

OPEC's Dilemma:

How And When To Break With The Dollar

Faced with a worsening crisis of the dollar, the Organization of Petroleum Exporting Countries is presently making preparations to create a new currency on which to base the price of oil. The OPEC move to break with the dollar is closely coordinated with governments, industrialists, and bankers who jointly recognize that a new monetary system must be formed quickly before the entire system goes down the sinkhole. How and when to break with the dollar is the most pressing political question the oil producers — who are losing money daily from dollar-denominated oil receipts — face today.

Paralleling efforts to decouple OPEC's multibillion-dollar business from the dollar system are intensifying moves to assert a greater role in its oil production. Through both the nationalization of existing oil resources and the expansion of state-owned oil companies, the oil-producing nations anticipate a greater-than-ever voice in the future world economy. The success of this strategy will most decisively depend on whether the oil giant, Saudi Arabia, lends its open support to OPEC's monetary and nationalization strategy.

One way in which Riyadh can most effectively back OPEC's efforts toward such economic independence will be to finalize the long overdue nationalization of the 40 percent share of the Arabian American Oil Company (Aramco) still held by Exxon, Texaco, Mobil, and Socal. To this end, the more progressive Persian Gulf producers and the Soviet Union have been intensifying pressure on the Saudis. The Soviet party daily *Pravda* of Aug. 25 carried an unusually hardhitting commentary on OPEC. The writer, B. Rachov, strongly urged nationalization of OPEC's oil and praised the efforts in this direction of all the producing states but Saudi Arabia. The Soviets are backing a campaign led by Iraq and Kuwait to pry the Saudi royal family away from its traditional ties to the Rockefeller family's banks and oil companies. While the Saudis have made gestures in that direction, their basic tactic has been to stall. It should be noted that this is in part due to the very real threat of a U.S. (or surrogate Israeli) "retaliatory" military invasion of the Gulf oilfields — along the lines first publicly put forth by U.S. Energy Secretary James Schlesinger.

The Gulf states recognize the strategic danger of a possible invasion, and for that reason Kuwait earlier this month called for a unified stand among the nine oil-producing states of the region on security for the area. According to the West German *Frankfurter Allgemeine Zeitung*, both Kuwait and the United Arab Emirates (UAE) urged a gulf security pact not only to keep the area free from "communist domination" but also to ensure preparedness in the event of a "western invasion." As a result, the Foreign Ministers from the eight Arab states plus Iran will meet this month to work out a heads-of-state summit, probably for early next year. Certainly both the Comecon and the European

Economic Community, with its heavy dependence upon Mideast oil, would back such a pact, making a U.S. or Israeli invasion that much more dangerous.

A Lesson By Example

It is Saudi Arabia's erstwhile traditional ally, Kuwait, that has taken the most aggressive role with respect to both monetary and nationalization policy, working closely with other OPEC members to set an example for Riyadh. Both Kuwait and its Gulf neighbor, the UAE, have been active in pushing for the creation of an "OPEC dollar" as a means of negotiating oil transactions.

UAE Oil Minister Oteiba last month completed a round of talks with Venezuelan President Carlos Andres Perez around the creation of the new currency. In turn, Saudi Oil Minister Sheikh Ahmad Zaki Yamani will soon go to Caracas, where it is expected that the two leaders will seriously weigh the currency proposal.

At present there are two formulas for the OPEC dollar: to be backed by a basket of currencies, or to be backed by gold. A strong French-connected faction in Kuwait favors the gold plan, unlike the British-linked UAE, which leans toward the basket of currencies alternative. OPEC has already made it public that an emergency meeting of its Finance Ministers will be convened this month to begin to work out the shape of the new currency if the dollar continues to slip. Realistically, a new system would best operate on the gold standard. The decision on what kind of OPEC dollar will be instituted, however, will more than likely not be resolved within OPEC itself but through its deliberations with the advanced countries and the Comecon in working out a new monetary policy.

The concern of the oil producers over the dollar has begun to break into the pages of the international press. Both the influential *Money Manager* and the *Baltimore Sun* last week reported that Kuwait, the UAE, and Saudi Arabia are presently reevaluating their large dollar investments. In this light, the Saudis have begun to diversify their investments away from the riskiest institutions, such as Chase Manhattan Bank, toward straight industrial equity purchases and loans.

The issue of nationalization has also been brought into the spotlight by the Kuwaitis. Last month, during an official visit to Jeddah, Saudi Arabia, Kuwaiti Oil Minister Kazemi announced that Kuwait was in the final phase of total oil nationalization, a move which further embarrassed the procrastinating Saudis. Kazemi noted that Kuwait, in the same mode as its northern neighbor Iraq, has developed the manpower and technology to begin operating without total technological dependence on its two large concessionaires, British Petroleum and Gulf Oil. The *Christian Science Monitor* reported Aug. 27 that 31 percent of OPEC's total output (or 6.27 million barrels) is presently handled by state-owned companies. It added that if and when the Saudis nationalize, it is anticipated that 2 million barrels a day of Saudi

production will be handled by the government, representing a tremendous boost in OPEC's independent oil handlings.

The Saudi Faction Fight

The current pressure being exerted on Riyadh deliberately intersects an intense internal fight over which way Saudi Arabia will jump once it gets off the fence. An important factor in the outcome of the complex factional battle in the desert kingdom is an influential group of technocrats who are not members of the Saudi royal family. According to the *Baltimore Sun's* Michael Parks, it is this "nationalist" grouping which puts the interests of Saudi Arabia above salvaging the dollar. Both U.S.-based and European banking and diplomatic sources confirm that Oil Minister Yamani, Finance Minister Aba Khail, and the head of the Saudi Arabian Monetary Agency, Quraishi, are at the head of the nationalist grouping. It is to this tendency in Saudi Arabia that both the Soviets and Saudi Arabia's Gulf neighbors are speaking.

Recently the Soviet Narodny Bank proposed to the Saudis that, as part of their diversification of investments, they recycle petrodollars into the Comecon — a plan which, sources reveal, was directed toward Yamani in particular. A number of participants in a secret Saudi delegation to West Germany earlier this month also expressed their firm endorsement of such a financial orientation. Bonn sources indicate that it is

these nationalist Saudis who want to see the East bloc kept strong as a counterweight to the United States.

Yamani has, furthermore, continued his attempts at pushing through the two-year-old negotiations on the final phase of the complete takeover of Aramco. He again met with executives of the four partners this month in Saudi Arabia, following an announcement made earlier in the summer that by the end of the year the transaction would be completed. But according to officials of Aramco and the partner companies, the delay around finalizing the contract — whose terms have already been agreed upon for months — rests with the royal family, who have procrastinated in giving Yamani the okay to sign on the dotted line.

So far the oil policy that Yamani has instituted has been designed to find a middle ground between the most conservative and pro-U.S. members of the royal family and his fellow OPEC oil ministers who want closer cooperation. This has emphatically been the case since July's Stockholm OPEC meeting.

But while Saudi Arabia is definitely showing some will toward independence on the oil and monetary fronts, the message from both inside and outside OPEC is clearly that such gestures are insufficient to meet the needs of creating a new economic world order. The Saudi royal family's procrastination only provides time for Schlesinger's Persian Gulf war scenario to become a deadly reality.

— Judy Weyer