

# OPEC Speaks Out

An Interview with Ali M. Jaidah

by Loring Allen



Ali Mohammed Jaidah, the former secretary general of the Organization of Petroleum Exporting Countries, is a soft-spoken man of thirty-seven. He speaks as one comfortable with authority. His B.S. in economics and his M.S. in petroleum economics are from London University. His birthplace and home are in the capital, Doha, of Qatar, a tiny oil-rich peninsular country jutting into the Persian Gulf. He has served his country in many positions of responsibility in the Ministry of Finance and Petroleum and the Qatar General Petroleum Corporation. In January, 1977, he became OPEC secretary general. My meeting with Ali Jaidah took place at the

OPEC secretariat in Vienna, Austria, in the summer of 1978.

The secretary general and I chatted about Vienna, music, and the Spanish Riding School. He took a call from London—he would be heading there in a few hours—and referred the caller to a colleague in Kuwait. He told me I was sitting where President Carlos Andrés Pérez of Venezuela had sat recently on his first visit to OPEC headquarters. We spoke of Venezuela's leading role in the founding of OPEC. He inquired about my university, the course in energy economics I teach, and my interest in OPEC. Coffee served and the amenities observed, we got down to business. —L.A.

**QUESTION:** Your Excellency, what is OPEC? Politicians call it a cartel. Economists call it an oligopoly. Senator Moynihan recently called it "illegal collusion."

**JAIDAH:** It is none of these things. OPEC is an agreement among the thirteen countries that own most of the crude oil available for export. Its purpose is to maintain a stable oil market that is fair to both consumers and producers. We do not try to maximize profits as a cartel or oligopoly would. We consider many things in setting price, including the economic condition of our customers, something that cartels and oligopolies would never do. And we are no more illegal than are Exxon, General Motors, or the European Coal and Steel Community.

When the oil companies refused to negotiate on oil prices in 1973, OPEC accepted the responsibility for setting the crude oil price. Since the oil-company price did not properly value our crude oil, we raised it enough to cover a fair return to our member countries. We have taken control of production in our countries and we set the price, as this is both logical and is done by every sovereign nation. No, OPEC is not illegal, nor is it a cartel or an oligopoly, OPEC is OPEC. Something new under the sun.

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**How does OPEC set the price of oil? Isn't there a market in which supply and demand determine the price?**

Every six months the oil ministers of the thirteen member countries of OPEC meet and discuss the price. If they believe that it should go up—say, by 5 per cent—they agree to raise it. Now, so far as supply and demand are concerned, the market price is the OPEC price, since we agree to make available what consumers want to buy at that price. The OPEC producing countries are the suppliers, and, by adjusting supply to the required demand level, they keep the market price stable at the OPEC price.

**But what factors do you take into account in setting the price? Does the secretariat here in Vienna make a study and tell the oil ministers what the price should be?**

The OPEC secretariat in Vienna is only a support facility. We do make studies; technical studies of the oil industry and economic studies of the present and future supply and demand for oil. We make information about oil available to members and provide administrative support to the OPEC conference. But OPEC in Vienna is not OPEC.

OPEC is an agreement. The thirteen oil ministers, who will hold their fifty-second conference meeting in December, 1978, in Abu Dhabi, are the real OPEC.

They make decisions, set policies, determine the price, and carry on the real work of OPEC. They appointed me, and, as secretary general, I only reiterate and help to carry out their policies. The officers at Vienna headquarters come from all OPEC member countries, and they too serve the interests of the OPEC conference and other meetings.

Now, what does the conference consider in setting the price? Everything. The ministers examine the condition of the oil market, the state of production, exports, capacity, and oil reserves, as well as their revenues, the prices of the goods they must import, the economic and energy policies of the oil-consuming countries, and, of course, world political conditions. Each minister will view these matters differently, so they discuss them in great detail. Finally, they decide, unanimously, what to do. Although all may not be completely satisfied with the decision, their unanimity maintains the integrity of OPEC, gives great strength to their decision, and assures a stable oil market.

**But didn't the ministers disagree once and set two prices? Saudi Arabia, the United Arab Emirates, and Indonesia raised the price only 5 per cent and the others 10 per cent.**

Yes, but this was a temporary thing. Within a few months the price was unified again and no harm was done. You must realize that we are a family—a family of nations. We have our little squabbles. We all have our own interests. But when the chips are down, the family is most important, with respect to oil at least. And it is in the interest of the world that OPEC members stick together. Otherwise, importing countries would face an uncertain and unstable oil market.

**You mentioned recently that the landmarks of OPEC include its founding charter in 1960, the Declaratory Statement on Petroleum Policy in 1968, the price takeover of 1973, and the Solemn Declaration of the Sovereigns and Heads of State in 1975. And you implied that the meeting in Taif in May, 1978, may have marked the beginning of the fifth stage of OPEC's development. Would you elaborate on what you meant?**

OPEC began as a response to the exploitation of our countries by the large oil companies. For decades they paid us a pittance for our irreplaceable oil. When, in 1959 and 1960, they cut the price and paid us less, we acted. As a result of collective negotiations we prevented further price cuts and increased our earnings. But mainly in the 1960's we learned the oil industry and formulated a joint policy. That policy was the Declaratory Statement. It said in effect that the producing countries must own and control their own oil and set its price. Nearly all of the goals of that statement have now been achieved.

In the early 1970's we first shared price setting, and in 1973, when the companies refused to negotiate on prices, we took complete control of prices. We will retain that control. When the sovereigns and heads of state met in Algeria in 1975, they put OPEC on record as favoring a major reform in world economic relations, a reform that would end the exploitation of the poor by

the rich, and they committed their financial resources to aid the poor countries. Already OPEC members are providing more than one-fourth of all development aid.

We are now at another crossroads. Although at the moment the oil market is soft, all the experts agree that in the next few years oil supplies will not be able to keep up with demand. The meeting in Taif was the beginning of the development of a long-term price and producing strategy for OPEC, a set of principles to guide us through the difficult times of shortage ahead.

**Can you give me an inkling of what that policy will be?**

I cannot speak, of course, for thirteen countries on a matter still under consideration. But OPEC cannot just wait and react to the actions of others. It has to contribute positively in shaping the future. Some of the problems our members must address are clear enough. The long-term market for oil shows increasing scarcity. When that scarcity will strike, no one knows exactly; as early as next year, as late as the mid-1980's. But there can be no question about its coming. We can see the bottom of the barrel.

The question for OPEC is whether or not we should permit the oil-importing countries to drain our resources as fast as they want, regardless of price, or whether we rationally preserve some of our resources for ourselves and for later export. At the moment we tend to be the residual suppliers. But this may not last long. As the life of oil shortens, OPEC members must look to their own long-run development interests. Having lots of money in the bank—money that depreciates every year—does not develop our economies.

And there is the question of price. The price has barely gone up since 1974, and, in real terms, it has declined significantly, as the value of the dollar has declined and import prices have climbed. Yet, in fact, oil has become more valuable. Between 1974 and 1978 the world has used about 100 billion barrels of oil. That amount is almost three times the proven reserves of the United States and nearly one-fourth of OPEC proven reserves. OPEC has a responsibility to connect the variable short-term market to the rising long-term market. If OPEC does not perform this vital function, the world will fritter away its oil on unimportant uses. And if we do not increase the price of oil gradually and systematically, the world may be faced one day soon with a sharp increase that would damage both OPEC and the industrial countries.

The long-term production and price strategy will help our members plan for their own orderly development. It will also help the oil-consuming countries by enabling them to implement rational energy policies with foreknowledge of what will happen in the oil market. Furthermore, we need to clarify and shape our relationship with the rest of the world—both with the developing and developed countries. But let me point out again that the thirteen member countries of the Organization through their cooperation will make these decisions. And in complex matters of this nature it takes time.

**In the United States many who are concerned with oil matters seem to think that OPEC begins and ends with**

**Saudi Arabia, that whatever Saudi Arabia wants, it gets. Can you tell me something about the inner workings of OPEC?**

OPEC consists of thirteen nations, all with an equal voice, and we make decisions unanimously. Each country has its own special situation and its own interests to pursue. And each nation has its own view of the oil market and of the effect of OPEC actions on other countries. Every member has its say. And in the end we agree.

Saudi Arabia is very important. It produces a fourth of OPEC oil and has the largest reserves in the world. Its voice carries great weight. But so does that of Iran, a powerful country, and the second largest producer. And other countries, such as Venezuela, Nigeria, and Kuwait, also have great influence. Every member is important.

But no one country always gets its way. In one conference meeting Saudi Arabia may be persuasive. At another Iran, or some other country, will convince the others. It's all a part of the international give-and-take, with each country pursuing its goals in a manner consistent with the integrity of OPEC. Indeed, in the eighteen years of its existence no country has withdrawn from OPEC. And many would like to join.

**You have no doubt followed the development of energy policy in the United States. What do you think of the American performance in oil matters?**

Disappointing. President Carter has been straightforward in presenting the problem and has made some useful proposals. But action so far has been timid. I realize that there are many conflicting interests in the United States and the problem is complex. But the United States, which should be a leader in conserving oil and preparing the stage for the next step in energy evolution, is lagging behind.

Perhaps some of the fault belongs to OPEC. We have been holding the price down since 1974. If we raised it regularly, reflecting the deepening scarcity, perhaps Americans would have taken the energy problem more seriously. But I am an optimist. I think that when Americans become convinced that oil is truly running out and that all the talk is not propaganda of OPEC or the oil companies, they will respond.

**Many Americans remember the oil embargo of 1973-74; long lines in front of filling stations and the price increases. Many blame OPEC. Is that true?**

No. OPEC had nothing to do with the embargo. Some members, in support of their war effort, cut crude shipments to industrial countries. But OPEC had nothing to do with it. OPEC members produced and exported 14 per cent more crude oil in 1973 than in 1972, and about the same amount in 1974 as in 1973. The shortages were of your own making, not ours.

**Various spokesmen for OPEC members have grumbled a lot recently about the declining value of the dollar and the rising prices of their imports. The value of their crude oil and of their investments is falling. OPEC has the power to do something about it. Why doesn't it?**

These are two questions and both are problems of the industrial countries, not of OPEC. If the United States and other industrial countries put their houses in order, OPEC would have no cause for complaint. The United States has lost some of its competitive advantage in foreign markets, partly through inflation and partly through failing productivity. And its investors, thinking they can make more money abroad than at home, send their capital to other countries. At the same time, U.S. markets are open to foreign goods and some are taking advantage of those open markets. The result is deficits in the balances of trade and payments, falling demand for the dollar, and strong demand for other currencies. Naturally, the value of the dollar declines.

Oil plays only a small role in all this. Even if the U.S. stopped importing oil, the dollar program would not be solved. It is a problem in general economic policy. We in OPEC would not presume to tell the U.S. what to do. But it is clear that the U.S. and its trading partners must do something, and soon. If the dollar continues to depreciate, it would be with great reluctance that OPEC would abandon this unit of account—although not as a method of payment—in favor of a basket of currencies. The U.S. is the greatest economic power on earth, and the dollar, despite these transitory difficulties, is a strong currency. But unless the dollar stabilizes and recovers, OPEC probably will be forced to abandon it.

Consumers, investors, and governments of many industrial countries are trying to live beyond their means. They can't do it, and their economies respond by imposing a tax—inflation. But the industrial countries also impose this tax on all who buy their goods, including the members of OPEC. We don't like it, and we think these countries should reduce their inflation. How? That is their problem. But if they don't do something, OPEC will be forced to defend itself by raising the price of oil to match the inflation the industrial countries are imposing on us.

The long-run real price of oil is rising. But in order to accommodate our customers, and paying more attention to the short-term market than perhaps we should, OPEC has let the real price fall, costing us billions of dollars. But this is an unstable condition. Either the United States acts to improve the position of the dollar and all the industrial countries halt their inflation, or OPEC must act.

**OPEC is justifiably proud of its record of assistance to less-developed countries. The latest OECD report indicates that OPEC's aid, on a per capita income basis, is nearly ten times that of all other aid-givers. OPEC members gave \$9 billion in 1977, nearly 27 per cent of all aid exclusive of private investment. But isn't this aid based on members' surplus funds? When members need all the oil money they earn for their own development, can they afford to continue to give large amounts of aid?**

We cannot afford not to. It is true that much of the OPEC aid so far has been from surpluses. But even if these surpluses are used up, member countries will continue to support, within their means, less-developed

countries through the OPEC Special Fund, through many international institutions like the World Bank, and through country-to-country loans.

The Solemn Declaration of the Sovereigns and Heads of State commits members to continued financial support and to assist in establishing the new international economic order. We will never abandon our brothers in the less-developed countries. And we hope by our example to encourage the industrial countries to give more foreign aid. What is important is OPEC's solidarity with other developing countries toward bringing about the new international economic order.

**OPEC is frequently charged with causing inflation, recession, and slow growth in the industrial countries. How do you answer these charges?**

You are referring to the price increases of 1973-74. Inflation was going along at a fast clip long before those increases occurred, for reasons that had nothing to do with oil. The price increases need not have added to inflation at all. If they did, it was because the industrial countries wanted to go on consuming the same amount of oil without cutting down on anything else. You will recall that about the same time as the oil-price increase, the prices of many raw materials went up also, some even more than oil increased. Do you say that the price increases of sugar or copper caused the inflation? No. The inflation came from the failure of economic policies in industrial countries to compensate for raw material price increases by cutting other expenditures.

I deny that OPEC is responsible for recession and slow growth in industrial countries. Recessions result from the failure of consumers, investors, and the government to buy enough to maintain full employment. Changing one price of one raw material is hardly enough to cause a recession or to slow growth in large complex economies like those of the United States or Germany.

We realize that the industrial countries are having great difficulty walking the tightrope, with inflation on one side and recession on the other. And we realize that OPEC makes a nice scapegoat. But the issue is much more complicated, and the industrial countries must look to their own policies and performance for the answer, not to OPEC.

**OPEC, of course, has a responsibility to its own members. Do you think that OPEC also has a responsibility to the oil-consuming countries? If so, what is that responsibility and how has OPEC discharged it?**

Yes, OPEC has a responsibility to the oil-importing countries. We have a responsibility to sell them oil at a price that is fair to both buyer and seller, taking into account its scarcity value and the economic conditions of both parties to the transaction. We must maintain a stable and secure market. We believe that we have discharged these responsibilities fully. Indeed, we may have been too considerate to oil-consuming countries, keeping the price down, to our cost, when it should have risen. We have also a responsibility to future generations who will live in a world without oil. We have pleaded with oil-consuming countries to conserve oil and to search for substitutes which will soon be needed.

**How do you expect oil-consuming countries to react to price increases when there seems to be plenty of oil and demand is not strong?**

My own view is that if we do not adopt a policy of gradual adjustments of prices, the time will come, a few years from now, when everyone will realize that the price of oil is too low. A gradual adjustment is healthy for both producers and consumers. Keeping the price down over an extended time might lead to a repetition of 1973-74, which would be harmful both to OPEC and to the industrial countries.

**After some belligerence and hostility toward OPEC in 1973 and 1974, the oil-consuming countries seem to have settled down to an attitude of peaceful coexistence with OPEC. Do you foresee any effort at retaliation by oil consumers as the price goes up?**

No. Of course they will search hard for oil outside of OPEC and try to develop substitutes. And that is good. But the reaction we expect is that they will learn to conserve oil and use it only for its most important uses. If you are thinking of some kind of economic or political countermove, I think not. Members, of course, are always under great political and diplomatic pressure, often to do things like keeping the price down, which, in reality, is against the interests of the countries asking it. We are thirteen sovereign nations, and we will do what is in our best interests, having due regard for the interests of others. We do not expect any confrontation or conflict over our policies.

**Does OPEC, that is, the secretariat here in Vienna, have any official relations with nonmember governments, oil companies, or international organizations?**

No. The last time OPEC negotiated with the oil companies was in 1973. Our members, of course, are in contact with the companies, with nonmember governments, and with international organizations, but not the secretariat. Of course, the OPEC Special Fund, which is also housed in this building, has relations with many governments and international organizations in order to dispense its funds for development projects. The secretariat exists to serve the conference, and we find that keeps us quite busy.

**Would OPEC see any advantage in sitting down with the United States or other oil importers, or with groups such as the Organization for Economic Cooperation and Development or the International Energy Agency, to talk about oil problems, not for the purpose of agreeing on anything or binding either side, but simply as an exchange of views?**

It is not possible to separate oil from all raw materials and from the general problems of economic underdevelopment. The members of OPEC are always ready to talk to the industrial countries about how to improve the operation of the world economy. Our members participated in the North-South dialogue and we are ready to talk at any time when it appears to us that something useful might be achieved.

But what could anyone gain by talking about oil only? We know what the United States is doing and not doing,

and the United States knows what we are doing and it knows our policies. A meeting in which each side tells the other what it already knows would accomplish nothing. Of course, some OPEC members, as nations, talk to oil-consuming countries through political and diplomatic channels. That is their prerogative. But it does not involve OPEC.

**Many Americans believe that the big oil companies are working together with OPEC to limit oil supplies and keep the price high. Is that true?**

No, it isn't true. The oil companies do not control the supply of crude oil or its price. The members of OPEC supply more than 80 per cent of world exports, and we are willing to sell whatever amount companies want to buy at the OPEC price. The oil companies buy most of our oil, although the national oil companies of OPEC member countries are marketing more and more OPEC oil—about one-fourth now.

The private companies do, however, control the prices of oil products, at least in part. It is not well known that OPEC receives only about 30 per cent of the value of a barrel of oil when it is made into products. The lion's share—45 per cent—goes to consumer countries' governments in the form of taxes. The remaining 25 per cent are costs and payments to private companies.

OPEC doesn't control the oil companies and they don't control OPEC. We sell and they buy in normal commercial transactions. The companies still control most of the downstream operations, and they, and their governments, have more to say about the prices of oil products than has OPEC.

**In various statements OPEC has indicated that it will move downstream more and more. That is, its members will market their oil directly and will increasingly refine their own oil and market products. But will this not put OPEC into competition with the oil companies and adversely affect the price?**

No, I think not. The crude oil still comes from OPEC members, whether our national companies or private oil companies refine and market it. Both pay the same price for the crude—the OPEC price. As we refine more—we refine about 6 per cent of our crude now—the growth of the refining industry in industrial countries may grow more slowly or decline. But our members need a refining industry as a part of their development programs. We also need the petrochemical industry. OPEC at present has only 3 per cent of the petrochemical industry. You see, oil is about all most of our members have, and it is absolutely essential that they make the most of the entire petroleum industry.

Certainly we will compete with private companies in industrial countries. But it will be fair competition, since everyone will start with the same raw material price. And I believe it is essential on the part of the industrial countries, in their interest and ours, to promote the gradual involvement of OPEC countries in downstream activities.

**OPEC is often held up as a model for other countries that own raw materials. Indeed, in aluminum and iron**

**ore, export organizations something like OPEC have already appeared. Do you believe that the OPEC model is a useful general model for raw material exporters?**

A general model, no. It might be useful for some commodities. But the conditions of supply and demand must be just right for it to work. And it takes a great deal of cooperation, good will, hard work, and the ability to compromise. In other products, commodity agreements, in which both importers and exporters participate, might be more appropriate. It might be possible to include many commodities in one agreement, as in the proposed Common Fund. OPEC has agreed to contribute to this fund when it is established.

Raw material markets are very complex, and no one formula suits all situations. I believe that OPEC is ideally suited to the crude oil industry, since it evolved quite naturally as the countervailing power to the large oil companies that formerly dominated the industry and our countries. But others must work out their problems in their own way.

*Mohammed Ali Jaidah's term as OPEC secretary general expired December 31, 1978. He has returned to Qatar, his home, where he resumes work with the Ministry of Petroleum and the Qatar General Petroleum Corporation.*

*At the Abu Dhabi meeting in December the OPEC oil ministers confirmed Mr. Jaidah's statement that price increases were coming. The average increase for 1979 is 10 per cent—5 per cent in January, 3.9 per cent in April, 2.3 per cent in July, and 2.9 per cent in October. By year's end the price will be \$14.55 a barrel, compared to \$12.70 during the eighteen-month price freeze.*

*Rising world demand and the sharp cut-back in Iran's exports because of political turmoil encouraged the OPEC action. The new price will add \$10 billion to the world's oil bill but will still not make up for the \$30 billion loss OPEC says it has suffered from inflation and dollar depreciation.*

—L.A.

**In the United States many are not convinced that oil is a problem. The price is low and oil products are plentiful. The president's energy proposals languish. How do you account for this attitude, and what can be done to convince people that oil is becoming a precious mineral?**

Over the decades your oil companies have cried "wolf" many times, saying we're running out of oil and need more money and tax breaks. But the oil kept flowing. But now that "the wolf is here," as your James Akins of the State Department so aptly put it, people believe it is another trick of the oil companies. But it isn't. OPEC members own 70 per cent of the oil reserves of the world, and if people keep on using it the way they have, it will last less than fifty years. There'll be some more discoveries, but we can now see the end of oil as a fuel.

Probably the best educational device is price. In the United States you still keep the price below the world market prices, encouraging the use of oil. The Europeans are doing better. You've noticed that Vienna is a city of small cars and mass transport.

**OPEC has made the world face up to the scarcity of oil and the need to conserve it. But couldn't there have been some easier way?**

You can say the words "oil is scarce" a million times, but it has no effect on people. But if the price of oil goes up, people learn very quickly that oil is scarce. And with the higher price, people begin to figure out ways to do things with less oil or without it. Everybody has known for some time that oil exists in finite supply. But we were complacent about it—it was a long time off before the oil was gone and by that time we'd think of something.

OPEC has jarred the world out of its complacency and by its actions has made it clear that there isn't much time to start conserving and introducing substitutes to replace the oil. Yes, I think OPEC has performed a critical role in warning the world about oil—a kind of Paul Revere of your Revolution.

**Everyone seems to have an estimate of the future of oil. Governments, oil companies, research institutes, and scholars; indeed some, using fancy econometric models, are churning out figures for 1985 and 1990. Will you sketch your view of what will probably happen to oil in the coming decades?**

Yes, we see all those reports. Some are very imaginative. We do research on the matter here in Vienna and we talk to the experts. You realize, of course, that no one really has the answer.

But in all of the studies a common pattern emerges. The difference among them is only in the time of the events. The present soft market will end in a year or so and production and exports will begin to climb again, probably at a slower rate than in the past, but still fast enough to begin to press on capacity, which will, of course, also be increasing slowly. More reserves will be discovered, but consumption will be so great that reserves will flatten out and in the 1980's begin to decline. As this happens, the price will probably go up every year.

OPEC hopes to avoid a sharp increase. If we increased the price 10 per cent each year beginning in 1979, the price in 1985 would be not quite \$25, almost double the present price, and \$38 in 1990, triple the present price. I'm not suggesting that this is what will happen but merely using these figures to illustrate what could happen. As the price advances, the rate of increase of consumption should decline, not only because of price, but also because of limitations of supply.

At the moment we can sell as much oil as the world

wants. But many of our members are concerned about using up their reserves too fast. They need oil for their own development and are not going to permit the industrial countries to use up their only resource. OPEC may have to introduce a production control system, indicating the maximums that its member countries will export. This may add more pressure to price.

At some point in the late 1980's or early 1990's the price of oil will be so high that large-scale conversion to substitutes for some uses should be under way. The industrial countries should be working very hard on this now. Coal, nuclear power, solar energy, tar, shale, who knows? But the work should be going forward rapidly. Otherwise, as the oil consumption curve begins to go down around the turn of the century, the big energy-consuming countries will face some very unpleasant adjustments.

Then, during the twenty-first century, oil consumption will decline slowly, even as energy consumption continues to climb on the basis of substitutes for oil. At some point in the century oil will be so scarce and its price so high that its use will be confined to petrochemicals and other specialized industrial uses. Heating, electricity, and locomotion with oil will be no more.

I am an optimist. I think this transition, which began in about 1970 and, in its acute stage, will last about fifty years, can be accomplished without serious difficulty. I have great confidence in the ability of technology to find new ways to produce energy. And I have great confidence in people to adjust to the new circumstances. I also believe that OPEC will play a vital role in making the adjustment smooth and orderly.

**As you know, many of the experts regularly predict that OPEC will collapse almost any day. I gather that you do not agree?**

The oil companies thought we would die at birth. And regularly our early demise is announced. But we survive. We are now a sturdy teenager—eighteen years old. We are stronger now than we were five years ago, and we will be even stronger five years from now. OPEC is a permanent international organization, embodying the cooperation of thirteen nations.

To be sure, we occasionally have some internal tension. What allies don't? But this is resolved amicably among ourselves. Attacks, or threats of attack, on us only make us stick together more closely. And even those who at first did not wish OPEC well have come to recognize that OPEC serves the interests of everyone better than any alternative.