price of crude oil in North AFRICA increased by 0.12 $ for each barrel.

C - Right related to the quality or crude oil:

Since the crude oil produced in North AFRICA has less sulphur and better quality so they wanted more price for their crude oil. In accordance with TRIPOLY contract the posted price of crude oil which has less than 0.5 % sulphur was increased by 10 $ on each barrel.

11 - First contract of GENEVA for compensation of Dollar devaluation.

From the 16th of August 1971 the value of the dollar always decreasing as compared with the money value of other countries and this caused some problems for oil producer countries.
So the producers countries informed the oil companies to revise the incomes and taxes of oil producer countries. In Geneva, they started discussion and finally on 20th January 1972 they signed another Annexation contract, as follows:

A - Increase of 8.49% to the posted price of all type of crude oil. This increase was equal with the devaluation of U.S. Dollar as compared with English Pound.

It is necessary to mention that the Middle East countries except Saudi Arabia accepted English pound instead of U.S. Dollars for their oil.

B - This contract caused the posted price increase by an average 19 Cents per barrel.

12 - Second contract of Geneva.

On 12th February 1973 the U.S. Government devalued U.S. Dollar by 10% and this event caused some problems for oil producer countries and they informed the oil companies that they would like like to accept Gold instead of U.S. Dollars but the oil companies stated that because of shortage of Gold it was not possible for them to pay in Gold.

After discussion both sides (the producer countries and oil companies) accepted 1.9% increase in posted price from June 1973. The producer countries and oil companies accepted the money of eleven countries as a basis for payment of crude oil prices to the producer countries. Any decrease in value of average of these monies creates increase in posted price of crude oil. These monies belong to the following countries.

1 - ITALY  2 - JAPAN  3 - ENGLAND  4 - SWITZER
As it shown in Table No. 1, several times the posted price changed in the year 1973.

13 - First unilateral increase in crude oil prices:

For the first time OPEC conference on 16th October 1973 increased the crude oil price of Persian Gulf by 70% and from that time the OPEC members could got the right of determination of oil price. Also, they offered more price for crude oil which has less sulphur.

The oil companies have to accept the OPEC offer. It is necessary to mention that in this period the ARAB countries were stopped from exporting their oil to the pro-Israel countries and decrease their oil productions. This problem caused more demand for oil and as a result, more price for crude oil.

14 - Second unilateral increase in crude oil prices.

In December 1973 the Ministers of oil producer countries in Gulf area had a conference in Tehran for determination of crude oil prices. In this conference they made the decision that the minimum price of crude oil should be equal with the cost of alternative energy and in accordance with the calculation which made by OPEC.

The cost for getting the same amount of heat, which can be obtained from a barrel of oil, from the other source of energy like, coal, hydrolike, Atom for industrial countries is 7 $. So, the minimum price of each barrel is 7 $. So, the posted price increased and the price of each barrel was
fixed at 11.65 Dollars.

16 - Oil producer countries' actions from the first January till November 1974:

In the year 1974 the oil producer countries took over 60% of shares of oil companies in the producer countries. That means the oil producer countries can sell 60% of their oil on open market and they have to sell 40% of its oil to the oil companies. The oil producers countries can sell its 60% of oil at 93% to 94.5% of the posted price in European Market. The oil companies' shares of 40% also, considering the tax increases in oil producer countries has gone up, reached 8.80 $ per barrel. As a result, income of the Government of oil producer countries increased to 9.85 $ per barrel.

Table No. 4 shows the effect of different contracts on oil prices - see page No. 98.
Effect of Libea Contract

Tenran Contract

First Contract of Geneva

Second Contract of Geneva

Geneva Contract

First Unilateral Increase

Second Unilateral Increase

Take overer of 60% of Oil Production