Saudi-Iran feud deadlocks OPEC

by Judith Wyer

The OPEC meeting of oil, finance, and foreign ministers broke up this week amid a harsh dispute between Iran and Saudi Arabia over pricing and production policy. Iran with the backing of Libya resorted to what the Saudis referred to as "impolite" language to cajole Saudi Arabian Oil Minister Ahmed Zaki Yamani to agree to raise Saudi Arabia's $28 per barrel oil price, now the lowest in the cartel, and lower its record 9.5 million barrel per day (bpd) production. Since Ayatollah Khomeini came to power in 1979, Iran with Libya's backing has repeatedly chastised Saudi Arabia for maintaining such a high production level of oil.

In December of last year, Yamani emerged from an OPEC price setting session pledging that Saudi Arabia would produce oil to its ceiling level in order to flood the market and force such countries as Iran and Libya to lower prices. Yamani went into this meeting pledging that Saudi Arabia would only consider raising its price to the $32 per barrel, the average price of OPEC crude, if Iran, Libya, and those countries selling oil at close to $40 per barrel would lower their prices to below $35 per barrel.

Iran and its allies refused the Saudi demand, and Saudi Arabia has pledged to maintain its production and pricing policy.

Behind the pricing dispute

The Saudi and Iraqi commitment to high production and stabilized prices is underscored by their commitment to monetary and economic cooperation with the founding member states of the European Monetary System (EMS), West Germany and France. A key feature of the EMS is to reform the bankrupt Bretton Woods monetary system around the reestablishment of gold as a reserve asset of central banks. It is no coincidence that during the OPEC meeting the London *Financial Times* ran a lead editorial warning of the "danger of the revival of the status of gold as a reserve asset," simultaneously reporting on major movements of gold bullion to Saudi Arabia and Iraq.

The Saudis, who have come under intense pressure from London to break their alliance with the EMS, have made concessions to policies which both London and its tool, the International Monetary Fund, have injected. This capitulation is located in the OPEC Long Range Planning document, which was debated at this week's meeting. In substance, the report is a defense of the IMF and London's long-term policy of destroying both the dollar and gold as reserve assets in the international monetary system.

Saudi-Iraqi leverage

Since the Iranian revolution, both Iraq and Saudi Arabia have produced oil at record high levels to offset the loss of Iranian crude in the world markets. Both countries have consciously kept a high production profile in order to create an oversupply of oil which at present is estimated to be about 2.5 million barrels per day above world demand. As a result of this "glut" of oil, many OPEC producers including Iran have secretly cut their prices slightly in order to maintain sales. The Saudi objective is to create such a severe oversupply that those countries which have priced their oil at or just above the OPEC pricing ceiling of $37 a barrel will be forced to enact further cuts in their prices.

The oversupply of crude has been intensified by a dramatic decline in world consumption of oil, due to the draconian credit policies introduced by U.S. Federal Reserve Chairman Paul Volcker last year, which not only cut into U.S. industrial operations but had a side effect on the economies of other industrial states.

U.S. imports of crude oil are reported to be down 8 percent for the first half of 1980 over 1979. European Energy Commissioner Guido Brunner announced on Sept. 11 that European-wide imports of crude were down 12.8 percent as compared with the same period last year.

Added to this, world stockpiles of crude oil are at a record high. In the U.S. alone, as of June, stockpiled crude is up to 375 million barrels, as opposed to 310 million barrels for June 1979.

With such a dramatic oversupply situation, not only

U.S. oil consumption decline

(millions of barrels a day)

	1st quarter	2nd quarter	3rd quarter
1980	18.0	16.4	17.25
1979	20.3	17.6	18.9
1978	20.1	18.0	19.0

Available figures for oil consumption in the U.S. for the first half of 1980 show a 10 percent drop over the same period in 1979. The winter months of the first quarter are the highest energy consuming months of the year. The nearly 2 mbd drop for the first quarter of 1980 over 1979 marks an 8.8 percent decline in consumption during the winter period.

Big Seven OECD nations: inland oil consumption

(millions of barrels a day)

	1977	1978	1979	1979*	1980*
United States	18.4	18.8	18.4	20.3	18.0
Japan	5.0	5.1	5.2	5.7	5.4
West Germany	2.4	2.6	2.7	2.7	2.8
France ...	2.0	2.0	2.1	2.6	2.3
Great Britain	1.7	1.7	1.7	2.0	1.7
Italy	1.5	1.5	1.6	1.8	1.8
Canada ...	1.6	1.7	1.8	1.9	1.8

*1st quarter

Big Seven OECD nations: crude oil imports

(millions of barrels per day)

	1977	1978	1979	1979*	1980*
United States	6.6	6.3	6.4	6.6	5.9
Japan	4.8	4.7	4.8	5.1	4.6
West Germany	2.0	2.0	2.1	2.1	2.1
France ...	2.4	2.3	2.5	2.7	2.4
Great Britain	1.4	1.3	1.2	1.2	1.0
Italy	2.1	2.2	2.3	2.4	na
Canada ...	.7	.6	.6	.7	na

*1st quarter

are certain OPEC countries cutting prices, but many major oil companies have reported shaving prices in the production had dropped to 27.3 mbd, 12 percent below market. Last month four American multinational companies announced they were knocking $2.00 per barrel off the price of their crude. This has translated into marginal drops in price listings at the gasoline pump here and even in Europe.

Moreover, crude and refined petroleum prices on the open (spot) market have plummeted. Crude oil is selling for $29.50 a barrel as opposed to this time last year when crude across-the-counter spot sales were going for as high as $50 per barrel. Last month spot sales of premium gasoline on the Rotterdam market declined by $43 per metric ton and are $70 down from the first quarter of 1980.

A number of other OPEC producers have cut production in an effort to offset the glut. In June OPEC production had dropped to 27.3 mbd, 12 percent below OPEC's production level a year earlier. OPEC has not reached this low level of output since January 1978, when both Iran and Saudi Arabia lowered their production by 3 mbd to offset an oversupply situation which prevailed in the world markets at that time. This time the glut is much worse.

No production cut

Following the OPEC meeting, Saudi Deputy Oil Minister Abdul Aziz al-Turki declared that his country would not discuss a production cut unless there was an agreement within the cartel over the long-range planning committee proposal. Both Iran and Libya have refused to discuss the plan unless the Saudis first agree to cut their output.

Yamani is reported to have told the press following the close of the meeting that if Libya and Iran are now willing to negotiate a long-term pricing policy, then the other OPEC members may proceed without them. This is the first time any OPEC member has ever talked of expelling a member from cartel negotiations. The Saudis also introduced another first at this meeting by demanding a reduction of prices of those members selling oil at the OPEC price ceiling.

Should Saudi Arabia continue its 9.5 mbd produc-

U.S. oil import decline*

(millions of barrels a day)

	1st quarter	2nd quarter	average**
1980	5.96	5.16	5.56
1979	6.46	6.58	6.47

A comparison of imports of crude for the first half of 1979 to the first half of 1980 shows a decline of 7.10 percent.

* does not include imported petroleum products

**for two quarters

OPEC production totals

(million barrels per day)

	1977	1978	1979	1980
1st six months	31.25	28.5	30.0	28.4
Yearly average	31.1	29.9	30.7	—

The flow of oil varies from quarter to quarter, with the winter months showing the highest consumption levels. Therefore, a true comparison of OPEC flows for the first half of 1980 can only be achieved through a comparison of first half production levels of previous years.

Britain's agents in Saudi Arabia

Britain's most powerful agent-of-influence within Saudi Arabia is Second Crown Prince Abdullah bin Abdul Aziz. Arab intelligence sources who know the secretive internal workings of the Saudi kingdom call Prince Abdullah "Britain's boy."

Abdullah's power in the Saudi royal family hierarchy is derived from his control over the Saudi Royal Guard and a clique of non-royal family technocrats and ministers who are opposed to policies of the most powerful policymaker in the kingdom, Crown Prince Fahd.

Abdullah and the Muslim Brotherhood

Abdullah is known to be a leader in the clandestine Muslim Brotherhood movement in Saudi Arabia. The Muslim Brotherhood, a creation of British intelligence, was instrumental in bringing the fundamentalist regime of Iran's Ayatollah Khomeini to power.

Among Abdullah's allies in the kingdom are Saudi Planning Minister Hisham Nazir and Abdul Hadi Taher, the head of the Saudi state oil company Petromin. Both are said to favor a cutback in Saudi oil production to 5 to 6 million barrels a day. They justify this policy, like many of the younger Saudi technocrats, by claiming that the kingdom does not need the immense revenues which Saudi Arabia's 9.5 million barrels a day is yielding. Like Abdullah, they are opposed to the strong cooperation which Prince Fahd and, before him, King Faisal forged with the industrial nations.

Abdullah's Royal Guard, which was created in 1964, is a composite of tribal chieftains whose power is based on the backward tribal structure of Saudi society before it began to modernize. The Guard is known to interface the activities of the Muslim Brotherhood both inside and outside the kingdom.

The orchestrator of the seizure of the Mecca Grand Mosque last year, Juhaiman al Oteibi, spent 10 years in the Guard before he began to organize clandestine anti-Saudi activities. Moreover, Saudi Defense Minister Sultan, the brother of Prince Fahd, countermanded Abdullah during the Meccan affair and replaced the Royal Guard with regular Saudi Army troops in terminating the seizure.

Later it was revealed that elements within the Guard had played a role in arming the Muslim Brotherhood insurgents who had occupied the Mosque.

Informed sources report that Abdullah is one of the chief funders of groups operating in London whose purpose is to overthrow the Iraqi regime. Since the Iranian revolution, Saudi Arabia and Iraq have formed a powerful alliance around ensuring regional security against Khomeini's threat of "spreading the Islamic revolution" through the oil producing nations of the Gulf.

According to European sources, powerful interests within the Qahtan and Oteib tribes in western Saudi Arabia are known to be allied to the Muslim Brotherhood in building an anti-Saudi royal family conspiracy within the kingdom.

The two leaders of the Meccan affair hail from these two tribes. The western-based Idrissi clan is also known to have a hand in building a challenge to Prince Fahd. Arab sources report that historically these tribes have been opposed to the unity of Saudi Arabia around the royal family. Historically the Idrissis have been allies of Britain.

Familiar charges

In recent weeks, Saudi Prince Talal bin Abdul Aziz has been touring a number of Gulf emirates in his capacity as deputy secretary general of Unicef. The *Frankfurther Allgemeine Zeitung* observed last week that Talal's widely publicized tour may be cause for alarm. Tala ran the "free princes movement" against the monarchy in 1962. He is reported to still command considerable influence within Saudi Arabia, especially with "younger Saudis," and continues to oppose the monarchy.

In July the *Washington Post* reported that a Saudi student organization in the U.S. was increasing its organizing against the Saudi monarchy. Called the Voice of the Vanguard, the group is challenging Prince Fahd for his corruption and lack of adherence to Islam. This is the same claim the leaders of the Meccan affair used to justify their terrorism, and the same claim which the young prince who assassinated King Faisal made against the royal family.

tion level through the Baghdad OPEC heads of state summit in November, where the final decision will be made on the long-term strategy plan, they could force down the world oil price even further. Many of the OPEC countries cannot afford to cut their production any further for domestic economic reasons, and would be forced to shave their prices.

According to French sources, this OPEC meeting intensified Saudi Arabia's commitment to reassert their dominance over OPEC by use of their immense producion capacity. He predicts that as a result prices will for the time being continue to ease downwards, which will put the greatest pressure on Iran and its allies.

As for the long-range strategy report, a source from the West German economics ministry commented that it appears to have died. According to European reports, the only initiative which was passed by the 13 members was a call for relaunching the dialogue between the developing countries and the industrial countries to work out a plan for transfer of technology to the so-called Third World. Baghdad and Riyadh know that the only framework in which such a dialogue can occur is the European Monetary System and its sister organization, the European Monetary Fund, scheduled to be inaugurated next year.

The British factor inside OPEC

by Judith Wyer

The Organization of Petroleum Exporting Countries (OPEC) convened an unusual tripartite ministerial meeting this week to negotiate a long range oil pricing and production plan presented by OPEC's three year old Long Range Planning Committee. The central feature of the Long Range Plan is the indexation of OPEC oil prices to the rate of inflation in the industrial nations and the fluctuating value of a basket of currencies. While the Long Range Planning Committee head, Saudi Arabian Oil Minister Ahmed Zaki Yamani, is reportedly the architect of the plan, as financial and oil industry insiders know all too well, the real brains behind the scheme is the City of London.

Since 1971, the London financial oligarchy through its agents of influence inside and outside the cartel have methodically organized OPEC to adopt the indexation plan. According to Melvin Conant, a well known Washington-based oil consultant, London moved aggressively to get OPEC to adopt the plan immediately following U.S. Treasury Secretary John Connally's removal of the dollar from the gold standard—a move directed by the Bank of England.

London calculated that an OPEC move to price oil according to the average value of a basket of currencies would bolster its drive to undermine the dollar as the international reserve currency, and in so doing clear the way for making the IMF funny-money called "Special Drawing Rights" or SDRs, the international reserve. Such a development from the standpoint of London and its financial allies in Washington and lower Manhattan is viewed as a major precondition for subjecting the world economy to the zero-growth dictatorship of the International Monetary Fund and the World Bank.

Manipulating OPEC

In 1975, OPEC's first triministerial meeting of Oil, Finance, and Foreign Ministers briefly enacted the policy of pricing oil in a basket of currencies. The *Financial Times* of London noted this week that the precedent for the current triministerial meeting is to be found in the 1975 parley. OPEC's adoption of a basket of currencies mechanism followed a severe decline in the value of the dollar in the wake of the 1974 fourfold increase in the price of oil by the cartel. It was the decline in the dollar's value and the concomittant rate of world inflation—both of which had devalued OPEC imports from the advanced countries—which prompted the adoption of the basket-of-currencies approach. Shortly after the OPEC move, the dollar rallied on international currency markets and the basket of currencies policy was dropped.

Since then, at every OPEC semi-annual price setting meeting, rumors have abounded in international financial circles of an imminent break with the dollar as the mechanism for pricing OPEC crude. Each time, the Saudis, who hold tens of billions of reserves in dollars, have resisted the pressure to adopt the basket-of-currencies as a pricing mechanism from the so-called radical OPEC producers, notably Libya, Algeria and Iran, who complain of losing money by selling oil based on the sagging value of the dollar.

The combined pressure of OPEC hardliners, which include both anti-Western ideologues such as Libya and Iran, and others such as Algeria with large domestic economic demands which supercede their oil income, and City of London agents-of-influence, have swung the Saudis into accepting the indexing scheme.

In 1978 British Energy Secretary Anthony Wedgewood Benn began a series of meetings with Yamani aimed at working out the technicalities of the indexing scheme. Benn, a leading member of Britain's Labour Party, is a fellow traveller of the Bertrand Russell Peace