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4 April 1974

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MEMORANDUM FOR: Mr. Richard Erb
Council on International Economic Policy
Old Executive Office Building

SUBJECT : Oil Producers' Exchange Rate Policies

1. This memorandum is in response to your request of 28 March for information on exchange rate policies of the major OPEC countries.

2. Exchange rate movements have varied among OPEC members. The major Arab producers and Nigeria have generally pegged their currencies to gold (see Table 1). While sizable adjustments have occurred in the dollar rates of these currencies since the Smithsonian Agreement, their gold parities have been stable. Saudi Arabia, however, revalued the riyal 5.1% relative to gold in August 1973. Venezuela has generally tied its currency to the dollar.

3. The currencies of major OPEC countries are expected to remain stable in the near future. Some pressure has developed on the dollar/dinar rate in Kuwait, but this probably arises from the slight difference in international and domestic market rates and should ease without serious consequences. Most countries continue to support tying their currency to gold. The central banks, or currency boards, conform to IMF rules and regulations when making currency transactions, including transactions with commercial banks and oil companies. Commercial banks are also regulated and charge up to one quarter of 1% above and below the central banks' buying and selling rates when dealing in currencies.

4. Oil producers traditionally have not been as concerned about their exchange rates as they are about the relative prices of their oil exports and of their imports.

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In a sense, the currency of the producing countries is oil; the producers have looked to adjustments in the oil price for protection of their terms of trade. In the Geneva Agreement of 1972, OPEC established a formula which tied the dollar price of oil to the average dollar value of nine currencies -- those of Belgium, France, Germany, Italy, Japan, the Netherlands, Sweden, the UK, and Switzerland. This protected the oil producers' terms of trade from fluctuations in major currencies. The agreement is technically still in effect, although recent massive oil price increases radically improved the oil producers' terms of trade (see Table 2).

5. In essence, exchange rates and exchange rate policies of oil-producing countries are now of limited importance. Massive oil revenues in dollars and sterling provide the means for international payment. With few exceptions, little is exported from oil-producing countries except oil, thus making the oil price the only important item to compare with world import prices.

[redacted] STAT

MAURICE C. ERNST
Director
Economic Research

Attachments:
As stated

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Table 1

Changes in Oil-Producer Currencies
Pre-Smithsonian-February 1974

(percent change)

	Relative to Gold	Relative to US Dollar
Iraq	0.0	20.6
Iran	-7.9	11.1
Kuwait	0.0	20.6
Libya	0.0	20.6
Saudi Arabia	5.1	26.8
Nigeria	0.0	20.6
Venezuela	-15.1	2.4

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Table 2

Oil Producer Terms of Trade*

		(1966 = 100)
	1966	100
	1967	100
	1968	101
	1969	97
	1970	92
	1971	106
	1972	107
	1973	122
1st Quarter (estimated)	1974	370

* A simple index of Middle East petroleum prices (IFS Commodity Price Table) divided by developed countries' export prices (IFS Export Price Indexes), setting 1966 = 100.

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