Behind OPEC's new oil pricing policy

The losers may be the high-rolling speculators among the multis

The announcement last week of a 14.5 percent rise in the price of oil by the Organization of Petroleum Exporting Countries (OPEC) provoked a torrent of complaints that the "greedy sheiks" are waging renewed economic war on the economies of the oil-consuming nations.

The facts of the OPEC price rise are different. The economic warfare exists but it comes from speculation by some of the big Western oil multis, not from OPEC. And the real news of the affair was OPEC's decision to stifle speculation by the new tack of organizing the price rise in quarterly increments.

Even after the initial 5 percent hike in January, the price of high quality Saudi Berri benchmark crude will be more than $1.00 a barrel below the open (spot) market price, said Saudi Arabian Oil Minister Zaki Yamani at the close of the OPEC meet on Dec. 17. Massive speculative buying has already driven the spot market price of high demand light crude up more than 15 percent to nearly $15.00 a barrel. And the biggest speculators are Britain's Royal Dutch Shell and British Petroleum, representatives of the interests that have the most to gain from an "oil-shortage crisis" in the U.S. and continental Europe.

Calm in Europe

In Europe, whose economies are more dependent on imported OPEC oil than the U.S., high-level sources are viewing this week's OPEC decision as a market stabilization move. The cartel, they note, may not choose to implement the second quarterly increase after reviewing the advance of the world economy promoted by the European Monetary System.

A West German Bundesbank source calmly responded to the OPEC decision in a manner representative of the general European response. "If the inflation rate declines in the industrialized nations, and there are trends towards greater economic growth," OPEC may well waive the second increase in April, he stated.

That attitude was also expressed by New York analysts, who said that in 1979, market conditions may militate against additional price boosts actually holding. The *Journal of Commerce* noted that a number of economists believe that with new non-OPEC oil coming on line from Alaska, the North Sea, China, and Mexico, supply will increase, "softening the market," and making higher prices of OPEC oil harder to sell.

The price rise in small steps, said Yamani following the conclusion of the meeting, "will help us to fight speculation at the end of the year when certain companies resort to overlifting" — the stockpiling of crude by the multinationals for sale and quick speculative profits after a price hike.

A number of other sources have indicated that future quarterly increases could easily be waived in 1979 dependent on the improvement of the world economy for which the success of the European Monetary System is critical. In this connection Carter Administration support for the EMS as the basis for a new monetary system internationally is what the Saudis in particular are counting on happening. Under such conditions the Saudis would be in a favorable position to argue for a further price freeze with their fellow oil producers.

The antispeculation formula

Both Royal Dutch Shell and British Petroleum take the lead in oil profiteering and stockpiling, say a number of market analysts. These two companies began as early as September to put out scare stories that OPEC would break with the dollar and impose a large price rise, while they began their ritualistic buying spree. Shell, in particular, does not produce oil in any significant quantity, but acquires its biggest profits as a "middle man" between the oil producers and the consumers.

Since 1976, Yamani has, on a number of occasions, condemned the practice of speculating with OPEC oil. On Dec. 1, the president of Gulf Oil told Platt's Oilgram that he welcomed OPEC's efforts to stop the profiteering.

The Iranian factor

London is counting on the crisis in Iran to continue into 1979 and force higher prices for oil by creating an artificial shortage through a drastic decline in Iran's average production of six million barrels a day. Over the last month, strikes by oil workers led by anti-Shah oppositionists forced a record drop in Iran's production to 1.1 million barrels-a-day. This development tended to reinforce an already tight market.

Iran's Prime Minister General Gholam Reza Azhari has denounced the consortium of multinational oil companies which service Iran's oil industry. The *Financial Times* Dec. 18 reported Azhari unhappy with the BP-led consortium for not helping the government resolve the costly oil strike. He informed the consortium of which 54 percent is controlled by BP and Shell that "nothing less than full cooperation is now expected" by the government. There are also hints of tension building between the National Iranian Oil Company (NIOC) and BP and Shell, whose personnel make up the majority of the foreign management of the Iranian oil industry. The *Petroleum Intelligence Weekly* on Dec. 11 quoted an unnamed NIOC official saying "things will never be the same again" between NIOC and the multis.

Well-informed Iranian sources say that at the bottom of Iran's crisis is a British and Israeli intelligence manipulated anti-Shah movement designed to blackmail the Shah into renewing a now defunct service contract with the consortium, opposed by the National Iranian Oil Co.

If the Shah succeeds in reaching a compromise with opposition figures in the coming days, he may complete the 1953 nationalization of the famed Prime Minister Mohammed Mossadegh. The personalities which will comprise his new government are directly out of Mossadegh's movement, including the mooted new Prime Minister Sadighi. A move against BP and Shell by the Shah would compound the effects of the OPEC pricing maneuver and leave London's speculators standing out in the cold.

—Judith Wyer

Yamani sees price freeze in 1979

Following the OPEC meeting on Dec. 17, Saudi Arabian Oil Minister Zaki Yamani told the press that he "predicted a price freeze for 1979." His attitude was seconded by the oil minister for the United Arab Emirates. Yamani added: "We wanted a 5 percent increase and were prepared for much smaller doses each quarter . . . but if you look at it from the overall picture . . . I tried my best to make it a little bit lower — the market itself today is in a unique situation, especially with the Iranian crisis. The price of our marker crude went up (on the spot market) by more than we raised it today."

In New York, a leading oil analyst was asked to clarify the OPEC pricing policy, and its effect on companies like Shell.

"I would agree that there will be less of an incentive now to speculate as a result of the new incremental pricing policy. But there is another feature to this decision, which is that it will only apply to the Saudi marker crude, which of course is only a small percentage of the total number of crudes produced. I am not sure now we can say for sure what decision OPEC might take in April when the second installment is due to go into effect.

"One thing about such small increases, is that it is only about 20 to 30 cents per barrel, no oil company can make any speculative profit off of that, it is just too small. So I am relieved that it may indeed normalize the markets. The OPEC nations have always resented the companies using their oil for such purposes and then passing on higher prices to consumers . . . this makes OPEC look bad."

In response to a question regarding which companies will be most affected by the pricing mechanism:

"The crude short companies will definitely be the worst hit. Royal Dutch Shell is the biggest international company in that category . . . Royal Dutch has a wild auditing system showing big earnings at the beginning of the year, most of which come from hedging and inventory profit taking. It's a paper system which then is used to bring in more stock purchases. BP does the same things showing great big profits and then selling out a lot of stock."

Venezuelan Oil Minister:
"We must avoid speculation"

In an interview given in mid-November following a series of secret meetings with Yamani, Venezuela's Oil Minister Hernandez told the press from Caracas:

"The system (of small increases—ed.) would have the advantage of allowing consumers to estimate well in advance what the cost of their oil imports would be. At the same time, we (OPEC nations) would avoid the speculation that now takes place in the last quarter of each year and the resulting accumulation of large inventories in anticipation of a price increase."