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22 January 1974

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MEMORANDUM FOR THE RECORD

SUBJECT: Crude Oil Prices Since 1970

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The attached paper was prepared by [Redacted] as an input for a briefing of Undersecretary Donaldson, in response to a request by [Redacted] Deputy Director of the Office of Economic Research and Analysis, Department of State. It was forwarded to [Redacted] on 22 January 1974.

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Chief,
International Energy and Resources Branch

Attachment:
as stated.

Distribution: (S-5846)

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Crude Oil Prices Since 1970 .

Since 1970, the establishment of posted prices has taken a full 180 degree swing from postings set unilaterally by the oil companies to unilateral changes by the producing states. In the intervening four years, the governments negotiated increases in posted prices, tax rates, and their own participation in oil operations. The producing states strength grew as the seller's market vanished under the consumption demands of Western Europe and Japan, and as the United States turned more to imported oil.

Most oil exporting countries saw no upward revision in posted prices between 1958 and late 1970. Instead, they realized a decline in the value of their oil dollar as revenues per barrel remained constant against rising prices for imports. Libya was the first state to attempt to reverse this trend. In the fall of 1970, after a year of negotiations, a new agreement was reached which gave Libya increased government revenue per barrel by posting a higher price and a greater tax rate. In a matter of months, the Persian Gulf States reached a similar agreement with companies operating their concessions. This agreement was formalized in Tehran on 15 February 1971.

The Tehran agreement included provisions for inflation (2½% a year), the Suez Canal, closure, and freight premiums. Participants hailed it as a "once and for all agreement" which would stabilize prices for years to come. It took Libya just one month to renegotiate their contracts to better the Persian Gulf.

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Two dollar devaluations caused new negotiations of posted prices as producing states continued to worry about the erosion of their oil dollar. The first agreement, Geneva "I", established a complicated formula to adjust postings. In its first real test, the February 1973 devaluation, it failed; and a new accord was reached, Geneva "II". Over the course of 1973 there were several posted price changes as currencies fluctuated around the dollar. However, a more important force was at work which had not been adequately considered in posted price revisions -- consumer demand.

The entrance of the US as a major importer of crude oil and rapid increases in consumption in Western Europe and Japan were being reflected in substantial increases in product prices, tanker rates and oil company profits. Only government per barrel revenues were not increasing at the rates experienced in other sectors of the industry. On October 16, 1973, and again on January 1, 1974 in a move to capture the "true value" of their oil, producing states unilaterally pushed posted prices up to where government take per barrel was at what they considered to be a fair market price. The 1 January 1974 price increase had been effectively backstopped by the OAPEC production cut.

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Market Prices for Selected Sales of Crude Oil

	Iraq	Saudi Arabia	Iran	Abu Dhabi	Libya	Algeria	Nigeria
API gravity (degrees)	35	34	34	39	40	43	34
Sulfur content (percent)	2.1	1.8	1.4	0.7	0.2	0.15	0.14
US \$ per Barrel							
1973							
1 Jan	....	2.13	2.15	2.38	3.28	....	....
1 Apr	....	2.30	2.32	2.75	3.75	3.80	....
1 Jun	....	2.70	2.76	....	4.00	....	....
1 Jul	....	....	....	....	....	....	4.25
1 Aug	3.48	2.88	....	3.20	5.50	....	....
1 Sep	....	....	....	3.00	....	5.00	....
1 Oct	3.00	2.80	2.85	3.25	5.85	5.20
16 Oct	3.62	3.65	3.64	4.32
1 Nov	3.66	8.50	6.61	6.84
1 Dec	16.00-17.40 (bids)	16.80 (bid)

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Selected Crude Oil Posted Prices

		<u>Saudi Arabian Light</u>	<u>Abu Dhabi Murban</u>	<u>Libyan 40</u>	<u>Iraq Kirk 36</u>	<u>Venez 26</u>
1970	January 1	1.80	1.88	2.23	2.21	
	September 1 (First nego- tiated price change)			2.53	2.41	
1971	January 1	1.80	1.88	2.53	2.41	
	February 15 (Tehran)	2.18	2.235			
	March 20 (Libyan Supp)			3.447	3.211	
	June 1 (Tehran)	2.285	2.341			
1972	January 1	2.285	2.341	3.386	3.136	
	January 20 (Geneva "I")	2.479	2.540	3.673	3.402	
1973	January 1	2.591	2.654	3.777	3.484	
	April 1	2.742	2.808	4.024	3.712	
	June 1 (Geneva "II")	2.898	2.968	4.252	3.921	
	October 1	3.011	3.084	4.604	4.243	
	October 16 (OPEC First Unilateral)	5.119	6.045	8.925 ^{a/}	7.213	
1974	January 1 (OPEC Second Unilateral)	11.651	12.768	15.768	17.003 ^{b/}	

a/ October 19th.

b/ "Contract price" asked by INOC.

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