

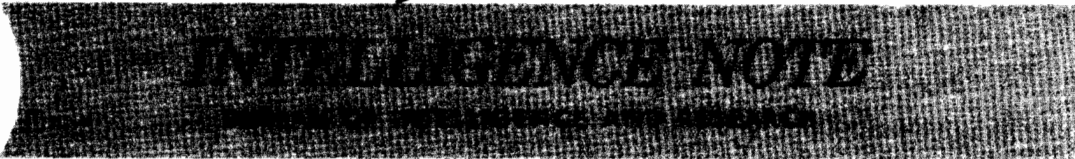
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February 18, 1971

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OPEC OIL: PERSIAN GULF ANCHORED,
MEDITERRANEAN NEXT

The international oil companies signed a new oil tax and price agreement with OPEC's* six Persian Gulf members in Tehran February 14 and take on OPEC's Mediterranean wing next week at dates not yet known.

The Gulf agreement is for five years but some oilmen doubt that it will last that long. According to preliminary reports, it gives Gulf governments an immediate revenue increase of almost 30 per cent for crude oil exported from Gulf terminals, with further increases through 1975.

Major customers affected are Western Europe, which obtains about 40 per cent of its oil from Gulf terminals, and Japan, which imports almost 90 per cent of its oil from the Gulf. The companies have stated that the full increase must be passed to consumers, some of whom do not agree.

The Gulf agreement climaxed six weeks of sporadic bargaining and ultimatums since publication in late December of OPEC Resolution

* Organization of Petroleum Exporting Countries -- Abu Dhabi, Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, Venezuela

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XXI/120. This contained demands for a minimum OPEC oil tax rate of 55 per cent and negotiation within 30 days of higher posted prices, the price on which taxes are based regardless of actual market prices, which normally are lower than tax prices. The companies countered with a demand for a five-year, OPEC-wide agreement but OPEC successfully insisted on a regional approach beginning with the Persian Gulf. Because of its distance from the markets, the Gulf has less bargaining power than other OPEC areas but the prevailing tight oil market has enhanced Gulf leverage, too.

The agreement did not end concern over a possible oil supply interruption since negotiations affecting the 45 per cent of Western Europe's oil obtained from Mediterranean sources have not begun in earnest. At a Tripoli meeting next week demands for this "short-haul" oil will be coordinated by Algeria, Libya, Iraq and Saudi Arabia. The latter two exempted from the Gulf agreement the oil they pipe to Eastern Mediterranean ports in hope of tying its terms to those won by Libya, whose demands include premium prices based on proximity to the market. Algeria has been negotiating its own demands with the French government for several months. Western Europe depends on Libya for 25 per cent of its oil and Libya's overflowing treasury makes it theoretically independent of oil revenues for extended periods. A complete oil shutdown by Libya alone, if prolonged, could cause a severe oil shortage so long as the Suez Canal remains closed and the tanker shortage continues. The Tapline reopening is not enough to end the shortage.

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Highlights of the Persian Gulf agreement are understood to be:

1) Financial adjustments:

-- an increase in per barrel Gulf government revenues retro-active to January 1 of about 28 cents, rising to about 34 cents June 1 and to about 50 cents in 1975;

-- an immediate increase of \$1.3 billion in annual Gulf oil revenues, growing to \$3.5 billion in 1975, on top of their current annual receipts of more than \$4 billion;

-- an increase in government revenue from exports of 34° crude (a medium grade which constitutes a substantial portion of Gulf exports) to about \$1.25 and tax paid costs to the companies to \$1.38 per barrel;

-- the 28-cent initial increase comes to about 7/10 of one cent per American gallon and about 2/10 of one cent per liter of crude oil.

2) Assurances from the Gulf governments that they will not:

-- attempt to increase per barrel revenues beyond the terms of the agreement for five years;

-- attempt to increase revenues if non-Gulf export terminals receive better terms (no "leap-frogging");

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-- support other OPEC governments (such as Libya) whose demands exceed those of OPEC Resolution XXI/120 plus a "reasonable" freight premium;

-- limit or restrict oil exported from Gulf terminals if non-Gulf governments demand (a) more favorable terms (b) retroactive payments (c) "unreasonable" freight differentials, so that the companies may replace Libyan oil with Gulf oil if necessary, the tanker shortage permitting.

In return for yielding nearly the entire 30-cent increase the Gulf originally demanded the companies appear to have obtained the assurances of stability they wanted, but reportedly feel insecure in these assurances and would like consumer governments to reinforce them by an expression of their expectation that the Gulf countries will respect them. By settling when they did, the companies avoided an imposed or legislated settlement which would have been difficult to alter in the event their bargaining position should later substantially improve.

Lacking a clear understanding of the agreement, initial consumer reaction has been cautious but West Germany has objected to absorbing the full increase while Japan has expressed opposition to any increase.*

* Japan's private Arabian Oil Co. reportedly did not sign the Gulf agreement, explaining that it already pays governments more than the agreement requires.

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Some consumer sources have hinted at reducing or eliminating the oil company role in favor of government-to-government oil arrangements. Iran's Shah touched on this in February 16 remarks stating that Iran would seek to replace the companies "in a generation or so" by exploring for, producing and marketing its own oil.

Producing government control appears to be the main issue in the Algerian-French negotiations while Libya's initial demands include mandatory reinvestment by the companies of 25 cents per barrel in Libya. Other initial Libyan demands were for oil tax rates of 59-63 per cent, a permanent 30-cent posted price increase and a "temporary" 35-cent posted price increase tied to freight rates, the so-called "Suez premium". Libya has also rejected company efforts to negotiate as a group, insisting on its right to deal with them one by one. These demands may be revised in Tripoli next week to reflect the Gulf agreement. The Mediterranean governments are expected to present their demands at any time after that.

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