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OIL AS A POLITICAL WEAPON

Political issues surrounding world energy problems are expected to dominate the Eight Arab Oil Congress, due to open in Algiers on May 28. Since the seventh congress in Kuwait two years ago, the Arab oil industry has seen two continued developments - the hard bargaining over revenues between the international oil companies and Middle East producers, and the further Soviet bloc technical assistance to the industry, highlighted by the official inauguration of the Soviet-aided North Rumaila oilfield in Iraq on April 7, attended by the Soviet Prime Minister, Alexei Kosygin. With its increasing interest in the Arab oil industry, Moscow - which will be represented along with Romania at the eighth congress - has been urging the producer-States to view their oil not only as a source of financing economic development but also as "a weapon in the struggle against imperialism" (Moscow's *Radio Peace and Progress*, March 13, 1972).

The Soviet Union has long recognised the possibility of exploiting Western dependence on Middle East oil for political ends, but its opportunities have been limited by the fact that the relationship between the oil companies and the Middle East governments has been seen to be based, on the whole, on mutual interest. In recent years, however, an increasing number of producer-countries have claimed that they are being inadequately compensated, and the growth of financial and technical expertise in the Arab world has put some of these countries in a position to participate more directly in the exploitation and marketing of their resources.

Last year's negotiations with the oil companies brought a shift in the balance of power in favour of the oil-producing States. The London *Financial Times* on March 2, 1972, estimated that between 1970 and 1980, Arab revenues from oil would grow from $4.8 thousand million to $28.3 thousand million. The Soviet Union has sought advantage from this situation by stressing the political uses it believes the Arabs should make of their increased revenues and more favourable position in relation to the oil companies.

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One means by which the Soviet Union hopes to influence the use of the "oil weapon" against the West is by increased direct involvement with the Arab oil industry, through aid to "progressive" oil-producing States and through importing oil in exchange for Soviet goods. Soviet oil experts are engaged in exploration, drilling and other operations in a number of Arab States, but two projects have attracted particular attention Iraq's North Rumaila field and the Boumerdes Hydrocarbons Institute in Algeria.

Moscow Radio's Arabic Service on March 3 described the inauguration of the North Rumaila field as "a turning-point in Iraqi economic history" and claimed that Iraq could now rely "on the honest and vast assistance of the Soviet Union". Total Soviet investment in the project so far is said to be in the region of £80 million. $192 million The Soviet Union has provided aid for the construction of a pipe-line to carry the oil to the port of Fao, whence it will be shipped in Soviet tankers (and later by Iraqi tankers under construction in Spain). This year, Iraq is to export 1,000,000 tons of oil to the Soviet Union, and from 1973 this will rise to 2,000,000 tons a year.

A high point of this collaboration has been the signature of a Friendship Treaty during Kosygin's visit. The treaty marks a major step in Arab-Soviet relations and has been interpreted as part of Soviet attempts to consolidate its position in the Gulf and prevent China from taking advantage of the "vacuum" created there by the withdrawal of British forces.

Training experts

In Algeria, the Soviet Union is involved in exploration and drilling, and imports about 1,000,000 tons of Algerian oil a year. But its most original contribution has been the Boumerdes Institute, which aims eventually to train experts from all African countries for the oil and natural gas industry. The agreement to establish the institute was signed in May, 1964, and by November, 1966, it had a staff of 150, mostly Russians, and 2,000 students. In January, 1972, 250 Soviet teachers were at Bourmerdes and the Soviet Union was preparing to help in extending the facilities. By February 3, 1972, *Moscow Radio* boasted that more than 500 graduates of Bourmerdes were employed in the oil industry.

The Institute's Algerian Director told a conference in October, 1967, that it had been decided to adopt Soviet methods of training - less thorough than Western methods - because of Algeria's pressing need for oil technicians. But it is not only Soviet training and technical expertise which are inferior: the Russians are also less efficient in exploration. In drilling, they are hampered by shortage of high-strength steel, and have to rely on turbo rather than rotary drills. Turbo-drills are less durable and not efficient at great depths. In addition, Communist bureaucracy sometimes causes delays: *Platt's Oilgram* reported in February that the Czechoslovak-aided Basra refinery would be finished well behind schedule because the Czechoslovak railways were not providing enough trucks to transport supplies.

The motivating force of Soviet interest in the Arab oil industry is political: it could hardly be based on Moscow's energy needs since the Soviet Union, which has always aimed at economic self-sufficiency, consistently achieves its oil production targets and is an exporter of oil both to its East European allies and to world markets. Between 1955 and 1969, Soviet oil production rose from 71,000,000 tons to 329,000,000 tons and Soviet oil exports to non-Communist countries from 4,000,000 tons to 44,000,000 tons. By 1975, production is planned to reach 496,000,000 tons, while the Soviet Union's reserves should permit it to remain self-sufficient in oil for the foreseeable future.

Nevertheless, it is likely that Soviet planners foresee an eventual need for larger quantities of foreign oil, because of the rising demands of East Europe, the growth of demand in the Soviet Union itself and the increasing costs of exploiting remote fields within the USSR. The Soviet Union clearly intends to remain a substantial and regular exporter of oil to the non-Communist world, because this is its largest single earner of convertible currency. For this reason it profits from imports of oil from other countries which it receives in exchange for Soviet goods and economic aid, absorbing the shipments itself or passing them on to other countries with which it has supply contracts.

The oil weapon

The Soviet Union probably has no wish to see a major disruption of oil supplies in the world market, although it does have an interest in seeing oil sold at a higher price to the West. In its propaganda for the Arab world, it encourages producer-countries to follow the example of Algeria, and take over an increasing share in all stages of production and marketing from the international companies. But few countries are at present ready to do this, and even these are likely to find that the Soviet Union has little to offer beyond technical assistance in exploration and production. Moreover, Algeria's nationalisation of its oil industry was a carefully-prepared move, undertaken in stages over a number of years: even with sufficient preparation, nationalisation could leave producers still dependent on the international oil companies for the "downstream" operations of refining and marketing, which are undertaken for the most part in the industrial countries.

There is some sympathy in the Arab world for Soviet denigration of the oil companies. But Middle East producers recognise that the use of oil as a political weapon, as advocated by Moscow, encourages the consumers countries to seek additional sources of supply. Already the international oil companies are developing major fields in Alaska and the North Sea, and in the long term the industrial countries may be able to meet more of their requirements from nuclear power, natural gas and other energy sources under their own control. Soviet natural gas seeks to take an increasing part of the gas market, which by the end of the present decade could account for some 15 per cent of Western Europe's energy requirements.

The future is likely to see an intensification of the trend in which the producer-countries maintain their favourable position in relation to the oil companies and gradually acquire increasing control over the management of their oil industries. But one factor will remain constant: the market for oil will continue to be chiefly in the industrialised countries of the West and in Japan. It is with representatives of these consumers that they will have to negotiate and find mutually acceptable solutions. It may be in the interest of the Soviet Union to exploit potential sources of consumer and producer countries, but it is hard to see how it can be to the advantage of the oil producers themselves.