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Can OPEC be reunified?

Saudi Arabia and Iraq are acting in concert, which may undercut the renegade price-hawks in the oil cartel.

Recent announcements from the oil exporting giant Saudi Arabia and its newfound ally Iraq to jointly increase their oil producing capacity by 1 million barrels a day by the end of this year represents a challenge to a renegade faction of price hawks within OPEC led by Libya and Iran.

The calculation on the part of Riyadh and Baghdad is that a dramatic production hike by these two largest producers in OPEC will enable them to flood an already glutted market, and in so doing undercut the chaotic price boosts which have for the first time left OPEC pricing unity in shambles. Since last December's oil price setting meeting in Caracas, the cartel's prices have continued to rise on a producer by producer basis leaving the Saudi benchmark far behind.

The pricing anarchy within the cartel erupted during 1979 right at the time when Saudi Arabia was attempting to impose a system of pricing which had been devised by OPEC's Long Range Planning Committee led by Saudi Oil Minister Sheikh Zaki Yamani. According to this plan, the cartel would institute small quarterly price hikes adjusted to world inflation, eliminating unpredictability in pricing and open the door to greater cooperation with the consuming nations. Both the French and West German governments considered the plan a favorable move by OPEC. Earlier this year the Committee met in London to draw up a series of proposals for the cartel to stabilize both world oil prices and world oil availability.

An extraordinary meeting of the cartel was to have convened on May 5 to consider the proposals, now two years in the making. Suddenly last week Yamani announced that some of the Ministers were unable to attend the meeting.

Informed sources are speculating that the Saudis pulled back from going through with the meeting because of doubt that the Oil Ministers of OPEC would accept the proposals. For Riyadh the acceptance of the plan is something of a test of its traditional dominance over OPEC.

The key challengers to Saudi Arabia's efforts to stabilize world oil markets are the radical governments of Iran and Libya. Both share a strong anti-western Ideology colored by the dominant presence of the secretive Muslim Brotherhood. Both have been responsible for price rises calculated to spark pricing leapfrogging inside OPEC and outside, fed by Great Britain's North Sea oil.

Iran's eccentric Oil Minister Ali Moinfar refused to even attend the Long Range Committee Meeting in London attacking the Saudi plan as an imperialist plot. Following the meeting, Iran enacted a new price hike to over $35 a barrel. This prompted British Petroleum and Royal Dutch Shell to pull out of Iran's oil market and shortly thereafter Japan followed suit.

As a result, the Rotterdam Spot Market for the first time in months has begun to show increases in the price of petroleum products and crude oil. According to industry sources just back from Saudi Arabia and Europe, the "mood is clear—we are in for another round of price hikes." "If Europe goes with the sanctions against Iran" the source noted, "hold on to your hat."

The sanctions are slated to be imposed on May 17. The International Energy Agency meets May 24, when sharing the shortage will be discussed by the Oil Ministers of the member states.

Under such conditions, Iraq and Saudi Arabia would make available over the coming months several hundreds of thousands of barrels a day of crude to select consuming nations on a direct sale basis bypassing the multis. Yesterday Iraq assured France that it would get an additional 10 million tons of oil a year. Saudi Arabia announced it will make another 500,000 barrels a day of oil available on a state-to-state basis. Europe, Japan, and certain developing nations are expected to be the beneficiaries of this new oil. While these new arrangments are being made, both Iraq and Saudi Arabia are expected to adopt a breakneck momentum in installing new producing capacity to insure a sustainable output of 16 million barrels a day of oil—over half OPEC's output—by next year. The question is, will these efforts be adequte to turn the tide of the oil price rise spiral and reunify the cartel?

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