The battle for OPEC funds

by Judith Wyer

West German Chancellor Helmut Schmidt this week issued a strong denunciation of the latest round of oil price rises by the oil cartel, OPEC, following the European Community heads of state summit in Venice. Schmidt declared that the OPEC price spiral, which has raised the average price of crude by $4 a barrel over the past month, would place an inhuman burden on the impoverished nations of the developing sector. He added that the increased oil bill would negate the impact of the $20 billion a year in development aid the industrial nations presently contribute to the developing sector.

Schmidt's statement occurred a matter of days before Saudi Arabian King Khaled arrived in Bonn with a high-powered financial and industrial delegation. Paralleling King Khaled's West German visit, Saudi Crown Prince Fahd is currently in Paris consulting with government and private political and financial interests. Saudi Arabia, OPEC's largest exporter and holder of petrodollars, has embraced a strong alliance with West Germany and France aimed at monetary cooperation to resolve the pressing problem of developing the Third World through a combination of advanced sector technology and OPEC petrodollars. More than any other country within OPEC, Saudi Arabia has attempted to moderate the anarchic upward climb of oil prices and is charging the least for its crude exports.

Ultimately, Bonn and Paris hope to utilize the European Monetary System and the European Monetary Fund as the chief vehicle for recycling petrodollars into Third World development. However, before the Saudis will commit their wealth to such a plan, the Arab-Israeli conflict must be resolved. The EC declaration from Venice, for the first time, recognizes the Palestine Liberation Organization as a legitimate party to Mideast peace negotiations. The Arab gulf oil producers immediately praised it as a significant step forward in replacing the defunct Egypt-Israel Camp David pact; Saudi Arabia's close ally Kuwait was the first to do so. Now, according to reliable sources, King Khaled, who is accompanied by his finance and industry ministers and other monetary advisors, will discuss with Schmidt the sensitive matter of petrodollar recycling.

Foundation of monetary cooperation

Before the May-June round of OPEC price hikes, bankers estimated that OPEC would earn about $120 billion in surplus this year alone. The May-June price hikes are slated to bring OPEC an additional $35 billion. As a result of these price hikes alone, it is calculated that the developing states will pay out another $60 billion a year for oil as the brunt of the increases hits in the next six months. Both the major surplus OPEC nations and the Europeans recognize that without substantial immediate aid, such countries as Brazil, Turkey, Zaire and Peru could collapse financially under this weight, possibly bringing the entire monetary system down with them.

As a result, certain measures are already being taken by continental Europe in conjunction with Saudi Arabia and Kuwait to build a foundation for long-term monetary cooperation with respect to the Third World. Saudi Arabia and Kuwait have already maintained a limited amount of direct lending to certain "worst case" developing nations. More important, they have begun to funnel unprecedented amounts of liquidity into the economies of West Germany, France and Japan, liquidity which serves as capital for increased lending to the developing nations. Saudi-German cooperation in bailing out Turkey is a major case in point.

Earlier this year Saudi Arabia bought $2.5 billion worth of West German debt, and promised more transactions between the two countries. Then Germany announced an aid package to Turkey. Similarly, just before Japan announced that it would renew its Third World lending effort, Saudi Arabia bought $1.5 billion in Japanese bonds. These are only the publicized transactions, but more are occurring than ever before.

New York banking sources admit that the Saudis and other Arab oil producers have begun to orient away from the U.S. multinational banking institutions as the vehicle for recycling and towards European institutions. In particular, France's Parisbas Bank has taken a greater role in placing petrodollars in the international markets. And according to the French financial daily *Les Echos*, in recent months the most rapidly expanding part of Parisbas' portfolio has been in the sphere of oil development and marketing.

French Finance Minister Jacques Monory last week publicly suggested that the European Investment Bank might serve as a major vehicle for recycling OPEC petrodollars. A European Community institution, the EIB has become a lender to African developing nations with an emphasis on North Africa. During the Venice summit French Trade Minister Jean-François Deniau visited Tunisia, the seat of the Arab League, where he proposed the creation of a "Banque Mixte d'Investissement" which would work in conjunction with other Arab financial institutions to facilitate transfer of technology from Europe to the Arab world and Africa.

Battle for control of OPEC

The problem both Saudi Arabia and its European allies have is to fully neutralize the faction of oil-pricing renegades who have been responsible for driving OPEC prices to as high as $37 a barrel. Since the Khomeini takeover, Iran has been the ringleader of the so-called pricing militants. As a result of the Iranian revolution, world oil prices have nearly trebled over the last 18 months although Saudi Arabia in alliance with Iraq has exerted every effort to moderate OPEC's pricing behavior.

At the June 9 OPEC price-setting meeting, the Saudis refused to budge one penny from their current $28 a barrel level. Late in the first day of the meeting Saudi Oil Minister Zaki Yamani mysteriously disappeared from his Algiers hotel. According to inside sources, he flew to Morocco to consult with Crown Prince Fahd.

Yamani's sudden departure from the site of the OPEC meeting was prompted by the belligerent actions of Iran's Oil Minister Ali Moinfar, who refused to accept a compromise proposal put forth by Iraqi Oil Minister Karim. According to the plan, the Saudis would have raised their price to $32 a barrel and in return Iran and other price hawks would have lowered their prices. It was Moinfar, in alliance with Libya and Algeria, who finally pushed through a $2 a barrel price hike for most of the cartel.

Crude oil surplus

Curiously, while Iran was militantly campaigning for higher prices and lower oil production, reports from oil industry sources indicated that Iran is covertly lowering its prices to about $32 a barrel to scrape up sales from customers who refused to pay inflated prices. There are also signs of other OPEC countries in the upper price categories secretly underselling other producers.

Part of the reason is the estimated 2 million barrels a day (mbd) of suplus crude on world markets. Iran and its allies have insisted that Saudi Arabia lower its production in order to cut into the massive oversupply. Compared with mid-1979, OPEC is already producing over 1 (mbd) less. But Saudi Arabia flatly refused such a proposal at the June 9 meeting. Yamani's only comment on Moinfar's obsessive assertion to the press that a production agreement had been reached to drop output by 1 mbd: "For me there was no such agreement at the OPEC meeting." Moinfar lashed out at both Iraq and Saudi Arabia for their increased oil output, accusing them of "serving U.S. imperialism. . . ."

New York oil analysts agree that barring another "upheaval" in the oil-producing nations, "OPEC has probably pushed up prices as far as it can for the time being, and now we may even see some quiet underselling."

Price hawks under pressure

Added to this, are indications that the governments of Iran, Libya and Algeria are currently facing political challenges. Most important in this respect is the current factional shift taking place in Algeria. Reports from the ongoing ruling FLN party congress show that former industry minister Abdasalam may be making a comeback with the party. He was a chief architect of the late President Boumedienne's heavy-industry orientation, and with former Foreign Minister Bouteflika is considered to be a very strong ally of Europe in economic policies. Since Boumedienne's death, the Algerian government has reversed course toward a "small is beautiful," back-to-agriculture perspective. Like Iran and Libya, Algeria has been overrun by the reactionary Muslim Brotherhood, which repudiates technological cooperation with the West and promotes a confrontationist oil pricing policy. Yet Saudi Arabia has had a strong influence in Algeria, along with the French. Just before the FLN conference Prince Fahd visited Algiers.

Algeria's neighbor Libya has been experiencing political turbulence as a result of the growing unrest against the mercurial Qadaffi regime. Since his accession to power in 1969 Qadaffi has been the key instigator of using oil prices as a weapon against the West. Iraq is known to be supporting anti-Qadaffi groupings inside and outside Libya.

Iranian exile sources confirm that Iraq, Saudi Arabia and a number of Persian Gulf oil producers are clandestinely funding the growing and powerful resistance movement to the regime of Ayatollah Khomeini. It has become a foregone conclusion in both American and European intelligence circles that if Khomeini's regime is forced out and a secular government installed by leaders of the former Iranian military, then Iran would increase its production to allow up to 2 million barrels a day in exports. This, observed an informed source recently, "would put an end to the pricing madness in OPEC and serve as the greatest support for the efforts of Saudi Arabia to reunify prices." Such a development would also represent a major opening for the efforts of continental Europe and the oil producing states of the Persian Gulf to put the billions of surplus petrodollars to productive use in developing the underdeveloped sector.