After the oil price drop

Both the "North" and the "South" are losers, reports Judith Wyer, as development projects are cut back and instability grows.

In early March, Saudi Planning Undersecretary Hussein Sejini told the Mecca daily *al-Nadwa* that his country is scaling down its next five-year development plan for 1985-90. The cutbacks are the result of the collapse in world oil prices, a process which is being directed by Great Britain.

Sejini stated that the 1985-90 plan will be based on income from Saudi oil production of 5 million barrels a day (mbd) at prices between $18 to $20 a barrel—just about half the oil income upon which the 1980-85 plan was premised. With over $150 billion in reserves, Saudi Arabia can absorb a decline of this magnitude in its income, unlike other oil exporters with large populations and debt. Since 1980 the Saudi annual budget has run as high as $100 billion.

The real losers in the Saudi cutbacks are the industrial countries of the North, whose economies have prospered over the past decade from the multi-billion dollar trade in transfer of technology to Saudi Arabia and the other oil-exporting countries.

The much-trumpeted economic recovery from lower oil prices is a scenario devised to delude the Reagan administration. In fact, the LaRouche-Riemann econometric model has shown that a slow, controlled oil price drop will destroy the development potential of the largest developing countries and shrink world trade.

Within two weeks of the first OPEC oil price cut on March. 15, Saudi Arabia had announced its largest-ever contract cancellation: a water desalination plant and a power plant, worth $840 million. The official Saudi cancellation notice to the Japanese-South Korean consortium, led by Mitsui Engineering, gave no reason for the sudden move. But the terse written notice sent a shock wave through Japan and South Korea, the economies of which are heavily leveraged on the multi-billion dollar Saudi development program. The cancellation affects not only Mitsui but Nippon Steel and three other Japanese tubular steel manufacturers which were expected to receive a larger order for pipes.

This may be just the beginning of such Saudi "budget balancing" moves. There is widespread speculation in financial circles that the next project to get the axe will be a $2.6 billion refinery which is near completion, since all work on the project has been halted. With a massive capacity of 325,000 barrels a day of oil, the refinery is a joint venture of the Saudi oil and natural gas agency Petromin, and the Greek company Petrola.

But more than just this refinery may be cut from the kingdom's massive industrial plan, a plan which centers on factories to process Saudi Arabian crude oil and natural gas. A plant for the production of lubricating oil, being built jointly by the Saudi government and Texaco and Standard of California, is being "reconsidered." The kingdom was supposed to begin taking bids for two installations valued at about $1.4 billion this year. It is now thought that the kingdom will at least temporarily shelve these projects. The main reason for the cutbacks in Saudi petroleum processing capacity is the soft petroleum-products market.

Already Saudi Arabia has stretched out some of its major development projects by as much as two to three years. This has translated into delayed payments to major contractors and layoffs of thousands of foreign workers. Last month the Arabian American Oil Company (Aramco), traditionally considered the foundation of the Saudi development effort, announced an across-the-board 15 percent layoff of its total estimated 50,000 workforce. Large U.S. firms such as the Ralph Parsons company are sending personnel home.

The regional impact

The Saudi budget cutbacks also have potentially deadly regional consequences which impinge upon U.S. security interests in the Mideast and Asia.

The Industry Minister of the Philippines, Blas Ople, visited Riyadh, Saudi Arabia in February to discuss how the cutbacks could effect the thousands of Filipino workers there. Saudi Arabia also employs South Koreans, Egyptians, and workers from the rest of the Middle East. The Egyptian workforce in Saudi Arabia and the Persian Gulf produces over $2 billion a year in remittances, a major source of Egypt's foreign exchange earnings.

Another serious effect of the decline in Saudi oil income is the decline in aid to Iraq, for the latter's war with Iran. As a result, Iraq has begun to jettison development projects and has moved to reschedule the portion of its debt associated with trade. Up through 1981, Iraq maintained its growth, awarding around 20 large contracts worth as much as $16 billion.