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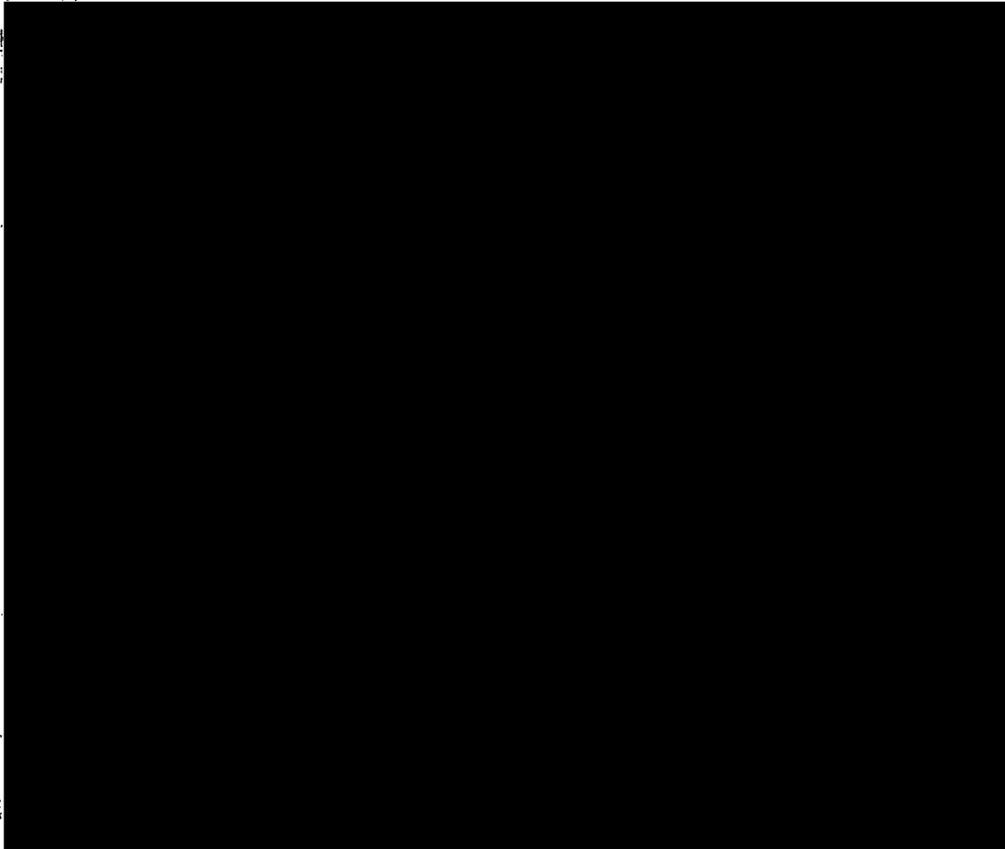


OPEC: Cheating Under LDC Criticism 17
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OPEC: CHAFING UNDER LDC CRITICISM * [REDACTED]

OPEC relations with oil-importing less developed countries (LDCs) have deteriorated over the past year, largely because the cartel has offered them only minimal help to offset sharply higher oil import bills. While the debate within OPEC over assistance to developing countries continues, there is little support within the cartel for a large-scale effort. Thus, OPEC relations with oil-importing LDCs are likely to worsen. [REDACTED]

The Impact of Oil Prices on Developing Countries

Oil-importing LDCs have been hard hit by sharply higher oil import costs. The current account deficit of LDCs that are not members of the Organization of Petroleum Exporting Countries (OPEC)—after remaining relatively constant in 1975-78—rose from \$23 billion in 1978 to \$35 billion last year. The increase reflected:

* An expanded version of this article appears as Intelligence Assessment, PA 80-10037, with the same title, January 1980. [REDACTED]

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- The direct impact of increased oil prices, which added \$10 billion to the LDC deficit.
- The indirect impact of slower growth and higher inflation in industrialized countries, which lowered demand for LDC exports and raised prices of many of the goods the LDCs import.

LDC Criticism

The increase in LDC criticism of OPEC partly reflects the oil cartel's limited effort in the past to relieve the oil import burdens of most non-OPEC LDCs. Although in 1974-78 OPEC donors disbursed \$25 billion in economic aid—both bilateral and through international financial institutions—most of the aid went to Arab and non-Arab Muslim states. Some of these recipients are net oil exporters. Moreover, annual OPEC aid actually declined in 1978 because political relations with Egypt, a prime recipient in 1974-77, deteriorated.

The LDCs demanded massive increases in OPEC development aid, bilateral grants to offset higher oil charges, guaranteed oil supplies, and, perhaps most important, the offering of OPEC oil at lower prices to LDCs than to industrialized nations. India—chairman of the Group of 77, the LDC caucus at the United Nations—recently said that supply guarantees would be meaningless without some offer of concessional financing.

OPEC Response

Some OPEC members were concerned enough about the criticism that surfaced to take limited action last year. For example, in June 1979, Iraq reportedly exempted developing countries from paying surcharges on oil. In December, Iraq granted \$200 million in interest-free loans to compensate a few LDCs for oil price surcharges; India has received at least half this amount. Venezuela subsidizes the oil it sells to its Caribbean neighbors by granting \$6.00-per-barrel rebates in the form of soft loans. Saudi Arabia has informally guaranteed supplies to some political allies like Taiwan. No OPEC member is giving major price breaks to LDCs.

OPEC Concerns

OPEC members hold sharply disparate attitudes on whether and how to deal with the demands of LDCs. Among those that support additional aid initiatives are:

- A few OPEC countries—for example, Libya and Iraq—that believe continued criticism from other LDCs could undermine unity within the Group of 77 and isolate the cartel.
- Several OPEC members—notably Algeria—that probably believe the criticism could jeopardize their ambitions to lead the LDC caucus.

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- Others, such as Venezuela, that believe new efforts by OPEC could reduce bilateral pressure for aid from LDCs within their regions. [REDACTED]

Some cartel members—particularly Saudi Arabia and Iraq—oppose a multilateral aid effort, arguing that aid should remain a bilateral concern, and that oil prices and aid should not be linked. Saudi Arabia, for example, is only lukewarm toward the idea of increasing contributions to multilateral funds. [REDACTED]

The Caracas Meeting

Largely through the efforts of Venezuela—as host of the OPEC meeting, a moderate member, and a leading advocate of new initiatives to aid LDC oil importers—the issue of OPEC aid to LDCs was placed on the agenda for the December 1979 OPEC meeting in Caracas. Specifically, Venezuela wanted to discuss oil supply guarantees, creation of an OPEC Development Bank, and imposition of a tax on oil exports that would be funneled to LDCs. After considerable lobbying, the first two issues were listed. This appears to have been the first time OPEC officially agreed to discuss aid at the ministerial level. [REDACTED]

Mainly because OPEC could not reach agreement on unified oil prices, the final communique stressed the cartel's efforts to aid oil-importing LDCs. The cartel's members boosted contributions to the OPEC Special Fund by \$1.6 billion, to a total of \$4 billion, and agreed in principle to convert the Fund into a Development Bank. OPEC also pledged to give priority to supplying developing countries with oil for domestic use at the official prices charged by individual members. [REDACTED]

Little Benefit to LDCs

Despite extensive publicity heralding these measures as a major OPEC effort, the net gain for oil-importing developing countries will be small. Moreover, the plans may not be fully implemented. Although the Special Fund increase is double the contribution from the June 1979 OPEC meeting, it will not provide substantial near-term balance-of-payments relief. OPEC Finance Ministers waited until January 1980 to discuss allocating the funds promised at the June 1979 meeting and some are reportedly balking over the Caracas commitment—made by Oil Ministers—to increase contributions further. To date, the Fund has committed only about \$1.2 billion, of which less than one-half has been disbursed. [REDACTED]

OPEC's pledge to give LDCs priority of supply at official prices will help those LDCs who purchase oil at the spot market price. Nonetheless, the LDC oil bill will increase. More importantly, OPEC refused to offer the LDCs oil at prices below those charged other contract customers. Apparently in part because of Saudi opposition, OPEC also refused to link future increases in aid to changes in oil prices. [REDACTED]

Outlook

The OPEC ministers may meet again this spring in special session to discuss crude

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oil pricing and to reexamine the supply situation. Although it is unlikely that relations with developing countries will be on the agenda, some members will probably bring up the issue behind the scenes. The President of Venezuela plans to push for further OPEC action during his visit to the Middle East in February. [REDACTED]

OPEC's relations with oil-importing LDCs will continue to deteriorate, threatening progress at a series of multilateral—mainly North-South—discussions. Criticism of OPEC by developing countries is already spilling over into multilateral forums. Infighting among the Group of 77 could stall preparations for global energy negotiations at the United Nations. If the Group of 77 is unable to present developed countries with a unified position, progress in any North-South forum will be virtually impossible. [REDACTED]

At the same time, OPEC reluctance to offer significant group assistance to oil-importing LDCs improves the relative position within the LDC caucus of those OPEC nations—such as Iraq—that appear to take LDC concerns seriously. The pressure on, and perhaps the influence of, regional oil exporters like Indonesia, Venezuela, and Nigeria will probably increase as neighboring LDCs look to these OPEC members for some form of assistance. [REDACTED]

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