OPEC Finance Turning In New Directions

On Nov. 20, 1976, the Saudi Arabian Finance Salah Ahmed, stated in a press conference that the Arab oil producers "are facing a 23 percent devaluation of their revenues" because all avenues for investment in industrial projects have been closed off by the U.S. government and "certain European cabinets," forcing the Arabs to make "short-term deposits" in U.S. banks.

Accumulating more than a $100 billion in surplus in the last three years, the Arab financiers started moving away from the New York banking establishment in 1976. Having discovered that keeping their funds on deposit with institutions like Chase Manhattan and Citibank will lead only to a devaluation of their liquid assets, the Arab bankers and governments are now looking for alternative investments.

What was once a conscious policy only for the pro-socialist states in the Middle East, Iraq and Algeria — using their oil revenues for local industrial development — has now become the thinking of all the Arab oil producing countries.

At present, negotiations are taking place between the Gulf States and European governments to provide the investment alternatives the Arabs want through new agreements for the industrialization of the region. These negotiations, one theme of which is a shift of petrodollar deposits to European banks, have started to realize their first results.

For the first time, European-Arab commissions have been established for "technical assistance to the Arab World," in exchange for low-interest loans to the European countries, according to the London-based *Financial Times*. The same source reports that these commissions have been followed by the formation of Japanese-Arab commissions to establish new economic bilateral deals between the Middle East and Japan.

These negotiations according to the *Financial Times*, require "overcoming U.S. pressure," especially on the Saudi Arabian government, but they have already resulted in the signing of agreements for the first industrial projects. For example, a long-discussed joint venture between Italy's Montedison and Saudi Arabia for a $900 million petrochemical plant was finally signed last month. New joint-banking ventures have also been launched to promote trade between the Arabs and the Europeans. The European Arab Bank (EAB) a subsidiary of the European Arab Holding Company of Luxembourg, was launched six months ago, with shareholders in ten European and Japanese banks; it has opened branches in Brussels, Frankfurt and Cairo in order to promote new trade between the EEC and Middle East nations.

In the meantime, it is estimated that an average level of $8 billion in Arab deposits have been placed with French and German banks. As a result, the Europeans have increased their exports to the Middle East from $16 billion in 1974 to almost $28 billion at the end of 1976, putting them in first place as Arab trade partners, if the U.S. arms sales are excluded.

Meanwhile the Persian Gulf States are making trade overtures to the Comecon sector. According to *Institutional Investor* magazine, the Kuwaiti government "has been desirous of lending money to Comecon nations for political reasons." Kuwait began with the first Communist "petroloan," $40 million, to Hungary. Big investments in the Soviet bloc by the Kuwaiti financiers followed. Moscow's Narodny Bank, a London-based banking operation wholly owned by the Soviet Union, has undertaken a joint venture with the Kuwaiti Investment Company, called the International Bank of Moscow, starting with capital of $60 million and financing several cooperative deals between members of Comecon and the Arab world.

After visiting Hungary, Yugoslavia and Rumania last year, Kuwaiti Finance Minister Al Attiqi announced that his nation would supply one-third of the funds needed to finance a major Comecon project, the Andria pipeline running from Yugoslavia's Adriatic coast into the heart of central Europe. Costing nearly $600 million, this 500-mile line will provide Yugoslavia with 26 million tons of crude oil a year, and Hungary and Czechoslovakia with 5 million tons each, when it goes into operation at the end of this year. Mr. Atiqi noted that there was "scope for other Kuwaiti investments in the region" (Comecon), and that Libya has agreed to provide $70 million towards the cost of the Andria pipeline. At the same time Libya renewed its pledges to help guarantee oil to several Eastern European countries, among them Yugoslavia, Czechoslovakia, Hungary and Romania, through a $1 billion pipeline in which Kuwaiti funds will participate.

Hungary, which held the first session of its cooperation committee with Libya last year, has also held talks with the United Arab Emirates, Egypt, and Kuwait to set up similar joint economic committees.

The shift of the Arabs away from monetarist policies was crystalized in the FIAT-Libya deal, representing the starting point for new directions that the Arab financiers will take in the future. Saudi oil minister Yamani in an interview with the *Journal of Commerce* last week stated that Saudi Arabia will abandon its policy "of supporting the dollar and the British pound and will concentrate on investments in industrial projects" in Western Europe.

The logic of the Arab's new policy leads ultimately to the withdrawal of OPEC funds from the New York banks. At present, it is estimated that U.S. banks are holding about 30 percent of Arab funds in short-term deposits of up to 90 days, representing about $34 billion. In addition, Swiss banks are holding about $46 million in Arab funds which are channeled into U.S. banks, which recycle the money back into the speculative Eurodollar market.

The near-bankrupt Chase Manhattan bank and Citibank of New York are holding the bulk of the Arab deposits, while the ruling family of Saudi Arabia has up to $4 billion in the Algemene Bank Nederland. Citibank is holding about $1.6 billion of Kuwaiti funds on a 68-day basis, indicating the impact Arab withdrawals will have on these Wall Street institutions.

Morgan Guaranty Trust, which has managed the Saudi Arab Monetary Authority with a portfolio of $45 billion for the last 10 years, has played the major role in channeling Saudi funds into worthless U.S. Treasury Bills estimated at up to $6 billion. $7 billion of these Saudi funds also exist as direct short-term deposits with Chase, Citibank and Bankers Trust, while the rest is in Swiss financial institutions.

Meanwhile Arab bankers, despite their alliance with the New York banks, have been booted out of the Eurobond market. In 1974-75 the Arab houses managed or co-managed $2.9 billion, or 32 percent, of the value of international bond issues. In 1976, placements by the Arabs in the Eurobond market dropped to 7.5 percent. The reason for such a drop, according to Magdi Tamanli of Arab Financial Consultants, a Kuwaiti investment banking firm, is that the Arabs "were kicked out of lots of deals" last year as a result of conscious policy against Arab capital by the U.S. banks.

Producing Nations Expand Oil Transport

The 1973 oil price rise resulted in a major slump in the oil tanker industry. By mid-1975 50 percent or 200 million tons of existing tanker capacity was laid up, and this reached 290 million tons within a year. In addition orders for more than 30 million dead weight tons (dwt) of oil tankers were cancelled in 1974. In Japan, once the largest tanker building nation, orders have dropped to half of that of 1974. Now almost all the Japanese shipyards face bankruptcy.

Nevertheless the Arab oil producing countries are moving into the tanker industry, providing capital to the European shipyards and concluding joint ventures with Japanese tanker companies.

The efforts by the Arab countries to form their own independent fleet to transport oil to Europe has been crystalized by the formation of two companies, the Arab Maritime Petroleum Transport Company (AMPTC), jointly owned by the governments of six Arab oil countries and the United Arab Shipping Company (UASC) established in January 1976, with allocated capital of $600 million and an expected fleet of 150 vessels by 1980.

Since 1973, the oil nations' share of the world's fleet has vastly increased. The tanker tonnage under the Arab flags has jumped from 1 million in 1973, to almost 6 million at present. Joint ventures with state owned European oil companies have been concluded. The most important example is the Iranian deal with the British controlled oil company BP concluded in 1975. Under this deal, the Iranian National Oil Company (NIOC) and BP established a jointly managed oil tanker fleet. Ten of BP's oil tankers were sold to NIOC and a similar volume of BP-owned tanker tonnage under the British flag was supplied in mid-1976 to the new Iranian fleet. This pool of shipping will be used by both parties and operated under joint management from London.

At present the Arab countries own 58 tankers accounting for 1.7 percent of the world fleet. The Arabs have an additional order of 24 ships, totalling 4.5 million dwt, due for delivery over the next five years, which would increase their ownership share to an estimated 2.5 percent: shipping experts think they will expand much faster. Ian Foster, managing director of London's Galbrath Wrightson Ltd., acting agent for Kuwaiti ships, sees their total share going to 10 percent while other British shipping consultants, H.P. Drewry Ltd., peg it at an eventual 20 percent.

One more sign that the Arab oil countries are serious about becoming a force in shipping is their intensive effort to train crews. In 1975 OPEC arranged to set up maritime academies at Jidda, Saudi Arabia; Basrah, Iraq; and Doha in the sheikdom of Qatar. Trainees are being sent overseas currently some 500 Arab and Iranian cadets are studying under the auspices of *Y-ard Ltd.*, a subsidiary of Scotland's Yarrow shipbuilding group.

The Middle East nations as a whole are moving to establish building facilities for ship-yards for the construction of oil tankers. At a major international shipping conference held in Kuwait Feb. 17-18, 1976, the chairman of the Kuwaiti Tanker Company noted Arab interest in developing a shipbuilding a repair capacity both because "this industry is considered one of the most important and strategic industries with regard to the aspirations of the Arab countries" and because it could "become the axis of development which creates large industrial opportunities" for the region.

As a result of the decisions made in 1976, the Arab countries have allocated millions of dollars for the construction of shipyards. Iran is constructing a repair yard and building complex at Bandar Abbas with a dry dock for VLCCs (tankers of unusual size and capacity - ed.) of up to 400,000 dwt and facilities for the Iranian navy.

Other projects include the Kuwait Shipbuilding and Repair Yard Company, with Kuwait Shipping Company (KSC) participation, designed to accommodate ships of up to 20,000 dwt and the construction of vessels 3,000 dwt. After the Kuwaiti Shipping Company decision to transfer its entire fleet to United Arab Shipping Co. (UASC) and participate actively in the management of UASC, authorized the Kuwait Oil Transport Company (KOTC), to acquire a building capacity for vessels in 2-25 dwt range in anticipation of large orders from the UASC. KOTC is both the largest and most experienced of the Arab tanker companies, and has been managed by British interest and control by the Kuwaiti government.

Iraq is developing a building and repair facility at Basra involving the construction of ships of 1,500 dwt. Saudi Arabia has entered into an agreement with Marcona Corporation of the U.S. for a joint project involving a steel plant and shipbuilding yard to be constructed near Jeddah. Saudi Arabia has also invested in the construction of a shipyard for vessels of up to roughly 60,000 dwt in Malta.

Abu Dhabi is now in preliminary negotiations with