

ENERGY INSIDER

OPEC markets rising output on a direct sale basis

Earlier this month the Saudi government made a sudden and unexpected announcement of a mammoth new oil discovery. Curiously, right at the time when Americans were waiting on gasoline lines because of a supposed petroleum shortage, the American press chose to suppress the good news. Saudi Oil Minister Ahmad Zaki Yamani stated that the new find, which is as large as Saudi Arabia's largest Ghawar field, could add another 800,000 barrels a day of crude oil to Saudi production.

Just after the June 26 price setting meeting of the oil cartel, OPEC, the Iraqi Oil Minister Tayih Abdul Karim told the press that the cartel a full million barrels a day more than during the same time last year. Karim's statement came before the Saudis announced a production hike of up to 1 million barrels a day.

Other moderate OPEC producers have also announced projected production increases. Notably, the United Arab Emirates (UAE) this month informed a Japanese trade delegation that in early 1980 its average 1.4 million barrel a day production level would climb by a half a million barrels a day. During a visit to the UAE earlier this month, French president Valery Giscard d'Estaing was promised additional oil supplies. The *Middle East Economic Survey* reports that UAE Oil Minister Oteiba indicated publicly that an additional 30,000 barrels a day will go to

France. Iraq similarly has announced increased supplies to France in view of positive Franco-Arab relations. Just before the OPEC meeting the UAE and Qatar announced a new field would come on stream adding another 35,000 barrels a day to their total output.

Some oil industry sources might attempt to explain away these developments by arguing that these three countries, Qatar, the UAE and Saudi Arabia, all opted for the lower pricing level in the split pricing arrangement worked out at the OPEC meeting. In order to enforce pricing discipline, these sources suggest these countries are propagandizing new finds. But there is more to the reasons behind this sudden spate of announced finds and production increases than just pricing discipline.

Oil for technology

Since the emergence of this year's oil crisis, the OPEC nations, most importantly those of the Mideast, have been negotiating direct oil sales at an increased rate. This has occurred as the oil producers have become more vocal in their condemnation of the multinational oil companies for profiteering through the spot markets and driving up fuel costs. *Al Ittihad*, a UAE daily, at the end of June called for a global education campaign to explain "the present state of the market and its future, and make clear the exorbitant profits that the multinational companies are reaping through their irre-

sponsible speculations in the oil markets as well as the major industrial countries stance of exhausting energy resources at the expense of future generations."

The Saudi Arabians have in effect raised the cost of their crude oil sold to the multinational companies that market their oil through the Arabian American Oil Company by shortening the credit time for payment from 60 to 30 days. Last month the four companies, Socal, Texaco, Exxon and Mobil had to pay up a cool \$3 billion in "catch up" fees to the Saudis.

The Saudis, moreover, informed a visiting Japanese trade delegation, that for every \$1 million Japan invests in Saudi petrochemical industrial development, the Saudis will sell 1,000 barrels a day on a direct basis through the Saudi state oil company. According to the July 23 issue of *Oil and Gas Journal*, the two countries, are talking about a Japanese investment of \$1.6 billion in return for 160,000 barrels a day. This would complete Japan's five-year-long quest for direct purchases of Saudi oil.

The expansion of Saudi state to state and direct sales is echoed in Iraq, the UAE and Kuwait, and is benefitting many European countries and developing nations. Only this month Nigeria reduced its sales of crude to British Petroleum by 100,000 barrels a day and announced a campaign of more direct sales, the first of which went to the Swedish state-owned Svenka Oil Company.

Such developments prove that not only is there ample oil but that the oil producers are more than willing to sell it when the buyer favors returning technological and development assistance to the producer. This is a lesson Washington has yet to learn.

—Judith Wyer