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# OPEC Finances: A Period of Trouble



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An Intelligence Assessment

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GI 84-10172  
October 1984  
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# OPEC Finances: A Period of Trouble

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**An Intelligence Assessment**

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This paper was prepared by [Redacted]

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Comments and queries are welcome and may be directed to the Chief, Financial Issues Branch, OGI,

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**OPEC Finances:  
A Period of Trouble**

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**Key Judgments***Information available  
as of 30 September 1984  
was used in this report.*

Three years of soft world oil conditions have forced major financial and economic adjustments on OPEC members. OPEC's oil price cut in March 1983 triggered a \$40 billion decline in annual oil revenues and contributed to a record \$22 billion OPEC current account deficit last year, according to our estimates. The 1984 deficit will approximate \$11 billion. This dramatic turnabout from the 1970s and early 1980s has already necessitated a \$28 billion drawdown in foreign assets as well as sharp cuts in imports and foreign aid.

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The OPEC revenue decline has broader political and international ramifications:

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- The economic retrenchment of these oil-dependent economies has sparked public criticism of government mismanagement, corruption, and unequal distribution of sacrifices. We are most concerned with the Nigerian Government's ability to contain the political fallout from severe debt problems and deteriorating economic conditions.
- The weak oil market, although helping oil-importing countries, has added Nigeria, Venezuela, and Ecuador to the long list of LDCs unable to service their debt.
- Traditional OPEC aid recipients are turning to the United States as well as more radical Arab regimes for assistance in making up the shortfall in OPEC aid disbursements.
- Recent oil supply contacts with OPEC members enhance Moscow's standing and provide a forum for continuing Soviet efforts to better relations with conservative Middle East oil producers.
- The financial bind the soft oil market has imposed on most OPEC states is increasingly threatening the organization's cohesiveness.

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If oil prices decline in the months ahead, financial and political problems would become more acute quickly. In particular, an oil price decline would cause serious financial problems for major OPEC debtors—Nigeria, Venezuela, Ecuador, and Indonesia—as well as non-OPEC oil-exporting debtors such as Mexico and Egypt. If OPEC countries somehow manage to avoid substantial oil price declines, we would expect next year's financial position to approximate the 1984 pattern.

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## OPEC Finances: A Period of Trouble

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### Background

Since 1979 the world oil market has shifted to oversupply and downward pressure on prices. Global recession, increased energy conservation, and a switch to alternative energy sources reduced demand for oil. On the supply side, increased non-OPEC production and OPEC production above their self-imposed 17.5-million-b/d ceiling have contributed to the glut. The oil market remains weak despite a strong increase in non-Communist oil consumption in the first half of 1984; and second-quarter overproduction of almost 1 million b/d by OPEC members—particularly Saudi Arabia—added to oil surpluses (table 1).

### Financial Consequences

OPEC revenues have been sharply reduced by the glut. In response to market pressure, OPEC cut its official price of oil from \$34 to \$29 per barrel at the March 1983 meeting and reaffirmed individual production quotas under an overall OPEC ceiling of 17.5 million b/d. Actual OPEC crude oil output in 1983 was 17.7 million b/d, its lowest since 1967. As a result, oil revenues fell to \$154 billion in 1983 from a peak of \$275 billion in 1980—a 44-percent drop. We calculate 1984 revenues to be only slightly higher. Because of the revenue loss, most OPEC members have moved from current account surplus to deficit and have slashed imports, cut grant aid, and drawn down foreign assets accumulated in the 1970s and early 1980s.

**A Record Current Account Deficit.** The decline in demand for OPEC oil and the resulting price cut led to a \$40 billion decline in oil revenues that led to a record OPEC current account deficit of \$22 billion last year, according to our estimates. Saudi Arabia experienced the largest shift—from current account surpluses of \$50 billion in 1981 and \$7.5 billion in 1982 to a \$17 billion deficit in 1983 chiefly because of Riyadh's role as swing producer. Iran and Libya also went from positions of surplus to deficit in 1983. Although other OPEC members maintained or improved their 1983 current account performances from the previous year, the improvement occurred primarily because of sharp import cuts, forced by worsening financial straits.

Barring any oil market shocks, OPEC's current account deficit in 1984 should be about half of last year's record level (table 2). Specifically, we project the OPEC current account deficit at about \$11 billion this year assuming that:

- The current OPEC benchmark price of \$29 per barrel and individual production shares hold for the remainder of the year, putting the weighted average price of a barrel of OPEC oil at about \$27.50<sup>1</sup> this year.
- Demand for OPEC exports (including natural gas liquids) averages about 16 million barrels per day (b/d) in 1984. We estimate OPEC crude and natural gas liquid (NGL) production during the first half of 1984 at about 19 million b/d and exports at 15.6 million b/d.
- OPEC real imports fall nearly 5 percent this year; preliminary trade data suggest first-quarter imports were down about 7 percent over first quarter 1983.

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These assumptions lead to a calculated improvement in OPEC's combined trade balance of about \$7 billion, the first such improvement in four years. We also believe the net services deficit—worker remittances, freight and insurance, and investment flows will fall by about \$3 billion. Outflows of worker remittances should be down as a result of a decline in development expenditures. We also estimate that inflows from investment income will decline by \$2 billion this year because of a lower level of official foreign assets following last year's \$28 billion draw-down. We do not expect further major declines in grant aid from last year's \$3.6 billion level, which we believe is already at a minimum politically acceptable level.

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<sup>1</sup> Weighted by the volume of direct, buy-back, equity, and spot sales arrangements.

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**Table 1**  
**OPEC: Crude Oil Production**

Million b/d

	1981	1982	1983	1984			
				Quarterly Quota	First Quarter	Second Quarter	July <sup>a</sup>
<b>Total <sup>b</sup></b>	<b>22.74</b>	<b>18.89</b>	<b>17.69</b>	<b>17.50</b>	<b>18.08</b>	<b>18.35</b>	<b>17.70</b>
Algeria	0.80	0.70	0.70	0.73	0.64	0.69	0.65
Ecuador	0.21	0.21	0.24	0.20	0.25	0.25	0.25
Gabon	0.15	0.15	0.15	0.15	0.19	0.19	0.19
Indonesia	1.60	1.31	1.32	1.30	1.46	1.45	1.44
Iran	1.38	2.28	2.45	2.40	2.27	2.30	2.50
Iraq <sup>c</sup>	0.99	0.97	0.92	1.20	1.06	1.14	1.20
Kuwait <sup>d</sup>	1.13	0.82	1.06	1.05	1.22	1.21	1.12
Libya	1.14	1.18	1.17	1.10	1.16	1.19	1.15
Nigeria	1.45	1.30	1.24	1.30	1.49	1.28	1.13
Qatar	0.41	0.33	0.30	0.30	0.40	0.43	0.40
Saudi Arabia <sup>e</sup>	9.81	6.49	5.19	5.00	5.00	5.23	4.70
UAE	1.50	1.25	1.10	1.10	1.25	1.28	1.28
Venezuela	2.17	1.89	1.79	1.68	1.74	1.75	1.70

<sup>a</sup> Preliminary.<sup>b</sup> Numbers may not add because of rounding.<sup>c</sup> Crude sold to Iraqi customers by Saudi Arabia and Kuwait totaling about 250,000 b/d is being charged against Iraq's quota.<sup>d</sup> Neutral Zone production shared equally between Kuwait and Saudi Arabia.<sup>e</sup> Saudi Arabia has no formal quota; it acts as swing producer to meet market requirements.

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**Table 2**  
**OPEC: Current Account**

Billion US \$

	1979	1980	1981	1982	1983 <sup>a</sup>	1984 <sup>b</sup>
Exports (f.o.b.)	209.3	292.8	266.7	210.7	172.5	177.1
Oil	194.9	275.4	250.9	194.7	154.3	157.3
Nonoil	14.4	17.4	15.8	16.0	18.2	19.8
Imports (f.o.b.)	107.0	129.8	159.4	158.9	135.9	133.1
Trade balance	102.3	163.0	107.3	51.8	36.6	44.0
Net services	-39.5	-43.8	-54.8	-59.7	-55.1	-51.8
Freight and insurance	-14.8	-19.2	-24.8	-23.8	-20.2	-19.7
Investment income <sup>c</sup>	17.9	26.8	34.9	33.5	29.4	27.3
Other <sup>d</sup>	-42.6	-51.4	-64.9	-69.4	-64.3	-59.4
Grants	-6.3	-10.6	-10.5	-9.0	-3.6	-3.1
Current account balance	56.5	108.6	42.0	-16.9	-22.1	-10.9

<sup>a</sup> Estimated.<sup>b</sup> Projected.<sup>c</sup> Earnings on official assets only.<sup>d</sup> Includes debt service payments, worker remittances, and other service payments.

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**Table 3**  
**OPEC: Current Account Balances <sup>a</sup>**

Billion US \$

	1979	1980	1981	1982	1983 <sup>b</sup>	1984 <sup>c</sup>
<b>Total <sup>d</sup></b>	<b>56.5</b>	<b>108.6</b>	<b>42.0</b>	<b>-16.9</b>	<b>-22.1</b>	<b>-10.9</b>
Algeria	-2.2	1.6	-1.8	-2.8	-2.2	-2.2
Ecuador	-0.6	-0.2	-1.2	-1.6	-0.7	-0.6
Gabon	0.1	0.6	0.2	0.2	0.2	0.5
Indonesia	2.2	5.0	-0.5	-6.6	-5.7	-1.5
Iran	11.8	0.5	-2.4	6.2	-1.1	-3.4
Iraq	7.6	7.6	-17.1	-19.9	-8.8	-4.3
Kuwait	14.1	15.0	11.4	5.1	6.2 <sup>e</sup>	7.7 <sup>e</sup>
Libya	3.6	9.6	-5.1	0.5	-1.1	-1.7
Nigeria	0.8	5.3	-5.9	-7.3	-2.1	1.2
Qatar	1.8	3.0	2.7	1.0	1.1	1.9
Saudi Arabia	12.8	47.5	49.7	7.5	-17.1 <sup>e</sup>	-13.5 <sup>e</sup>
UAE	4.9	9.2	9.4	6.4	5.5	5.9
Venezuela	-0.3	3.8	2.6	-5.5	3.5	-0.7

<sup>a</sup> Excludes earnings on private OPEC holdings abroad.

<sup>b</sup> Estimated.

<sup>c</sup> Projected.

<sup>d</sup> Because of rounding, components may not add to the totals shown.

<sup>e</sup> Includes Kuwaiti and Saudi exports of oil that are being provided to Iraq.

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The collective deficit masks a diversity of financial positions and adjustments among the 13 OPEC members (table 3):

- Saudi Arabia has by far the largest current account deficit, a projected \$13.5 billion this year, chiefly because of Riyadh's role as swing producer. According to our estimates, the Saudis will maintain last year's export level of about 4.5 million b/d, compared with 6.2 million b/d in 1982 and 9.6 million b/d in 1980.
- Ecuador, Indonesia, and Iraq probably will record small deficits in 1984 that will be lower than last year's levels.
- In contrast, we believe Venezuela and Libya will use their reserves to boost or maintain imports and record a small deficit.

- Iran is also likely to post a larger current account deficit in 1984 largely because of lower oil revenues as a result of reduced export shipments and lower prices.

- Nigeria is likely to register a small current account surplus this year because imports have been slashed. Debt servicing problems are jeopardizing access to new credits and forcing deeper spending cuts.

Only the smaller Gulf countries—Kuwait, the UAE, and Qatar—and Gabon should be able to maintain traditional current account surpluses without major strains or policy changes because of modest import requirements and/or sizable investment income from foreign assets [redacted]

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Table 4

Billion US \$

OPEC: Official Foreign Assets <sup>a</sup>

	1979	1980	1981	1982	1983 <sup>b</sup>	1984 <sup>b</sup>
<b>Total <sup>c</sup></b>	<b>206</b>	<b>286</b>	<b>318</b>	<b>320</b>	<b>292</b>	<b>279</b>
Algeria	6	7	6	5	4	4
Ecuador	1	1	1	NEGL	1	1
Gabon	NEGL	NEGL	NEGL	NEGL	NEGL	NEGL
Indonesia	4	7	6	5	5	5
Iran	23	19	10	14	9	6
Iraq	19	31	21	8	4	2
Kuwait	42	54	62	69	67	68
Libya	8	15	10	9	7	5
Nigeria	6	11	4	2	1	1
Qatar	4	6	8	8	9	10
Saudi Arabia	63	95	144	153	135	122
UAE	18	27	33	35	39	43
Venezuela	13	13	13	12	12	12

<sup>a</sup> Based on balance-of-payments data.<sup>b</sup> Projected.<sup>c</sup> Because of rounding, components may not add to totals.

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**Forced Drawing on Foreign Assets.** The current account deficits recorded since 1982 have forced OPEC to draw heavily against its foreign assets. We estimate that \$28 billion in assets were drawn down in 1983 alone, primarily by Saudi Arabia, Iran, and Iraq. We calculate that Riyadh divested \$18 billion, while Iran and Iraq together drew down more than \$9 billion (table 4). Although Kuwait had a current account surplus, we estimate that private capital flight—spurred by fears of Iranian reprisals and the Kuwaiti stock market crash—forced about a \$2 billion drawdown in its assets. One Kuwaiti bank estimates 1983 net outflows at \$9-12 billion, although the Central Bank and the Minister of Finance have denied the claim. [redacted]

According to our estimates, the drawdown was distributed fairly proportionally across OPEC holdings of currencies, some \$19 billion of the 1983 drawdown was in dollar-denominated assets. [redacted]

**Borrowing More.** While most of OPEC's external deficit has been financed by drawing on foreign assets, some OPEC members also have borrowed heavily from commercial banks and official creditors:

- Indonesia and Algeria each obtained over \$2 billion in syndicated loans last year.
- Saudi Arabian and Nigerian enterprises lined up \$1 billion each.
- Ecuador—the only OPEC country with an IMF-supported program last year—received about \$120 million in Fund disbursements and another \$450 million in commercial bank loans. [redacted]

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**Table 5**  
**OPEC: Change in Import Volume**

Percentage

	1979	1980	1981	1982	1983	1984 <sup>a</sup>
<b>Total</b>	-11	7	28	3	-11	-5
Algeria	-16	11	17	1	-1	-9
Ecuador	8	-8	7	-6	-35	4
Gabon	-16	4	24	-8	-6	-3
Indonesia	-1	23	32	16	-5	-17
Iran	-62	22	9	-6	64	-5
Iraq	40	-4	68	11	-45	-12
Kuwait	-1	21	1	13	-4	1
Libya	16	NEGL	63	-41	-5	-3
Nigeria	-12	8	32	-4	-38	-13
Qatar	5	-14	12	44	-12	3
Saudi Arabia	3	6	23	18	3	-5
UAE	3	9	17	2	-2	-4
Venezuela	-22	-4	9	15	-49	28

<sup>a</sup> Projected.

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We estimate that OPEC states together will borrow another \$8 billion from banks and official creditors this year. Even if they obtain this amount, we believe they will have to draw down from assets by some \$12 billion to finance current account deficits and financial commitments. Saudi Arabia will account for most of the asset drawdown; Indonesia, Algeria, and Saudi Arabia, for most of the borrowing. We expect Kuwait, Qatar, Nigeria, and the UAE to add to foreign holdings. [ ] 25X1

**Reduced Imports.** The revenue shortfall, limited borrowing capacity for countries like Nigeria, and the concern about drawing down assets forced almost all OPEC states to reduce imports last year (table 5). The volume of purchases from the Big Seven industrial countries declined 15 percent in 1983, and scattered first-half 1984 trade data predict another 7-percent decline. With limited foreign exchange reserves and large debt burdens, Algeria, Indonesia, Iraq, and Nigeria are facing particularly large import reductions. Indonesia and Nigeria, for instance, will have to take import cuts this year of about 15 percent each.

Although cuts elsewhere will not be as large, we expect all of the OPEC countries except Qatar, Kuwait, Ecuador, and Venezuela to record import drops this year. [ ] 25X1

**Cuts in Aid.** Oil revenue constraints also have prompted sharp cuts in OPEC aid (table 6). From over \$14 billion in 1981, we estimate the major OPEC donors cut disbursements to about \$12 billion in 1982 and to \$6.5-7.0 billion in 1983. Kuwait, the UAE, and Qatar account for over 60 percent of the drop. According to our estimates, from a high of \$8.6 billion in 1981, Saudi Arabia has cut economic and military aid by about \$2 billion in 1982 and another \$1 billion in 1983. With the exception of Somalia, all the major Islamic aid recipients have experienced significant cuts in aid receipts. Iraq has taken the largest cut. From \$8 billion in aid in 1981, we estimate that

**Table 6**  
**Aid Disbursements From Major OPEC Donors**

Million US \$

	1981	1982	1983 <sup>a</sup>	1984 <sup>b</sup>
<b>Total</b>	<b>14,470</b>	<b>11,565</b>	<b>6,689</b>	<b>6,720</b>
Arab states	13,515	10,575	5,362	5,865
Iraq <sup>c</sup>	8,000	5,520	2,950	3,500
Jordan	1,165	1,130	795	780
Syria	1,990	2,140	1,010	1,000
Morocco	790	640	225	165
Sudan	410	255	130	170
Other	1,160	890	252	250
Non-Arab Islamic	800	800	995	555
Pakistan	360	435	150	55
Somalia	80	190	345	300
Other	360	175	500 <sup>d</sup>	200
Other	155	190	332	300

<sup>a</sup> Estimated.

<sup>b</sup> Projected.

<sup>c</sup> Includes oil lifted by Saudi Arabia and Kuwait on Iraq's behalf.

<sup>d</sup> Includes \$400 to Nigeria for balance-of-payments support.

[Redacted]

OPEC aid to Iraq in 1983 was down to \$3 billion; about half was provided in direct financial aid; and oil sales on Baghdad's behalf by Saudi Arabia and Kuwait amounted to \$1.5 billion. Morocco and Sudan have also taken larger cuts of 80 percent and 60 percent, respectively. [Redacted]

Preliminary data and reporting suggest that total OPEC aid disbursements in 1984 will remain at about the 1983 level of \$6.5-7.0 billion, with Iraq receiving some increase:

- Iraq has received about half of its expected \$1 billion in direct Gulf financial aid this year. Oil sales on Iraqi account will amount to \$2.5 billion if current levels of sales continue.
- We expect aid to Syria, Jordan, and the PLO to be near last year's \$2 billion level. According to the 1984/85 budget, Kuwait plans to pay \$180 million to Syria and \$160 million to Jordan and the PLO. Riyadh has disbursed two-thirds of its Baghdad commitment this year.

- We expect aid to other Arab and non-Arab Islamic states to be slightly lower than last year. Although Riyadh has given \$150 million to Sudan for balance-of-payments support, Morocco and Pakistan are likely to experience reductions. [Redacted]

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**Broader Ramifications**

In addition to these financial adjustments, the decline in OPEC revenues is affecting the cartel's cohesiveness, the magnitude of the LDC debt problem, domestic political tensions, and international foreign relations. Financial problems brought on by the oil glut may also create opportunities for the Soviet Union.

[Redacted]

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**Pressures on the Cartel.** The financial bind the soft oil market has imposed on most OPEC states is increasingly threatening the organization's cohesiveness. Tighter market conditions and political events supported sizable oil price increases and fairly high production levels for OPEC from 1973 to 1981. The dramatic drop in oil consumption in the past few years, however, has caused substantial price weakness and forced OPEC to behave like a true cartel by setting production limits to support a unified price. The March 1983 agreement to cut production by 1 million b/d from the 1982 annual average level has generally defended the \$29 benchmark. Nonetheless, financial pressures have periodically forced members to exceed their production quotas by offering discounts or bartering oil. Only a sharp production cut by Saudi Arabia this past July averted another price decline stemming from such discounting actions and temporarily reaffirmed the cartel's commitment to defending oil prices. [Redacted]

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The threat to OPEC unity remains. Most industry forecasts expect little growth in the demand for oil in the next year or so. Given the potential for a substantial slowdown in Western economic growth next year, OPEC may have trouble next spring when seasonal oil use declines and the cartel is forced again to curtail output. The longer market weakness persists and the financial bind continues, the greater the temptation


for hard-pressed members to break ranks. Some slippage in discipline already is occurring:

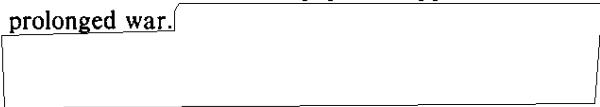
- According to Embassy reporting, Nigeria is contemplating a variety of moves, including discounting to boost its sales and ease pressing debt and economic problems.



**The LDC Debt Problem.** The prolonged weak oil market has added three OPEC countries to the long list of LDCs unable to service their debt. After financially extending themselves during the oil price runup, Nigeria, Venezuela, and Ecuador were unable to absorb the loss in oil revenues and meet their debt repayments:

- According to our estimates, Lagos has \$8-10 billion in officially guaranteed and unguaranteed trade arrearages. Although many uninsured creditors have accepted Lagos's refinancing offer of six-year promissory notes, official creditors remain reluctant to implement a restructuring without an IMF-supported program.
- Large-scale capital flight sparked by a concern about lower oil revenues and the overvalued bolivar led the Venezuelan Government to postpone principal payments on public and private debt in March 1983. A self-imposed austerity program has been praised by IMF representatives, and, as a result, bankers are proceeding with debt restructuring negotiations and dropping the usual prerequisite for a formal IMF agreement.
- Ecuador negotiated an IMF-supported adjustment program and a financial package with creditor banks last year that included debt restructuring and a new \$431 million line of credit. The one-year standby expired in July, and recently inaugurated President Febres-Cordero is negotiating a new program as well as a 1984 debt refinancing package with bankers. 

Algeria and Indonesia have been able to continue to meet their debt obligations and maintain fairly good credit ratings. This is largely because of their more diversified export bases and quicker implementation of austerity measures in response to the oil revenue decline. Financial strains are evident, nonetheless, <sup>25X1</sup> and, if the oil market remains weak or there is a further runup in interest rates, their creditworthiness could quickly erode. Jakarta will have difficulty boosting nonoil exports this year and is in conflict with Washington over US import quotas on textiles. Algeria's natural gas sales are sluggish, and, according to the US Embassy in Moscow, Algeria is considering bartering crude oil to the USSR later this year for outstanding debts.  <sup>25X1</sup>

**Political Fallout.** The OPEC governments are facing unprecedented challenges in implementing economic adjustment policies that contrast sharply to the expansionary boom of the 1970s. The current retrenchment of these oil-dependent economies has sparked public criticism of government mismanagement, corruption, and unequal distribution of sacrifices. The change of governments in Nigeria and Venezuela last year was due in part to discontent over economic conditions. In the Persian Gulf, leadership skills are being tested with simultaneous management of the economic downturn, pressing security concerns, and the spread of Islamic fundamentalism. For the Iranian and Iraqi Governments, heavy war expenses and lower oil revenues have produced consumer shortages making it more difficult to maintain popular support for the prolonged war. 

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Generally, the economic adjustment and political fallout have been less severe for those OPEC members with substantial foreign assets and smaller import requirements; these governments have been able to maintain generous subsidies and welfare programs that help insulate the citizens from the impact of spending cuts. Nevertheless, the sharp contraction in

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domestic liquidity has taken a heavy toll on financial, real estate, and construction sectors and generated disgruntlement by businessmen and members of the ruling families with substantial income from these sectors:



- In Kuwait, liquidity constraints have helped delay a comprehensive and final settlement of the 1982 Suq al Manakh stock market crash that touched off private capital flight and a drain on foreign assets.
- In the United Arab Emirates, the banking sector has been hard hit with the failure of a major institution last year and a large number of loans to near-bankrupt construction companies.

In the more populous OPEC debtor countries, austerity measures have reduced living standards to create deeper and more widespread dissatisfaction with government economic policy. The newly elected governments in Ecuador and Venezuela may face opposition from influential labor and leftist groups. Venezuelan President Luisinchi's ability to implement his austerity program hinges on maintaining a fragile social pact with business and labor. In Indonesia, President Soeharto must be wary of popular backlash against repression, which has helped discourage vocal opposition. Failure of the nine-month-old Buhari government to revive Nigeria's economy as promised is straining the already delicate fabric of the armed forces. The government is reluctant to implement extensive reforms and austerity measures for fear of being ousted by disgruntled soldiers.

**Implications of Reduced Aid.** Over the past decade the wealthier OPEC members have considered aid a major foreign policy tool to promote their influence in the Third World and in international forums. Major recipients now are looking for other donors and are willing to strain relations with their more traditional Gulf donors. For example, we think that Syria is likely to tilt more toward Tehran for financial help to offset the \$1 billion in aid from Saudi Arabia and Kuwait it lost last year. Reduced international aid flows were a principal motive for Moroccan King Hassan's recent union with Libya, whose aid package will replace Saudi Arabia as Morocco's principal economic benefactor.

OPEC aid cuts also have important ramifications for the United States. In the case of Jordan, Pakistan, and Sudan, the cutbacks could place increased pressure on Washington for additional assistance. The United States has strategic interests in many of these recipient countries, and reduced financial inflows could intensify already precarious economic positions with possible ramifications for stability and adventurism by hostile neighbors, such as by Libya in the case of Sudan. In addition, under the current oil revenue constraint, the Saudis may be less willing to use foreign aid in ways that dovetail with US policy interests.

**Soviet Opportunities.** The sharp drop in OPEC's share of the oil market, continued price pressures, and financial problems created by these conditions led the cartel to seek cooperation with a number of other producers in 1983, including the first formal contact with Moscow. OPEC members had become concerned that aggressive Soviet pricing and growing exports to Western countries were undermining the cartel's ability to stabilize prices. These recent contacts enhance Moscow's standing with members of the cartel and provide a forum for continuing Soviet efforts to better relations with the conservative Middle East producers.

Although Moscow has been unable to translate its oil supply relationship into increased Soviet influence, connection with OPEC helps underpin Soviet links with most OPEC members. In some cases the soft oil market has strengthened these energy-related ties by making the oil exporters more susceptible to special arrangements Moscow has been willing to broker:

- Total Soviet imports of OPEC oil in the first quarter of 1984 averaged about 285,000 b/d, a 40-percent increase from 1981 levels, according to US Embassy reporting. Libya and Iraq have bartered of about 100,000 b/d and 82,000 b/d, respectively, and Algeria is also considering barter to meet its debt obligations to the Soviets.
- Kuwait, the only wealthy Gulf state with Soviet diplomatic relations, recently concluded a \$320 million arms deal with the USSR, and press reports indicate they are finalizing a bilateral trade agreement.

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- Soviet overtures to the Indonesians are escalating. Though Jakarta's interest probably is aimed at increasing leverage with Washington, the Indonesian press has given President Soeharto's call for improved relations with the Soviet Bloc prominent play.
- A Kuwaiti-led consortium of Gulf Arab banks has arranged a \$100 million trade financing credit for Moscow this year, according to press reports.
- According to Embassy reporting, Moscow's commercial and cultural presence in the UAE has increased during the past year.

A key exception to this trend has been Saudi Arabia, which keeps its distance from Moscow despite the sale of about 40,000 b/d of oil to the Soviets for credit against Iraq's military debt. [REDACTED]

#### Outlook

We do not expect any early improvement in OPEC's financial positions. We now project a \$12 billion current account deficit in 1985 if oil prices are maintained at mid-1984 levels and demand for OPEC oil exports rises slightly to 16.4 million b/d. In this scenario we would expect imports to grow slower than exports but calculate that the small improvement in the trade balance would be offset by a larger net services deficit. [REDACTED]

Even under this steady-price scenario, OPEC members will be forced to continue politically difficult economic adjustment policies:

- We are most concerned with the ability of the Nigerian Government to contain the political fallout from its financial crunch.
- A resurgence of ethnic and religious tensions is contributing to antigovernment sentiment in Indonesia.
- In Venezuela, economic stagnation could intensify strains between business and workers and disrupt Lusinchi's consensus for his austerity program.

[REDACTED] 25X1

A sustained soft oil market over the next few years could even have substantial political repercussions for the wealthier OPEC members. Press accounts indicate that Riyadh, unlike many private petroleum analysts, is assuming demand in the world oil market will recover substantially in 1986. This is contrary to expectations of many private petroleum analysts. If they are correct, wealthier OPEC members will come under growing pressure to adopt more stringent policies to control spending and stem the drain on foreign assets. We believe the Saudis and others are not prepared for any sustained economic reversals.

[REDACTED] 25X1

Moreover, if oil prices decline in the months ahead, the problems we have outlined for OPEC countries would become more acute quickly. In particular, an oil price decline would cause serious financial problems for major OPEC debtors—Nigeria, Venezuela, Indonesia, and Ecuador—as well as non-OPEC debtors such as Mexico and Egypt. These debtors could suspend debt service payments to reduce foreign exchange outflows and preserve dwindling export earnings. In addition, an oil price decline could affect political dynamics in the Persian Gulf and other strategically important LDCs, such as Mexico and Nigeria. An oil price decline would provide substantial relief to debt-troubled countries such as Brazil and the Philippines. [REDACTED] 25X1

The course of the oil market also will to a large extent determine OPEC's relationship with the Soviet Union. As long as the market remains weak, we believe OPEC members will continue to seek contacts with other producers, including the Soviets, to gain support for their pricing structure. Moscow, for its part, may cast its inability to substantially boost oil production and exports as a sign of cooperation with the cartel and gain favor with individual members. By bartering, Moscow is unlikely to exert any substantial political leverage over OPEC members with whom it has special oil supply relationships. Ultimately, we believe that short-term needs to maximize hard currency earnings may prevent Moscow from exploiting opportunities for expanded contact with OPEC members. [REDACTED]

[REDACTED] 25X1

## Appendix A

### OPEC Current Accounts

#### Methodology

**Demand for OPEC Oil.** In estimating 1984-85 OPEC oil exports, we have assumed average OECD economic growth of 4 percent this year and 3 percent next year. We project an increase in OPEC oil exports (including natural gas liquids) from 15.3 million b/d in the first half of 1984 to approximately 16.2 million b/d by yearend, with an average of about 15.6 million b/d for the year. Next year we foresee oil exports averaging about 16.4 million b/d. [ ]

**Allocation of Exports.** We have assumed that the 13 OPEC members will generally maintain shares of OPEC exports they held during the first quarter of 1984. As a result, we calculate Saudi exports of 4.4 million b/d in 1984 and 4.5 million b/d in 1985, and combined Iranian and Iraqi exports averaging 2.8 million b/d each year assuming the war continues at current levels. If the war ends, Iraq could boost exports by as much as 1 million b/d within six months. [ ] 25X1

**Oil Prices.** Our calculations put the present weighted average price of a barrel of OPEC oil at about \$27.50, which we have assumed will hold over the next 16 months. Surplus OPEC capacity of at least 7 million b/d will provide a cushion against a moderate supply disruption and an increase in non-Communist oil consumption to keep prices from significantly exceeding the current level. Any increase in Iraqi or Iranian exports would also put downward pressure on the current price. On the other hand, prices could rise if inventories are not readily drawn down to help offset an oil supply disruption. [ ]

**Imports.** Trends in individual OPEC countries, suggest to us that overall OPEC import volume will decline by 5 percent in 1984 with no change in 1985. We have assumed a 2.9-percent rise in the dollar price of imports for 1984 and 3.4 percent in 1985. [ ]

First-quarter trade data of OECD members with OPEC states plus country assessments of import

commitments and needs provide the basis for our 1984 import projections. In addition, for those countries with very limited foreign exchange reserves and restricted access to credit because of payments problems, the growth in imports is constrained by the size of the current account deficit they can afford to finance; most of these countries have austerity measures in place. For the surplus Gulf countries, we have assumed that real imports for the year will decline slightly. [ ] 25X1 25X1

**Investment Income.** We assume that for 1984 and 1985 earnings on official foreign assets investment will average 10 percent of the total value of each country's asset holdings. [ ] 25X1

#### Estimates

Under the above assumptions, we project a current account deficit of \$11 billion in 1984 and a 1985 deficit near \$12 billion. The 1984 OPEC trade surplus will improve, reflecting mainly higher export earnings but also lower nominal imports. We are projecting a \$500 million decline in OPEC grant aid this year. [ ] 25X1

We project that the OPEC deficit on the net services account will narrow to \$52 billion largely because of lower freight, insurance, and service expenditures. We calculate that official investment income will decline by \$2.1 billion to reach \$27.3 billion this year largely because of reduced holdings abroad as reserves are drawn down to finance deficits. We estimate that Algeria, Ecuador, Indonesia, Nigeria, and Venezuela owe \$10-11 billion in interest on their foreign debt this year. [ ] 25X1

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## Appendix B

### OPEC Official Foreign Assets

We estimate that, on the basis of balance-of-payments data, total OPEC official foreign assets fell \$28 billion last year to reach a total of \$292 billion. We calculate that Saudi Arabia, Kuwait, and the UAE account for about 85 percent of total OPEC official foreign assets with over 40 percent of their holdings in bank deposits and Western government securities. Only three countries, Qatar, Ecuador, and the UAE, added to their asset holdings in 1983; Saudi Arabia drew down the most—\$18 billion (see tables 7 to 11).

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#### Types

During 1979-82, the OPEC asset mix shifted markedly in favor of nonreserve assets because of increased loans, especially to Iraq,<sup>2</sup> new equity investments, particularly by Kuwait, and drawdowns in foreign exchange reserves by Iran, Iraq, Nigeria, and Venezuela. However, the trend toward the accumulation of nonreserve assets—corporate securities, real estate, direct placements, and loans—has slowed. From a variety of data sources, we estimate<sup>3</sup> nonreserve assets accounted for at least 46 percent of the total OPEC portfolio in 1982 but declined slightly to 43 percent in 1983.

Reserve assets—consisting of bank deposits, gold, special drawing rights (SDRs), position in the IMF, and government securities held outside of Kuwait, and UAE investment accounts—comprised 57 percent of the yearend 1983 OPEC foreign asset portfolio, up from 54 percent at yearend 1982. Algeria, Ecuador, Indonesia, Iraq, Nigeria, and Venezuela hold almost all of their surplus funds in short-term reserve assets with Algeria and Venezuela holding more than a third in gold. Riyadh holds nearly 70 percent of its portfolio in reserve assets.

<sup>2</sup> Under the 1980 Gulf State Aid Agreement, proceeds from increased Gulf oil production were to be loaned to Baghdad interest free and repayable at the end of the war in cash or oil. We doubt, however, that these loans will ever be repaid.

<sup>3</sup> Percentages are based only on the known quantities of the portfolio mix.

**Table 7**  
**Saudi Arabia: Distribution of**  
**Official Foreign Assets**

Billion US \$

	1979	1980	1981	1982	1983 <sup>a</sup>
<b>Total<sup>a</sup></b>	<b>63</b>	<b>95</b>	<b>144</b>	<b>153</b>	<b>135</b>
<b>Location</b>					
United Kingdom	13	16	18	15	15
Other Western Europe	11	18	22	21	17
Canada and Japan	3	7	14	17	17
IMF and IBRD	4	5	7	9	14
United States, other countries, and unlocated	31	50	83	90	72
<b>Currency</b>					
Dollars	46	62	84	92	86
Pounds sterling	1	3	3	3	3
Marks	4	8	13	13	11
Yen	2	5	11	13	14
Other currencies	4	7	7	8	7
Gold and SDRs	2	6	8	10	7
Unknown	4	6	18	14	7
<b>Type of account</b>					
Gold and IMF	4	6	7	10	12
Bank deposits	17	20	19	19	16
Government securities	17	31	56	59	62
Corporate securities	18	24	32	32	16
Other assets <sup>b</sup>	7	13	18	21	29
Unknown	NEGL	1	11	12	NEGL

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<sup>a</sup> Estimates based on balance-of-payments data. Numbers may not add, because of rounding.

<sup>b</sup> Includes loans and direct placements.

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**Table 8** *Billion US \$*  
**Kuwait: Distribution of Official  
 and Quasi-Official Foreign Assets <sup>a</sup>**

	1979	1980	1981	1982	1983
<b>Total <sup>b</sup></b>	<b>42</b>	<b>54</b>	<b>62</b>	<b>69</b>	<b>67</b>
<b>Location</b>					
United Kingdom	11	14	17	25	22
Other Western Europe	5	6	6	7	6
Canada and Japan	1	1	1	1	1
IMF and IBRD	1	1	2	2	1
United States, other countries, and unlocated	25	31	36	34	37
<b>Currency</b>					
Dollars	24	26	28	40	33
Pounds sterling	3	3	3	2	2
Marks	5	6	6	6	6
Yen	1	1	1	1	2
Other currencies	3	4	4	5	4
Gold and SDRs	1	2	2	1	1
Unknown	6	12	18	14	19
<b>Type of account</b>					
Gold, SDRs, and IMF position	2	2	2	2	2
Bank deposits	2	2	1	1	2
Government securities	2	3	3	3	3
Investment accounts <sup>c</sup>	26	33	37	39	35
Other assets <sup>d</sup>	7	10	15	17	10
Unknown	2	5	4	7	15

<sup>a</sup> Includes foreign assets of mixed-sector investment companies.

<sup>b</sup> Estimates based on balance-of-payments data. Numbers may not add, because of rounding.

<sup>c</sup> These accounts include some deposits but are largely invested in medium-term government securities and corporate bonds and equities.

<sup>d</sup> Includes loans and direct placements.

25X1

#### Currency Composition

An estimated 65 percent of the \$28 billion drawdown last year was in US dollar-denominated assets. Nevertheless, the proportion of dollar holdings by OPEC members remained at the 1982 level of 60 percent:

- We estimate that dollar assets fell from \$193 billion to \$174 billion during 1983. Dollar placements in the United States amounted to an estimated 37 percent of OPEC's dollar holdings.

Secret

**Table 9** *Billion US \$*  
**UAE: Distribution of Official  
 Foreign Assets**

	1979	1980	1981	1982	1983
<b>Total <sup>a</sup></b>	<b>18</b>	<b>27</b>	<b>33</b>	<b>35</b>	<b>39</b>
<b>Location</b>					
United Kingdom	1	3	2	2	2
Other Western Europe	1	2	1	2	2
Canada and Japan	1	2	3	2	2
IMF and IBRD	NEGL	NEGL	NEGL	1	NEGL
United States, other countries, and unlocated	16	20	27	28	33
<b>Currency</b>					
Dollars	10	7	6	7	10
Marks	NEGL	1	1	1	1
Yen	1	2	2	2	3
Other currencies	1	1	1	1	1
Gold and SDRs	NEGL	1	1	1	NEGL
Unknown	6	14	21	22	24
<b>Type of account</b>					
Gold and IMF	NEGL	NEGL	NEGL	1	1
Bank deposits	2	3	1	3	4
Government securities	1	1	3	3	4
Corporate securities <sup>b</sup>	3	3	3	3	7
Other assets <sup>c</sup>	3	7	8	8	6
Unknown	9	12	19	18	17

<sup>a</sup> Estimates based on balance-of-payments data. Numbers may not add, because of rounding.

<sup>b</sup> Includes placements with international institutions and some government securities.

<sup>c</sup> Includes loans, direct placements, and real estate.

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- Although sterling's share of the currency composition remained steady at about 2 percent, mark and other major West European currency shares each fell by 1 percent.

- We estimate that yen holdings increased by \$3 billion, raising the yen's proportion from 6 to 8 percent.

- OPEC gold holdings remained constant at about 44 million ounces, but close to \$3 billion of value was lost because of the \$75 drop in gold's price during the year.

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**Table 10** *Billion US \$*  
**Iran: Distribution of Official Foreign Assets**

	1979	1980	1981	1982	1983
<b>Total <sup>a</sup></b>	<b>23</b>	<b>19</b>	<b>10</b>	<b>14</b>	<b>9</b>
<b>Location</b>					
United Kingdom	5	4	NEGL	1	1
Other Western Europe	5	3	2	4	3
Canada and Japan	NEGL	NEGL	NEGL	1	1
IMF and IBRD	1	1	1	1	1
United States, other countries, and unlocated	12	11	7	7	3
<b>Currency</b>					
Dollars	14	12	5	7	5
Pounds sterling	1	NEGL	0	NEGL	NEGL
Marks	2	1	NEGL	1	1
Yen	NEGL	NEGL	0	1	1
Other currencies	1	1	NEGL	NEGL	2
Gold and SDRs	2	4	2	1	2
Unknown	3	1	2	3	NEGL
<b>Type of account</b>					
Gold and IMF	3	4	2	3	2
Bank deposits	9	7	1	5	3
Government securities	1	1	NEGL	NEGL	1
Corporate securities	4	4	4	3	NEGL
Other assets <sup>b</sup>	2	1	3	3	3
Unknown	5	2	NEGL	NEGL	NEGL

<sup>a</sup> Estimates based on balance-of-payments data. Numbers may not add, because of rounding.

<sup>b</sup> Includes loans and direct placements.

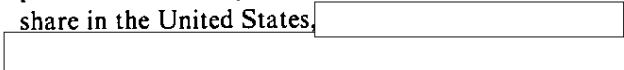


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**Location**

We estimate that about 70 percent of OPEC's official assets are in the major industrial countries or international institutions. We estimate that the share located in the United Kingdom decreased slightly during 1983 and that the US, Japanese, and other major West European shares modestly increased:

- In 1983 about 25 percent of OPEC's assets were held in the United States, as compared with 24 percent in 1982. Riyadh maintained a constant share in the United States.



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**Table 11** *Billion US \$*  
**Iraq: Distribution of Official Foreign Assets**

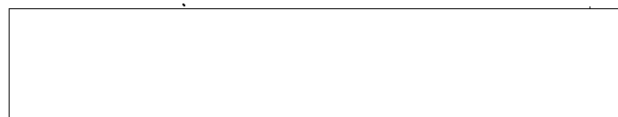
	1979	1980	1981	1982	1983
<b>Total <sup>a</sup></b>	<b>19</b>	<b>31</b>	<b>21</b>	<b>8</b>	<b>4</b>
<b>Location</b>					
United Kingdom	NEGL	1	1	NEGL	NEGL
Other Western Europe	8	10	8	3	NEGL
Canada and Japan	1	2	2	NEGL	NEGL
IMF and IBRD	NEGL	NEGL	NEGL	NEGL	NEGL
United States, other countries, and unlocated	11	17	10	4	2
<b>Currency</b>					
Dollars		7	11	6	2
Pounds sterling	NEGL	NEGL	NEGL	0	NEGL
Marks		4	4	4	2
Yen		1	1	1	NEGL
Other currencies		4	3	4	2
Gold and SDRs		2	3	2	2
Unknown		1	9	5	1
<b>Type of account</b>					
Gold and IMF		2	3	2	2
Bank deposits		15	18	12	4
Government securities		0	1	1	NEGL
Corporate securities		1	1	0	0
Other assets		NEGL	NEGL	NEGL	NEGL
Unknown		1	9	5	1

<sup>a</sup> Estimates based on balance-of-payments data. Numbers may not add, because of rounding.



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- Assets held in the United Kingdom decreased from 17 percent to 16 percent, while other European countries accounted for another 16 percent—the same as in 1979 and up 2 percent from 1982.

- Japan's share has steadily increased from 5 percent in 1979—reaching 7 percent in 1983.

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- About \$15 billion of OPEC's assets are placed with the IMF as either loans or fund positions, at yearend 1983. Saudi Arabia accounted for about 75 percent of the total. Riyadh also has agreed to lend the fund \$3 billion over 1984-85.
- Loans to LDCs—including Iraq—account for another 16 percent of the portfolio. We have been unable to locate about 15 percent of OPEC's assets.

[REDACTED]

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#### Outlook for 1984

We estimate that OPEC will draw down another \$13 billion in foreign assets to finance current account deficits and net capital outflows. We expect Saudi Arabia, Iraq, Iran, Libya, and Venezuela to reduce holdings by \$20 billion, and Kuwait, the UAE, Qatar, and Nigeria will increase assets by \$6 billion. Again, we expect most of the decrease in OPEC holdings will be in dollar reserve assets. [REDACTED]

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We believe the composition of OPEC assets could move slightly in favor of nonreserve assets in 1984:

- The lower current account deficit will require a smaller drawdown in assets. Saudi Arabia, expected to account for most of the drawdown, probably will liquidate a larger portion of reserve assets, having sold many of its corporate securities last year.
- New loans to Iraq plus oil sales on Baghdad's behalf by Saudi Arabia and Kuwait probably will add over \$3.5 billion to nonreserve holdings.
- Kuwait is considering increased equity investments. Embassy reporting indicates that the newly established Kuwait Public Investment Company probably will not limit purchases of foreign company stock to less than 5 percent of outstanding shares. The state-owned Kuwait Petroleum Company purchased Gulf's Italian facilities in January to go along with the Scandinavian and Benelux facilities acquired in 1983. [REDACTED]

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