

ECONOMIC INTERDEPENDENCE AND INTERNATIONAL POLITICS:

THE CASE OF OPEC (ORGANIZATION OF

PETROLEUM EXPORTING COUNTRIES)

by

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Economic Interdependence and
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Of OPEC (Organization of Petroleum
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ABSTRACT

Traditionally, political scientists have defined "power" in international politics more or less as the capability to exercise coercion, particularly through the military force of a nation. However, increased interdependence in the international system, as exemplified by the advent of international economic organizations such as OPEC (Organization of Petroleum Exporting Countries), has necessitated an elaboration of the term power in reference to international politics. This is not to suggest that military force is obsolete but to demonstrate that other forms of power have become prominent. This study proposes: 1) to analyze the role of OPEC in the international political system; and 2) to examine the implication of economic power in international politics nowadays from the viewpoint of "linkage theory" in the discipline.

The division of this study, therefore, is into historical and theoretical chapters. From an historical perspective it becomes evident that OPEC-related events marked a move away from the total domination of the international political system by major states, towards minor states as an assertive force. Whereas major states utilized military force to assert themselves, minor states found

various forms of international organizations, especially economic ones, to be available and effective in their negotiations with other nations. The 'Declaratory Statement Of Petroleum Policy In Member Countries', proved to be a turning point in the roles performed by OPEC as its members demanded changes in the functions of the organization to be extended into matters political. The pricing and participation negotiations of the early 1970's culminating in the 'October War' Oil Embargo dramatized the power possessed by OPEC. The oil embargo, in particular, illustrated the linkages between the national and international levels of the system, and of events, and also between issue-areas. In a more general way the OPEC events demonstrated the changed nature of the political bargaining process in the international political system. The reactions of various industrial countries to the oil embargo substantiated the contention that economic factors influence the functioning of the international political system. To place this thesis within the perspective of political science, the phenomenon is analyzed within the framework of systems analysis and specifically with reference to linkage theory as outlined by James Rosenau.

Rosenau presents a way of analyzing a subsystem of the international system and its interaction with the external environment at the national and international level. The advantage of the linkage approach is that it attempts to

combine the insights of the study of domestic politics with those of international relations to create a wide-ranging systematic approach to political phenomena. The application of the theory to the case of OPEC revealed that there exists a strong relationship between power and interdependence. Power which is conceived as forming the basis of all politics has become increasingly dependent on the degree of interdependence among a group of countries. More specifically, vulnerability interdependence provides a good guide to power resources. Thus, the framework has helped to clarify the impact that international economic organizations are able to exert on national governments to conduct foreign policy along certain lines. In turn, this situation gives the member countries more power than they would possibly otherwise have.

In conclusion this study has demonstrated the inadequacy of the traditional concept of "power" as an instrument for the analysis of present day international politics. It has strengthened the call for two-level analysis as opposed to single level analysis. And it has provided a stimulus for a further study of power and interdependence.

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CHAPTER I

INTRODUCTION

Interdependence among nation-states, particularly in economic affairs, has become a predominant characteristic of the international system since the end of World War Two. In fact, the impact of economic interdependence has been such that the national economy of a country has become increasingly susceptible to influences from external factors. The concept of interdependence, however, entails a variety of nuances.¹ Indeed, so general is the concept that it is usually presumed simply to refer to any phenomenon in one system, the functioning of which cannot occur without some events or processes occurring in one or more systems.² For the purposes of this study, the concept is used to signify nothing about the amount of co-operation or conflict within the interdependency. It does suggest a kind of 'connected-

¹See John Ruggie, "International Responses to Technology: Concepts and Trends," International Organization, 29 (Summer 1975), pp. 562-64, cited in Jeffrey Hart, "Three approaches to the measurement of power in international relations," International Organization, 30 (Spring 1976), pp. 289-305.

²James Rosenau, "Theorizing Across Systems: Linkage Politics Revisited," J. Wilkenfeld, ed., Conflict Behaviour and Linkage Politics, New York, David McKay, 1973, p. 32.

ness' and also presumes a strong relationship of interests; but it does not indicate whether that relationship is positive or negative in nature. To borrow H. J. Spiro's definition,

Two participants - either individuals or groupings whose members have a consciousness of a relevant affinity with one another - may be directly interdependent; A depends on B for Need 1, and B depends on A for Need 2. Two participants can be indirectly interdependent; A depends upon C for Good 3, C depends upon B for Good 4, and B depends upon A for Good 5.³

The concept of interdependence does acknowledge that national political systems exist in, are conditioned by, and respond to an external environment. It also acknowledges that the international political system is conditioned by and responds to developments that occur within the units of which it is comprised. However, the concept does not provide a systematic means of determining how and under what conditions political behaviour at one level of aggregation affects political behaviour at another level. By aggregation we mean co-operation in the articulation of demands by two or more units of a

³Herbert J. Spiro, "Interdependence: A Third Option between Sovereignty and Supranational Integration," Ghita Ionescu, ed., Between Sovereignty and Integration, London, Groom Helm, 1974, p. 148.

political system.⁴

The need for a systematic approach to the interaction between the international and national systems is obvious. As W. H. Hanrieder notes, "Although the nation-state may still be regarded as the major actor in world politics, both the nature of the nation-state and that of the political processes of the international system have changed to such an extent that the analytical formulation of these transformations is a question of immediate concern."⁵ In fact, the traditional boundaries separating the nation-state from the environing international system are becoming increasingly blurred.

The application of the concept 'international system' to the complexity of relations among nations represents an attempt to organize information available into an orderly fashion for the purpose of explanation and analysis. Whereas terms such as 'world community' and 'international society' imply the existence of a basic unity and coherence,

⁴Michael Haas, "A Functional Approach to International Organization," James Rosenau, ed., International Politics and Foreign Policy, New York, The Free Press, 1969, p. 135.

⁵Wolfram F. Hanrieder, "Compatibility and Consensus: A Proposal For the Conceptual Linkage Of External and Internal Dimensions of Foreign Policy," American Political Science Review, 61 (December 1967), p. 973.

the notion of system does not as readily imply these characteristics. International system is a conceptual construct designed to comprehend all the exchanges, transactions, contacts, flows of information and actions of every kind occurring between and among the constituent actors of the world. Joseph Frankel points out that when we conceive of international phenomena as a system, this introduces a basic source of regularities.

The main variables distinguished in all international systems can be meaningfully clustered in three large groups: first, the actions of States as components of the system; second, the structure and functioning of the system which results from the interaction of its units; third, the environmental factors which condition both the actions of the units and the operation of the system.⁶

Within the international system is the 'international political system'. W. D. Coplin defines the international political system as "a system of states, each of which claims control within its boundaries and acts to maintain that control domestically and internationally."⁷ Implicit in the

⁶ Joseph Frankel, Contemporary International Theory and the Behaviour of States, London, Oxford University Press, 1973, p. 35.

⁷ William D. Coplin, Introduction to International Politics, Chicago, Markham Publishing Company, 1971, p. 296.

definition is the notion that states can act both individually and collectively towards each other in a number of issue areas.

An important manifestation of increased economic interdependence has been an alteration in the concept of "power" in international politics. Power, "in its most general sense denotes (a) the ability (exercised or not) to produce a certain occurrence of (b) the influence exerted by a man or group, through whatever means, over the conduct of others in intended ways."⁸ Increased economic interdependence, as exemplified by events related to OPEC (Organization of Petroleum Exporting Countries), has affected the international political system in such a manner that foreign policies of various governments have had to be modified to accommodate political demands of various member countries, particularly the Arab countries. Hence, the functioning of an intergovernmental economic organization may be such that it assumes an important political role in international relations.

The complex linkages of the various actors in the international system, therefore, require that the analysis of international politics be more encompassing. David Blake

⁸Frankel, p. 121.

explains the state-of-affairs very well when he states the following:

Theories of international politics that focus almost exclusively on the military, security, and status concerns of national actors cannot serve effectively to guide policy recommendations that confront the major international economic issues of today.⁹

The problem of assessing this phenomenon of the transformation of economic influence into effective political power forms the basis of this study. If OPEC has the capability to exert political power there must be factors which facilitated such a transformation. First, the resources to be employed must be mobilized and usable. Second, the willingness to expend resources must be present and credible to others. Finally, the degree of dependency by the intended target upon the resource must be exceedingly great. In essence, this study attempts to demonstrate that linkages exist between the economic and political subsystems of the international system, and that outputs from one subsystem can affect the functioning of another subsystem. Although the phenomenon studied here will be based on the experience of OPEC, it is hoped that any revelation from this study might be transferred to other international organizations.

⁹David H. Blake and Robert S. Walters, The Politics of Global Economic Relations Englewood Cliffs, Prentice-Hall, Inc., 1976, p. 235.

The examination of OPEC will begin with the study of the OPEC-related events which acknowledged the member countries of the organization as being an assertive force in the international system. The study will begin with the 1968 "Declaratory Statement of Petroleum Policy in Member Countries"¹⁰ and will include the period up to the 1973 Arab Oil Embargo and its after-effects. The 1968 statement on petroleum policy marked the first significant step towards consolidation of OPEC's power. The 1973 embargo, as Bard O'Neill suggested, "represented a major turning point in Middle East politics, in the relationships between the Arab states and the rest of the world, and, in a wider sense, between raw material-producing and -consuming nations."¹¹ Posted prices were now set unilaterally by OPEC member countries on the basis of not only market trends but also political objectives.

The analysis of OPEC is systematized by articulating the independent variables involved. Independent variables are elements which can be considered as major factors (like unit or actor, structures, processes, and environment) in

¹⁰Organization of Petroleum Exporting Countries (OPEC), Annual Review and Record, Vienna, 1968, pp. 17-22.

¹¹Bard E. O'Neill and Joseph S. Szyliowicz, eds., The Energy Crisis and U.S. Foreign Policy, New York, Praeger, 1975, p. 1.

terms of which all substantive phenomena are explained.¹² The main actors are the national governments, primarily the Arab ones, but also those of other member countries of OPEC, countries of Western Europe, Japan, the United States, and Israel. The major non-governmental actor is the international oil companies. The structures (characteristic relationships among the actors) encompass the arrangements between OPEC member countries, various Arab countries, relations between the member countries and the United States, Western Europe, and Japan, and the relations among Western industrial countries. The processes, namely the modes and forms of interaction, are analysed through the examination of pricing, and participation agreements between OPEC and the international oil companies, the Libyan use of 'petrodollars' to obtain political objectives, the use of oil as a weapon in the Arab-Israeli conflict, and the shift in mood in 1973 with respect to bilateral and multilateral relations between OPEC member countries and other countries.

Since the oil related events are dominated by Arab states it might be argued that attention should be given to OAPEC (Organization of Arab Petroleum Exporting Countries) rather than OPEC. However, upon closer scrutiny it becomes obvious that OPEC is the logical point for various reasons.

¹²Frankel, pp. 36-37.

First, OPEC member countries in 1973 controlled 86 per cent of world crude-oil exports, 52 per cent of world production and about 65 per cent of proven reserves. The member countries of OAPEC controlled 48 per cent of world exports, 31 per cent of world production and about 50 per cent of world reserves.¹³ The non-Arab member countries of OPEC retain a substantial amount in export and production capacity; and they thus have the potential to negate OAPEC actions if the actions are not perceived to be in OPEC's best interests. Second, while OPEC merely aims for a co-ordination of petroleum policies among member countries, OAPEC has been established for the express purpose of regional co-operation with a vision of eventual regional unity or integration (Appendix III, Summary of OPEC Charter gives an indication of this). In view of the homogeneous character of OAPEC it is quite conceivable that co-operation in 'oil matters' could lead to co-operation in other endeavours. Therefore, considering that this study is concerned with the generating of political power by an international economic organization, OPEC becomes the logical choice.

The conceptual framework for this study falls within the realm of systems analysis. While historical perspective

¹³Ian Smart, "Uniqueness and Generality," Daedalus, 104, 4 (Fall 1975), pp. 259-281.

is useful for understanding current developments, the 'lessons of history' are not necessarily self-evident. Selecting from an array of historical 'information', the items that can be applied to a subject such as international politics require some organizing tools that will enable us to see broad patterns and trends.¹⁴ More specifically, in the area of case studies, Coplin suggests that "the ideal goal of those performing case studies is the development of concepts and propositions that are useful across a number of cases."¹⁵

Although a primary concern of this study is with a change in the function of an international economic organization, functional analysis alone does not provide a sufficient tool of analysis. As Oran Young points out,

The phenomena of power and influence, for example, are likely to be brought in only on a very secondary level in discussions of such matters as the specific patterns for fulfilling certain functional requisites. Moreover, this type of analysis provides relatively little scope for the discussion of goals and objectives."¹⁶

¹⁴Le Roy Graymer, ed., Systems and Actors in International Politics, Toronto, Chandler, 1971, p. 2.

¹⁵Coplin, p. 150.

¹⁶Oran Young, Systems of Political Science, Englewood Cliffs, Prentice-Hall, Inc., 1968, p. 34.

Also, David Easton in reference to functionalism states that it, "does not offer, at the minimum, a way of ordering data based upon a coherent and consistent body of concepts other than so-called functional terms that are and must be common to all scientific inquiry. Aside from these more general considerations, the so-called functional approach would still leave us struggling for a way of systematically working out the relationships between environmental changes and responses within political systems."¹⁷

Instead, this study will utilize the method of systems analysis advocated by scholars like David Easton,¹⁸ for it expresses in the clearest and most general terms the basic objective of political science - to think systematically about the field of inquiry. In fact, David Easton's systems analysis provides a useful conceptual framework that is a "preliminary to the development of theory" and as a way of framing "appropriate questions" and possibilities for seeking answers rather than providing actual answers.¹⁹ The approach is valuable in enabling us to analyze the behaviour

¹⁷David Easton, A Framework for Political Analysis, Englewood Cliffs, Prentice-Hall, Inc., 1965, p. 106.

¹⁸Ibid.

¹⁹A. James Gregor, "Political Science and the Uses of Functional Analysis," American Political Science Review, 62 (June 1968), p. 435, quoted in Robert J. Lieber, Theory and World Politics, Cambridge, Winthrop Publishers, Inc., 1972, p. 127.

of states within its proper setting or settings and, instead of concentrating upon one state, to pay due regard to its interactions with the external environment.

In its application to international politics, systems analysis also has its short-comings. It is inappropriate when it is applied to an area lacking in the institutions and normative elements necessary to support such a scheme. Easton attempts to put forward a defence of applying systems analysis to international politics when he suggests that at the international level there are to be found sets of relations through which values are authoritatively allocated, even though the international system lacks strong legitimacy feelings. Supplementing a lack of authority is the element of consensus.²⁰ Although the debate over the application of systems analysis to international politics is ongoing, for the purposes of this study, systems analysis does offer a starting point for studying the interaction between the national political system and the total international system.

The basic assumptions underlying this study take the following form. The first assumption entails the idea that the modern industrial state is incapable of sustaining economic growth or maintaining its existing economic structure independent of other nations. Hence, it is forced to

²⁰Ibid., p. 128.

engage in a number of interdependent relations with other countries. Next is the assumption that national governments are not immune from events which occur in the international sphere of economics. Price increases of a foreign commodity are obviously passed onto the domestic consumers. Eventually, the consumer sees his or her purchasing power drop; in turn, the national government is viewed as the cause of the consumer's troubles. What is initially taken as an economic action in country A has repercussions in the domestic political sphere of country B. This, in turn, may prompt country B to modify its political relationship with country A. Thus, there is a spill-over effect which takes place from the international economic system onto the national political system and then back onto the international political system. The final assumption rests on the contention, mentioned earlier, that the degree of interdependence in the world is increasing. Oran Young lends support to this assumption when he comes to the conclusion that "the evidence from a wide range of disparate indicators seems to warrant the provisional conclusion that the level of interdependence in the world system is rising in the current era."²¹ Robert Pfaltzgraff also suggests that rising levels of interdependence

²¹Oran Young, "Interdependence in World Politics," International Journal, 24, 4 (August 1969), p. 740.

in the present era have increased international-domestic linkages, and, as a result, there is a need to find explanatory concepts or theories to account for such phenomena.²²

Linkage politics, as an approach, offers a means of assessing the assumptions mentioned above. If we can account for international-national linkages and for the consequences of such linkages on the functioning of a subsystem, it would be possible also to account for the particular moment and circumstances when a transformation of function takes place. The utilization of linkage politics, as an approach, to the study of relations among political systems falls within the realm of what is known as across-systems analysis. In reference to the objective of the across-systems analyst, James Rosenau points out that he "aspires to an explanation in which actions and interactions at one level are at least partially accounted for by attributes and behaviour at another level."²³ The traditional approaches to the study of relations between nation-states focus attention on events only at international levels while domestic phenomena are ignored. J. S. Hoadley and S. Hasegawa lend support to the use of the linkage approach when they state that

²²Robert L. Pfaltzgraff, "International Relations Theory: Retrospect and Prospect," International Affairs, 50 (January 1974), p. 39.

²³Wilkenfeld, p. 26.

In the linkage view, nations are not encapsulated, nor are their domestic actors insulated from influences from abroad, rather, there is an interaction among a variety of political actors, some domestic, some international. Linkage politics treats as permeable the boundary between a nation's political actors and the international political environment. The study of linkage politics attempts to combine the insights of the study of domestic politics with those of international relations to create a wider-ranging, more systematic approach to political phenomena."²⁴

Thus, in the linkage framework both domestic and international phenomena are considered relevant and are assessed for cause and effect in relation to each other.

As a basic unit of analysis linkage refers to "any recurrent sequence of behaviour that originates in one system and is reacted to in another."²⁵ The focus of linkages is the 'recurrence' of events and 'not the occurrence' of events; that is, the linkage scheme does not relate to isolated phenomena. Linkages are then recurrent behaviour sequences between subsystems.

The notion of linkage is not entirely new. R. V.

²⁴J. S. Hoadley and S. Hasegawa, "Sino-Japanese Relations 1950-1970: An Application of the Linkage Model of International Politics," International Studies Quarterly, 15, 2 (June 1971), p. 132.

²⁵James Rosenau, ed., Linkage Politics, Essays on the Convergence of National and International Systems, New York, The Free Press, 1969, p. 45.

Burks notes that the nineteenth century Prussian historian Leopold von Ranke "conceived of developments in England as both affecting events in Europe as a whole, and being influenced by contemporary changes in Europe."²⁶ Karl Deutsch, in an essay on external and internal relationships, discusses the impact of the Soviet Sputnik program upon American public opinion in the 1950's and particularly upon one subsystem, the American educational system. The linkage of the space satellite to international affairs was overt. As a result, when the Soviets surpassed the Americans in the space program, the American image of the world changed dramatically.²⁷ These two examples point out that international-national linkages are not new phenomena, but that because of increasing interdependence, they have become more manifest.

In this thesis, the linkages between the state and its external environment will be referred to as outputs (initial stage) and inputs (terminal stage). The linkage stages are differentiated according to their origin within the state or within its external environment. If the

²⁶R. V. Burks, "The Communist Politics of Eastern Europe," Ibid., pp. 300-01.

²⁷Karl Deutsch, "External and Internal Political Relationships," Barry Farrell, ed., Approaches to Comparative and International Politics, Evanston, Northwestern University Press, 1966, p. 14.

behaviour sequences are deliberately fashioned, the outputs and inputs are 'direct' and, if the patterns are unintentional the outputs and inputs are 'indirect'. Also, an output can originate in the national political system or its external environment.

According to Rosenau there are six subenvironments of the international political system that might generate or receive outputs and inputs for a national system. They are: 1) The Contiguous Environment; 2) The Regional Environment; 3) The Cold War Environment; 4) The Racial Environment; 5) The Resource Environment; and 6) The Organizational Environment.

The Contiguous environment constitutes any group of countries that border a given country. The Regional environment extends to the entire region a given country is located in. The concept is flexible in that its referent depends on whether geographical, historical, cultural, or religious variables are used as the basis of delineation. The Cold War environment delineates the political or ideological bloc, a country is associated with or belongs to and is also referred to as the Great Power environment. The Racial environment includes all those expectations, trends, and conflicts external to relations between racial or ethnic groups. The Organizational environment includes all external organizations (like the United Nations) that have a

structure and personnel.²⁸

Of special concern for this study is the Resource environment. This subsystem includes all the activities through which goods and services in the external world of any country are created, processed, and utilized. "Goods" refer to non-human resources like food-stuffs and advanced machinery, while human resources include such things as the education of youth and the training of bureaucrats. However, as Rosenau notes, "it is the activities that result in the utilization of goods and services, and not the goods and services themselves, which comprise the resource environment...' it is the activities in the environment which permit, foster, limit, or prevent usage by the polity of given resources that can become linked to activities within it and which thus constitute this subenvironment."²⁹ For the purpose of clarity it should be noted that Rosenau's reference to polity is meant to separate the national political system from the societies of which they are a part, the former being referred to as polities.³⁰

²⁸Rosenau, Linkage Politics, pp. 60-63.

²⁹Ibid., pp. 62-63.

³⁰Ibid., p. 45.

Since international-national linkages are conceived to occur exclusively among humans, the Resource environment consists of regularized activities that determine the use or non-use of goods such as attempts to acquire any capabilities that will facilitate the conduct of foreign policy. For the purposes of this study we shall be more restrictive by focusing on oil-related events of OPEC.

International-national linkages can be identified as being penetrative, reactive, emulative, or fused in make-up. A penetrated national political system is characterized as "one in which nonmembers of a national society participate directly and authoritatively, through actions taken jointly with the society's members, in either the allocation of its values or the mobilization of support on behalf of its goals."³¹ A reactive process results from boundary-crossing reactions made within the political unit. The process is perceived by Rosenau to be the most frequent form of linkage, since it arises from joining both direct and indirect outputs to their respective inputs.³² Emulation entails linking indirect outputs and inputs, so that the behaviour is undertaken independently of those who emulate it. Rosenau states

³¹James Rosenau, "Pre-theories and Theories of Foreign Policy," Farrell, p. 65.

³²Rosenau, Linkage Politics, p. 46.

that the post-war spread of violence, nationalism, and aspirations to rapid industrialization and political modernization are the more striking instances of linkages through emulation.³³ Fused linkages constitute a situation in which certain outputs and inputs continuously reinforce each other. Thus, a fused linkage is one in which the pattern sequence of behaviour does not terminate with the input. As Rosenau states, "a fused linkage is conceived to be a sequence in which an output fosters an input that in turn fosters an output in such a way that they cannot meaningfully be analyzed separately."³⁴

Rosenau brings all the variables contributing to international-national linkages together in a matrix which combines different features of the national political system on the one hand and different types of subenvironments on the other. One axis identifies different actors, attitudes, institutions, and processes which are central features of the national political system; the other axis identifies the six subenvironments which help form the linkages (see Figure 1.1). This matrix provides a starting point for "identifying points at which the two types of

³³Ibid.

³⁴Ibid., p. 49.

A PROPOSED LINKAGE FRAMEWORK							
ENVIRONMENTAL → POLITY ↓ OUTPUTS AND INPUTS		The Contiguous Environment	The Regional Environment	The Cold War Environment	The Racial Environment	The Resource Environment	The Organizational Environment
Actors	1. Executive Officials	C	C	C		B C	B C
	2. Legislative Officials	C	C	C		B C	B C
	3. Civilian Bureaucrats	C	C	C		B C	B C
	4. Military Bureaucrats		C	C		C	C
	5. Political Parties	C	C			C	C
	6. Interest Groups	C	C			A B C	A B C
	7. Elite Groups					C	C
Attitudes	8. Ideology		C			A B C	C
	9. Political Culture					C	C
	10. Public Opinion	C	C	C	C	A B C	C
Institutions	11. Executive					C	
	12. Legislatures					C	
	13. Bureaucracies					C	
	14. Military Establishments					C	
	15. Elections					C	
	16. Party Systems					C	
	17. Communications Systems					C	
	18. Social Institutions					C	
Processes	19. Socialization and Recruitment					C	
	20. Interest Articulation					C	
	21. Interest Aggregation					C	
	22. Policy-Making					C	
	23. Policy-Administration					C	
	24. Integrative-Disintegrative					C	

Linkage A: refers to the pre-1968 period. Prior to the 'Declaratory Statement of Petroleum Policy in Member Countries', relations between OPEC countries and the United States national political system took the form of indirect outputs from OPEC. The linkages that existed were the result of OPEC-international oil companies relations; the oil companies were almost totally U.S. owned. Thus, any impact OPEC had on the U.S. political system was through American public opinion, or the oil companies as an interest group. The ideological linkage arises out of the contention that the major member countries of OPEC, i.e. Saudi Arabia and Iran, were ideologically anti-communist as was the U.S.

Linkage B: The period following the Declaratory Statement and lasting until the October War is one in which outputs from OPEC are directed towards the oil companies, but at the same time the national decision-making systems of the western industrial countries and their internal environments are acutely aware of OPEC as an "international organization" which is viable. During this period a series of sub-committees in the U.S. political system became aware of an impending oil crisis if U.S. foreign policy regarding the Middle East was not altered. The ideological link between Saudi Arabia and the U.S. became strained during 1973.

Linkage C: The period following the October War is one marked by a recognition of the vulnerability of a number of Western industrial countries to OPEC unilateral actions. The vulnerability of Western Europe and Japan had dramatic effects on the U.S. perception of a number of issues. Thus, there was a spillover which took place from the U.S.'s resource environment onto other subenvironments. The degree of dependency of the NATO alliance on Middle East oil affected the U.S. attitude towards its regional environment. Public opinion during this period became anti-OPEC. The over-riding significance of the period, as noted in the framework, is the impact of OPEC actions on other U.S. subenvironments other than the resource environment.

Source: Adapted from Rosenau's framework; James Rosenau, ed., *Linkage Politics, Essays on the Convergence of National and International Systems*, New York, The Free Press, 1969, p. 52.

Figure 1.1
United States - OPEC Relations

systems overlap and of precipitating thought about the nature and scope of the phenomena that fall within the area of overlap."³⁵

Applying the foregoing framework this study proposes to analyze the capability of OPEC as a group in its control over the following set of events: 1) the prevention or instigation of a major war; 2) redistribution of political powers and wealth in favour of a particular group of nations; 3) settlement of a conflict; and 4) cooperation between groups of nations on particular issues. If OPEC exercises controls over these events which are all political in nature, it can be argued that at a particular moment and under certain circumstances, OPEC is a political actor performing political functions in the international system, though it was initially conceived as an economic organization.

³⁵Ibid., p. 44.

CHAPTER II

OPEC - A HISTORICAL REVIEW

The OPEC-related events, beginning with the 1968 "Declaratory Statement of Petroleum Policy in Member Countries" signalled the consolidation of OPEC and at the same time the application of an assertive attitude toward the international oil companies. It should be noted that the oil companies are international in the sense that they operate internationally; but the main base for five of seven of the companies is in the United States. The pricing negotiations that took place with the oil companies, as will be shown, eventually reached a point where OPEC member countries were dictating the course negotiations would take. Raymond Vernon has determined that there were two basic elements that accounted for the apparent growth in the bargaining strength of OPEC member countries. The first was the increase in the number of companies bidding for oil. The second was the increase in the ability of the oil-exporting countries both to collect and interpret the information that affected their negotiating position, a function of their increasing involvement in the world economy.¹ In

¹Raymond Vernon, The Oil Crisis, New York, W. W. Norton & Company, Inc., 1976, p. 8.

order to appreciate the changing form of OPEC outputs we must be fully aware of the influence exerted by environmental factors on the operation of the organization in the international system. The following historical review will help to clarify the changing perceptions of the organization.

From a purely economic standpoint, OPEC represents a unilateral action on the part of a group of sovereign nation-states to manipulate a market in order to reap fully the benefits of a non-renewable resource. Article 2 of the OPEC Statute emphasizes clearly that the organization is to perform an economic function.

- A. The principal sum of the Organization shall be the co-ordination and unification of the petroleum policies of Member Countries and the determination of the best means for safeguarding their interests, individually and collectively.
- B. The Organization shall devise ways and means of ensuring the stabilization of prices in international crude-oil markets with a view to eliminating harmful and unnecessary fluctuations.
- C. Due regard shall be given at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries; an efficient, economic and regular supply to consuming nations; and a fair return on their capital to those investing in the petroleum industry.²

²The Statute of the Organization of the Petroleum Exporting Countries (OPEC), Article 2.

At the same time decisions made by the organization as a whole, in groupings, or individually, have had profound international political implications.

Before proceeding with an analysis of the events beginning in 1968 it would be beneficial to trace the development of the role of oil in the international system as far back as the post-Second World War period. Dankwart Rustow describes the international system during this period as one dominated by a burgeoning energy market:

In the quarter-century after World War II, the economies of the non-Communist countries of the world, particularly the United States, Japan, and Western Europe, experienced an upsurge of unprecedented magnitude. International trade expanded fivefold, the world's gross domestic product tripled, as did energy consumption.³

After 1945, the United States, which was the centre of power in the Western industrial world, allocated to the international oil companies the job of securing a continuous supply of oil to sustain the rapid industrial growth rate of the Western industrial countries. The 'Seven Sisters'⁴ were to negotiate the rate of production and the

³Dankwart Rustow and John Mugno, OPEC Success and Prospects, New York University Press, 1976, p. 9.

⁴Term popularised by Enrico Mattei, head of the Italian State Oil Company during the 1950's, cited in, Anthony Sampson, The Seven Sisters, The Great Oil Companies and the World They Made, New York, The Viking Press, 1975, pp. 5-8.

rate of supply with the producer countries, particularly Saudi Arabia. The United States was thus leaving the running of the oil concessions vital to the whole of the Western industrial world, with its vast political implications, in the hands of non-political actors.⁵ Although this policy may seem rather odd, it is understandable if the dichotomy of American foreign policy in the Middle East is taken into consideration. In fact, two opposing American policies, support for the State of Israel, which was critical for honour and votes and support for Saudi Arabia which was critical for oil, were at odds. The American Saudi government felt that United States support of an influence on Saudi Arabia could be maintained through the international oil companies. It was postulated by the United States government that, through continuing consultations with the State Department, the international oil companies would be able to co-ordinate their efforts in negotiations with the producer governments so that the companies' economic interests would not deviate from the political interests of the American government.

During the 1950's the international oil companies took a series of unilateral actions concerning the 'posted

⁵Neil H. Jacoby, Multinational Oil, New York, Macmillan, 1974, p. 40.

price' of oil,⁶ the result being a situation in which the producer countries were not always certain as to the exact amount of income they would be receiving from oil royalties. In response to the continued unilateral actions taken by the oil companies, the oil producing countries established OPEC operational. The idea of oil-producing countries joining within the framework of such an organization was not a thought which came overnight. A blueprint of an organization had been present in the minds of the founders of the Arab League in 1945; and the Venezuelans and Iranians had similar plans. What was lacking was the spark to bring the various groups together.

In 1960, a cut in the posted price of Saudi oil placed the Saudi Arabian government in a precarious position. Just as the country was embarking on some costly but necessary development projects, the country's income was

⁶The international posted price is the price at which a crude oil producer is prepared to sell crude to all comers, based on an assessment of the value of the petroleum, replacement and opportunity costs to the buyers. This price is visible to both the general public and host producing countries who derive taxes and revenue from petroleum resources. A competitively significant price is the actual transaction price (real posted price) of oil delivered to refiners in consuming countries. This price is individually negotiated on the basis of a specific package of attributes: a particular type of crude oil; a f.o.b. price per barrel at port of origin; a transportation charge per barrel; a schedule of deliveries and specified terms of payments. Karen a. Mingst, Measuring The Effects of Policy Interventions By International Economic Institutions On Commodity Prices, presented to: International Studies Association, St. Louis, March 17, 1977, p. 14.

drastically slashed.⁷ Thus, the largest of the oil producing countries, Saudi Arabia, was pushed into a position which necessitated joining with other oil producers in forming a producers' organization. It was postulated by the Saudi government that if it was to have some degree of control over actions taken by the international oil companies, then it would be required to join with other host governments in forging an effective instrument of pressure. While much credit is given to the Venezuelans in formulating OPEC,⁸ undoubtedly, it was the Saudis who led the move to form an official association. The makeup of OPEC emphasizes the various social and economic differences which had to be overcome in the formation of the organization. (See Figure 2.1; also, Appendix I) This historical development of the organization shows that it is more than merely an economic co-ordinating body for, in fact, it performs major political functions.

A. The "Declaratory Statement Of Petroleum Policy
In Member Countries"

Functionally, OPEC's formative years were devoted to

⁷Don Peretz, "Energy: Israelis, Arabs, And Iranians", Bard O'Neill and J. S. Szyliowicz, (eds.), The Energy Crisis and U.S. Foreign Policy, New York, Praeger, 1975, p. 90.

⁸Z. Mikdaski, "Cooperation Among Oil Exporting Countries with Special Reference to Arab Countries: A Political Economy Analysis", International Organisation 28 (Winter 1974), p. 6.

organizational matters, and to the development of an assertive attitude towards the international oil companies. By its very formation OPEC froze oil prices at the post-August 1960 level. OPEC thus succeeded in reacting against the oil companies "...managerial prerogative of unilateral and arbitrary adjustment of crude oil prices."⁹

Membership In OPEC

<u>Country</u>	<u>Date of Admission</u>	
Algeria	July, 1969	Full Member
Ecuador	November, 1973	Full Member
Gabon	November, 1973	Associate Member
Indonesia	September, 1962	Full Member
Iran	September, 1960	Founder Member
Iraq	September, 1960	Founder Member
Kuwait	September, 1960	Founder Member
Libyan Arab Republic	June, 1962	Full Member
Nigeria	July, 1971	Full Member
Qatar	January, 1961	Full Member
Saudi Arabia	September, 1960	Founder Member
United Arab Emirates	replaces Abu Dhabi as Member of OPEC, is a federation among seven Trucial Coast Arab Shaikhdoms the most important and richest of which are Abu Dhabi and Dubai.	Full Member

Figure 2.1

⁹Nadim Pachachi, "The Role of OPEC in the Emergence of New Patterns in Government Company Relationships," a lecture delivered at the Royal Institute of International Affairs, London, 19 May 1972, cited in Abdul Amir Kubbah, OPEC, Past and Present, Vienna, Petro-Economic Research Center, 1974, p. 38.

The first major achievement resulting from the desire for a positive approach to the problem of the international oil industry was the "Declaratory Statement of Petroleum Policy in Member Countries,"¹⁰ issued in June 1968 (Resolution 90). The Statement set out broadly agreed upon principles encompassing a wide range of key topics. Fuad Rouhani acknowledges that the chief consideration upon which the principles of the Statement were built concerned the finite reserves of oil available for exploitation.

Petroleum is one of the principle sources on which member countries rely for achieving their economic development. It is exhaustible and its proper exploitation in accordance with the universally recognized right of permanent sovereignty of peoples over their natural resources must be so undertaken as to secure the greatest possible benefit for member countries.¹¹

Generally, the Declaratory Statement incorporated an amendment of several points of the original Statute of OPEC. At the same time it set out new objectives which were probably not part of the thought processes evident in the objectives set out in 1960. These new policy guidelines or recommendations (they were not mandatory) included a call for

¹⁰OPEC, Annual Review and Record, Vienna, 1968, p. 17.

¹¹Fuad Rouhani, A History of OPEC, New York, Praeger, 1971, pp. 252-253.

the proper "Mode of Development." Member governments were to, as far as possible, explore and develop their own hydrocarbon resources. If this was not possible, the government of the member country concerned was to, if desired, enter in direct contracts with the oil companies. The government of the OPEC member country was to seek, throughout the negotiation process with the concerned oil company or companies, to maintain the greatest possible measure of participation and control.

In practice, some member countries directly nationalized the oil operation in question, for example, Iraq and Libya practised direct nationalization, while other governments negotiated 'percentages' of participation with each oil company in question. Coupled with the idea of participation in the operation of the oil industry, the member countries of OPEC were also concerned with the posted or tax-reference prices of oil. It was not enough to just bring about a stabilization of oil prices at a low level - prices had to be determined by the producer government and were to be compensated by increases in inflation (in relation to the prices of manufactured goods traded internationally). The breakthrough in the price stalemate came about with the emergence of a seller's market beginning in the latter part of 1970. Thus, the principles embodied in the Declaratory Statement were aimed at expanding the government's control over production and to maximize the revenues

accruing to them. At the same time it was acknowledged to the international system that the roles acted out by the various actors in oil-related matters were obsolete and that changes in functions carried out were being demanded. The Declaratory Statement showed OPEC to be a viable interest group.

B. Equity in Prices and Participation -
The 1970's Seller's Market

The moderate achievements made by OPEC during its formative years were due to a condition of surplus productive capacity. "Most of OPEC member countries were too obsessed with the notion of maximizing the volume of their output to give any serious thought to the maximization of per barrel income."¹² This situation created a reluctance on the part of member countries to encourage a confrontation with the international oil companies. However, due to a variety of environmental factors, a market situation developed which called for immediate action by OPEC to compensate for the years of relative inaction. The factors leading to the changing market situation were the firming up of oil prices following the 1969 Arab-Israeli War, closure of the

¹²Kubbah, pp. 51-52.

Suez Canal, closure of Aramco's Tapline,¹³ and a partial Arab embargo on oil exports to selected countries as a result of government stances during the 1967 War. Two historical events of the organization - the 'pricing' negotiations with the oil companies which consequently led to the Tehran¹⁴ agreement and the Tripoli agreement,¹⁵ and the 'participation' negotiations with the oil companies must be mentioned to clarify the importance of environmental factors on the functioning of OPEC.

At the Twenty-first Conference (Caracas Conference), in December 1970, a resolution (XXI.120)¹⁶ was adopted on a

¹³Aramco - The group of American oil companies operating in Saudi Arabia under the name - Arabian-American Oil Company. Its original shareholders included Standard Oil of New Jersey, Standard Oil of California, Texaco, and Mobil. The Saudi Arabian Government has acquired an increasing percentage of the shares of that company. The Arabian American Oil Company's trans-Arabian pipeline used to transport Saudi oil across the desert to tankers on the Mediterranean Sea. Sampson, pp. 98-99.

¹⁴An agreement reached between the international oil companies and the Arab-Persian Gulf member group on 14 February, 1971. Incorporated in the agreement was an increase in the 'posted' price of oil and a provision for future increases in response to inflation and to the rising demand for oil.

¹⁵An agreement between Libya and the oil companies, signed 2 April 1971. Terms agreed upon were similar to those of the Tehran agreement. Libya negotiated for itself but its successes could, if desired, be adopted by the other members of the Mediterranean group.

¹⁶OPEC, Annual Review and Record, Vienna, 1970, p. 21.

unified strategy vis-a-vis the international oil companies concerning prices. The adoption of Resolution XXI.120 was not self-motivated, it was in reaction to Libya's dealings with the international oil companies (Libya's actions are discussed further on in this chapter). As Marwan Iskandar comments,

...there is little room for doubt that Libya's success started the snowball rolling and led to Resolution XXI.120 and consequently the Tehran and Tripoli agreements.¹⁷

The Caracas Conference concluded that negotiations with the oil companies would commence on a regional basis. The militant ideological stances of Libya and Algeria made it impractical and potentially dangerous to the unity of OPEC to establish OPEC-wide negotiations. Similarities of 'geographical location and other conditions' was the criterion used in establishing the following negotiating groups: Arab Gulf-Iran, Iraq, Saudi Arabia; Mediterranean-Algeria, Libya, Saudi Arabia, Iraq; and Venezuela, Indonesia. The reference to Arab Gulf, in contrast to Persian Gulf, was meant to satisfy the nationalist feelings of the Arab states, the duplication of Saudi Arabia and Iraq follows from their access, by Tapline pipeline, to the Mediterranean Sea. Indicative of the mood at the Conference was the threat of unilateral

¹⁷ Marwan Iskandar, The Arab Oil Question, Aleph, Beirut, 1973, p. 19.

action, as incorporated in Resolution XXI.120, if the oil companies failed to co-operate in the pricing negotiations. The first group to enter into negotiations with the oil companies was the Gulf group. Attempts by the oil companies to intimidate the producer proved fruitless, for the producing countries showed a solidarity which could not be broken. Realizing the assertive attitude of the producing countries, by the time of the Tehran Conference, February 1971, the oil companies were ready to sign an agreement. The terms of the agreement between the Gulf States and the companies was not binding on the other negotiating groups.

The Mediterranean negotiating group, with the moral backing of the rest of OPEC, bargained on its own. Saudi Arabia and Iraq, the two Eastern Mediterranean exporters, and both signaters of the Tehran Agreement, left Libya as the chief negotiator for the group. As the largest producer in the Mediterranean region, Libya had the most to gain or lose through negotiations with the oil companies. By April 1971, Libya and the oil companies had come to terms regarding oil 'prices' - the Tripoli Agreement. The agreement was intriguing in that the terms negotiated were binding only on Libya, the other members of the Mediterranean group could reject the terms as not binding on them; all parties to the negotiations accepted the terms of the Tripoli Agreement.

Venezuela and Indonesia were not at all affected by

the pricing negotiations. As Rouhani comments,

At a time, in the early years of OPEC, when certain member countries believed that to increase their oil revenues they ought to pay attention primarily to raising their production volume, even at reduced price levels, Venezuela strongly opposed this view and pleaded in favor of the opposite policy of curtailing (prorating) to induce a rise in unit price levels.¹⁸

This attitude came about as a result of Venezuela's recognition that its reserves were limited in relation to the vast reserves of the Middle Eastern producers. Two days before the convening of the Caracas Conference, Venezuela unilaterally imposed an income tax increase on extracted oil.

Indonesia was exempt from the decisions of OPEC because of its special position vis-à-vis Resolution XXI.120. In 1960, with the implementation of the Indonesian Petroleum Law, the Indonesian government established a working relationship with the oil companies exploiting its oil in the form of a contractorship to the state agency. Thus, all petroleum operations were placed under the direct control of the government.

The other important event, prior to October 1973, was the call by the OPEC member countries for participation in the management of the oil companies. With the development of an assertive attitude on the part of OPEC and the emergence

¹⁸Rouhani, p. 27.

of a healthier bargaining environment, the demand for participation in the management and control of operating countries could no longer be resisted. Kubbah suggests that

This demand stemmed from the conviction that such direct participation would reinforce and render more effective the member countries' right of permanent sovereignty over their petroleum resources.¹⁹

At the Twenty-fourth Conference, July 1971, Resolution XXIV.135²⁰ was adopted. Utilizing the 'Declaratory Statement of Petroleum Policy in Member Countries' (embodied in Resolution XVI.90) as a framework this resolution concluded that the member countries of OPEC should take measures towards the effective implementation of the principle of 'participation on the operation of existing and future oil concessions. The negotiation processes proved to be laborious and time-consuming. The OPEC member countries, which felt confident of victory, decided to implement a similar strategy vis-a-vis the strategy used in the 'pricing' negotiations with the oil companies. In an attempt to counter the 'divide and conquer' approach of the OPEC group, the companies decided to hammer out a common strategy. They agreed on broad principles, including the percentage of participation they would

¹⁹Kubbah, p. 77.

²⁰OPEC, Annual Review and Record, Vienna, 1971, pp. 37-

concede to each OPEC member country. Joint crude supply and sharing arrangements amongst the oil companies were also agreed upon in the event of a possible confrontation with OPEC member countries.

Negotiations on behalf of the Gulf States were carried on by Saudi Oil Minister Yamani. The first series of negotiations proved to be slow and uneventful. The slowness of the talks resulted in the intervention of Saudi Arabia's King Feisal, who issued Royal messages in February and July of 1972, threatening the oil companies with unilateral action on the part of the OPEC oil producing countries if the oil companies did not act responsibly in the negotiation process.²¹ By October 1972 a "General Participation Agreement" was negotiated. The agreement set forth a general framework within which individual 'implementing' agreements would be concluded with each Arab Gulf State on an individual basis. The absence of a mention of Iran in the agreement was due to the fact that Iran had dropped out of the Gulf group on the grounds that participation was not relevant, as it had nationalized its oil industry in the 1950's. However, as Fuad Rouhani, a former Iranian member of the Board of Governors of OPEC, points out that,

²¹Middle East Economic Survey, Beirut, 15, 18
(18 February 1972) p. 1, 15, 38 (14 July 1972) pp. 1-3.

In fact the agreement of 1954 was only an application of the already-established regime of 50-50 profit sharing.²²

The Iranian government was in fact negotiating a separate deal with the oil companies operating in Iran. The deal would yield, as a minimum, the benefits that the other Gulf producers would obtain from their concessionaries. The reaction to terms negotiated by Yamani was varied among other OPEC member countries. Libya and Algeria were bent on securing better terms. Venezuela accepted the terms reluctantly, for it had requested stronger terms. Nigeria demanded an immediate one-third interest. Indonesia was excluded because of its contractual based industry.

These developments, coupled with the politicization of recent unilateral actions initiated by OPEC, can be attributed to two overt political incidents - actions taken by the 'Revolutionary Council' government of Libya in 1970 and the 1973 Arab Oil Embargo imposed by OAPEC.

C. Oil, As Defined By Mumar Ghadaffi

The dramatic shifts in the established relationships between the oil-exporting countries of OPEC and the oil companies, and ultimately the Western industrial consumer states

²²Rouhani, p. 49.

developed partially out of actions initiated by Libya in the period 1970-1971. Due to the events acted out in Libya, OPEC moved from a position as a purely defensive mechanism to that of initiator of actions. The events acted out in Libya were so profound in their impact that they stunned the established ranks of OPEC and broke up the ranks of the international oil companies.

Changes in the domestic political structure of Libya, resulting from the deposing of Idris by young army officers, served to set the stage for the coming changes. There now existed a genuine belief that oil should be used as a tool with political attributes, in particular, in the struggle with Israel. Anthony Sampson feels that Libyan army officers, led by Mumar Ghadaffi,

...saw oil in the simplest terms, with none of the sophistication of the Shah or Yamani, but with a directness which was to dispel the mystique of the sisters, and revive the whole confidence of OPEC.²³

The events leading up to Libya's actions can be attributed to the disruption of the buyer's market in oil caused by the 1967 Arab-Israeli War. At the same time, the war served to underline the latency of European vulnerability to events in the Middle East, and the increased

²³Sampson, p. 211.

dependence on Libyan oil. The geographical location of Libya in relation to Europe made its oil desirable while the closing of the Suez Canal reinforced this desirability. By 1969, Libya was supplying a quarter of Western Europe's oil requirements. The Nigerian Civil War (Biafra War) had negated Nigeria as a reliable source.

After deposing Idris, Ghadaffi's government told the twenty-one oil companies operating in Libya that, unless they agreed to raise oil prices, Libya would take unilateral action. The atmosphere in which the 'revolutionary' Libyan government acted was one of self-confidence. The government recognized the 'deceiving' manner with which the oil companies operated. At the same time, the government fully understood the workings of the oil business for Prime Minister Suleiman Magkrabi had worked briefly as a lawyer for Exxon. The demands put forward by Ghadaffi in the confrontation with the oil companies received tacit support from the American State Department. Jim Akins, the department's oil expert, was concerned about a possible forthcoming energy crisis and he advocated a coming to terms with Libya, by the oil companies. Resistance by Exxon, whose major interests lay outside Libya, to raise oil prices for Libyan oil by the amount requested by the Libyan government negated a settlement.²⁴ Ghadaffi replied by striking back at a small independent oil

²⁴Ibid., p. 212.

company, Occidental, which was almost totally dependent upon Libya for its oil. Within months various independent oil companies had negotiated terms with the government and the ranks of the oil companies had been broken. Essentially, the breaking-up of ranks - 'a common front' - resulted from Exxon's refusal to guarantee Occidental an alternative source of oil if Libya cut Occidental off. An attempt by the major oil companies to elicit support from the Western industrial governments in their confrontation with Libya proved fruitless. There was a lack of preparedness among the European governments to risk any cutting-off of Europe's oil supply. Thus, with the growth of the independent oil companies and national oil companies, coupled with the reluctance of the Western industrial governments to support the oil companies, the majors were no longer in a position to dictate their wishes upon host governments, as occurred in Iran in 1954.²⁵

The Libyan success had a 'snow-balling' effect with Algeria, Iraq, Iran, and Kuwait immediately demanding tax rate increases. In fact, as Kubbah points out,

The Libyan success was an embarrassment to other OPEC countries. It rendered further silence almost impossible.²⁶

²⁵See George W. Stocking, Middle East Oil, A Study in Political and Economic Controversy, London, The Penguin Press, 1970, pp. 152-180.

²⁶Kubbah, p. 54.

Ironically, the emergence of a seller's market coincided with the Libyan success. By the time of the 1970 Tehran meeting the member countries of OPEC were in a mood which extolled an air of self-confidence. The Tehran meeting marked a complete reversal for the oil companies from their first attitude toward OPEC ten years previous at OPEC's inception. Then, the oil companies were refusing to recognize OPEC's existence; now they were insisting on OPEC-wide binding negotiations. Ten years previous OPEC had held that position, but now insisted on regional bargaining. Eventually, as indicated earlier, regional agreements were signed in Tehran and Tripoli.

With the signing of the agreements the oil companies exhibited weakness in not being able to collaborate with either their parent governments or among themselves. The result of this set of circumstances was a situation in which the oil companies and the oil-consuming governments blamed each other for the inability to deal collectively with the producing governments. The extent of dependence of Western economies upon the Middle East for oil supplies varied, because the more dependent a country was the less likely it was to want to create an atmosphere of confrontation with Middle East producing governments. Thus, the perceptions of the European governments deviated from the United States position on OPEC demands. The differences among the Western

governments were enough to negate an atmosphere of solidarity.

D. The 'October War' Oil Embargo

The interjection of overt political considerations into the functioning of OPEC is best exemplified by the oil embargo imposed by OAPEC. The embargo itself and the resultant price increases imposed by OPEC are dramatic examples of how interconnections between substantive issues transmit shocks throughout the global political economy.²⁷

Prior to the October War, Saudi Arabia and Libya issued warnings to the United States government concerning American policy toward Israel. With increased stridency during 1973, Feisal urged and threatened the United States not to take him or his oil for granted. In August 1973 President Sadat of Egypt flew to Saudi Arabia for discussions with King Feisal on the Middle East situation. Feisal promised Sadat that if American policy in the Middle East did not change he would restrict the increases of Saudi oil production. Thus, Egypt for the first time had oil pressure behind her diplomacy. The meeting was momentous, simply because the threatened actions were sounded out by a moderate

²⁷ David H. Blake and Robert S. Walters, The Politics of Global Economic Relations, Englewood Cliffs, Prentice-Hall, Inc., 1976, p. 225.

Arab ally of the United States. Feisal's decision to utilize oil as a political weapon was prompted when President Richard Nixon announced his intention to ask Congress for \$2.2 billion in military aid to help Israel during the October War (Yom Kippur War). Feisal had hoped that the mere threat of an embargo would push the West away from what the Arabs perceived as their pro-Israeli leanings. When it became obvious that this was not going to happen the use of the oil weapon became more acute.

Initiated as a purely political action, the success of the embargo depended on economic circumstances. The goal of the embargo was to secure Israeli withdrawal from occupied Arab Territory and recognition of the legitimate rights and aspirations of the Palestinian peoples.²⁸ The embargo was designed (like that of the 1967 Arab-Israeli War) to pressure the major consuming states, especially the United States (as the principal external support for Israel), through two processes. First, total bans on petroleum shipments were imposed on selected countries. These countries were either very vocal in their support for Israel or they directly participated in the American effort to supply Israel with arms during the October War. Second, there

²⁸Communique of Arab Oil Ministers, "Middle East Economic Survey," 17, 22 (22 March 1974), pp. 6-7.

were production cutbacks according to a country's position vis-a-vis the Arab-Israeli conflict. The impact of the war on the Arab psyche was so profound that the communique which announced the imposition of the embargo was issued in Arabic.²⁹ This procedure was unique in that communiqués for the international media were generally issued in English. The seriousness with which the Arab countries undertook the embargo was best expressed through the actions of Qatar. Qatar's total boycott of shipments to the Netherlands affected the country's economy substantially, since some thirty-four percent of the total Qatari production had gone to the Netherlands.

Farouk Sankari³⁰ suggests that the 1973 embargo was the fourth in a series of attempts at utilizing oil as a political weapon. The first event that marked the usage of the embargo was the 1948 Arab-Israeli war. The boycott was ineffective, primarily because of Western Europe's dependence on coal for the major part of its energy requirements. The embargo was again attempted in 1956. However, because of co-operation between the United States and the European

²⁹ "The Oil Masters Dictate Terms", The Times, 28 October 1973, p. 63.

³⁰ Farouk Sankari, "The Character And Impact Of Arab Oil Embargoes", in Naiem Sherbiny and Mark Tessler, eds., Arab Oil, Impact on the Arab Countries and Global Implications, New York, Praeger, 1976, pp. 265-278.

governments, an emergency oil program known as "Oil Lift to Europe" was developed, which helped to overcome the shortage incurred. In 1967 the embargo was once again implemented. The factors which contributed to the ineffectiveness of the oil weapon were that the war was during the summer when the demand for oil was at a seasonal low; and that the United States was able to maintain oil self-sufficiency and, at the same time, assist its Western European allies.

For the oil companies, as an actor in the oil embargo, there was a real crisis of identity. Aramco, for example, had to decide whether its ultimate loyalty lay with Saudi Arabia or the U.S. During the time of the embargo Aramco was ordered by the Saudi government not to supply the military machine of the United States with Saudi oil. The company was also ordered to enforce the embargo 'to the letter'; and, in fact, the future expansion of Aramco operations in Saudi Arabia was dependent upon the political stand taken by the United States government. Unless the immediate political struggle was settled in a manner satisfactory to the Arab nation-states, the existing role played by Aramco would be altered drastically. Aramco directors found themselves to be in a dilemma in that they had to carry out orders issued by King Feisal (Saudi Arabia held a fifty-one percent ownership in Aramco), even if they were in direct conflict with American foreign policy and American interests.

Negotiations between the oil companies and OPEC concerning oil prices were now in imminent danger of being confused with the question of an oil embargo. At the time of the announcement of the oil embargo by OAPEC, OPEC, through its Iranian chairman, announced that OPEC member countries were demanding a seventy percent price increase for oil. Thus the difference between OAPEC and OPEC became so blurred that several observers noted that the OAPEC cuts in exports had been announced through the Iranian chairman of OPEC.

During the OPEC negotiating sessions the oil companies talked in strict commercial terms, whereas by the time of the October War, psychologically, the Arab member countries of OPEC were in a position of mixing political and economic considerations. Another factor contributing to the aggressive attitude of OPEC was the change in the international economic environment. The terms of the Tehran Agreement had collapsed. Inflation and an oil shortage had eliminated the validity of the Tehran Agreement and had also changed the whole psychological balance of power.

The embargo, by causing a shortage of oil available to the oil market, ultimately affected the price. By December 1973, the member countries of OPEC had come to realize the extent of the power they possessed; on December 22, 1973, the 'posted price' of oil was unilaterally raised by OPEC (see Figure 2.2). The events of the period 1968-1973 - the movement towards participation, the emergence of

a seller's market, the October War - all came together to clinch the Organization of Petroleum Exporting Countries (OPEC).

OPEC - Oil prices (1963 = 100)

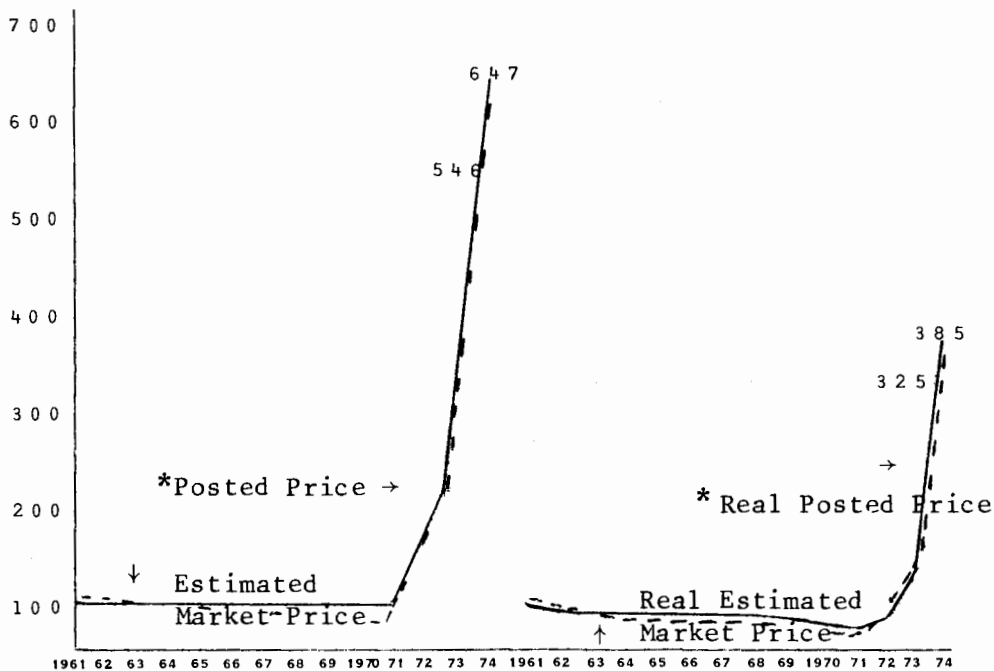


Figure 2.2

Price Increases of OPEC Oil

Source: Adapted from Energy Prospects to 1985 Vol. I. OECD, Paris, 1974, p. 114.

*See footnote number six for an explanation of the difference between the posted and real price of oil.

CHAPTER III

THE INTERNATIONAL POLITICAL IMPLICATIONS OF OPEC AND OAPEC ACTIONS

The unilateral quadrupling of the price of oil by OPEC in the early part of 1974, and the concurrent cutback in oil production and the oil embargo imposed by OAPEC in the latter part of 1973 caught much of the Western industrial world off guard. In fact, the Western industrial countries suddenly became aware of just how dependent they were, and still are, upon Latin American, Asian, African, and particularly Middle Eastern nations for their supply of oil (see Appendix I for profile of OPEC member countries). Coupled with this was a situation where particular member countries of OPEC like Libya could not absorb the petro-dollars which they began accumulating at an increasing rate in 1970 (Figure 3.1 indicates that Saudi Arabia, Abu Dhabi, Kuwait, Qatar, and Libya are countries that have a limited absorptive capacity). The ramifications of the events involving OPEC and OAPEC were such that established relationships in international politics were to be severely disrupted.

First, the increased petro-dollar reserves of the member countries of OPEC allowed the respective governments

		1973	
		Population (millions)	Proven Reserves(1) (billion barrels)
<u>Group I:</u>	Saudi Arabia	8.00	132.0
	Abu Dhabi	0.12	21.5
<u>Group II:</u>	Libya	2.13	25.5
	Kuwait	0.94	64.0
	Qatar	0.18	6.5
<u>Group III:</u>	Algeria	13.80	7.6
	Iran	31.90	60.0
	Iraq	10.40	31.5
	Indonesia	125.00	10.5
	Nigeria	73.60	20.0
	Venezuela	11.3	14.0
<u>TOTAL (4)</u>		277.47	393.1

Figure 3.1

Revenues and Absorption Capacities* of
Selected OPEC Member Countries

* Although a highly technical term, for the purposes of this study, "absorption capacity" will simply refer to the capacity of an exporter country to absorb oil revenues into its own economy.

- Group I: countries with ample reserves and a limited absorption capacity.
- Group II: countries with limited reserves and a limited absorption capacity.
- Group III: countries with limited reserves and a large absorption capacity.

Adapted from: Energy Prospects to 1985 vol. II, OECD, Paris, p. 113.

to alter their perception of, and their role in, the international political system. At the same time it must be realized that the economic policies of the member countries are both shaped and constrained by political objectives. For example, since the Arab States are the dominate group within OPEC, the policies of the oil-rich member countries can not be divorced from Middle East politics, particularly the Arab-Israeli conflict.

Second, the increased revenues of petro-dollars have also given the OPEC member countries the means by which to compete with the industrial countries for the leadership of the Third World. The strategy for attaining the role is twofold, foreign aid programs and the idea of group identification.

Third, the Western consuming countries were to find themselves in a position where they would find it necessary to alter their foreign policies if they wished to contain the 'wrath' of OPEC. The framework with which the industrial countries viewed international politics, as separate from international economics, was found to be neolithic. Also, the international oil companies were no longer going to act-out the role delegated to them through the Truman Doctrine.

Finally, while the OPEC member countries presently hold a monopolistic position vis-à-vis the supply of oil to the Western industrial countries, other 'major' oil

producers are coming into being (China, Norway, Canada, and the United Kingdom). However, as Nazli Choucri points out Norway, China, and Canada are, in fact, de facto members of OPEC already for they have gained from OPEC policies and have not deviated from OPEC's price directives.¹

A. Petro-Dollars and Changed Attitudes To External Affairs - The Case of Libya

Revenue from Libyan oil has been connected with domestic political affairs in Northern Ireland, in African countries south of the Sahara desert, and in neighbouring Arab states. Changes in Libya's domestic political structure in 1970, and an excess in petro-dollar reserves altered Libya's position as an actor in the international system.

The overthrow of King Idris by young army officers in 1969 created a leadership which holds a conviction that political goals are of primary importance, even at the expense of economic gain. It is relatively easy for the Libyan leadership to maintain such a philosophy simply

¹Nazli Choucri with Vincent Ferraro, International Politics of Energy Interdependence, Toronto, Lexington Books, 1976, pp. 43-47.

because of the low absorptive capacity of its national economy. The revenue from oil has provided the means of implementing the desired policies based on an ideology encompassing Arab nationalism, a fanatical Moslem doctrine and anti-imperialism. Ironically, the economic desire for Libyan oil by European nations, following 1967, was such that the Libyans did not have to concern themselves with foresaking economic gain in favour of political convictions. The cases of alleged Libyan involvement in the domestic affairs of other nations are numerous.

During the course of the India-Pakistan War, December 1971, Libya reportedly provided American-built combat aircraft to Pakistan (American military hardware sales are no longer made to Libya). Ghadaffi based his involvement in the war on two factors. First, the military assistance to Pakistan was partly in return for past Pakistani assistance to the Arab World in its struggle with Israel.² Second, Ghadaffi is reported to have said that during the war the Soviet Union acted like an 'imperialist state' in supporting India against Pakistan, whose population like the majority of Arabs are Moslems.³

²Malcom W. Browne, "Pakistan Said to Have Got U.S./ Built Jets from Arabs", New York Times, 29 March 1972, p. 3.

³Tad Szulc, "Shift of Migs to India In War Reported", New York Times, 31 March 1972, p. 4.

Periodically, the Moslem-independence movement in the Philippines has been connected with Libya. For example, in 1972, in reference to a blockade of foreign assistance to insurgents in central Mindanao, it was implied by some Philippine military commanders that the foreign source of assistance was Libya.⁴ In an interview with Newsweek magazine, in connection with alleged Libyan support for Philippine revolutionaries Ghadaffi stated that,

In the Philippines, there is an international problem of religious oppression which is not only being treated by Libya but all Islamic countries and all African and Asian nations....⁵

In the European theatre, the accusations of Libyan involvement in the domestic affairs of a country have been made particularly in reference to Northern Ireland. The United Kingdom, in March 1972, suspended the sales to Libya of any military arms that could conceivably be re-exported for use by the Irish Republican Army (IRA). This action was a result of a seizure, off the Irish Coast, of the German vessel, Claudia, on which were five tons of

⁴"Philippine General Says Blockage Cut Aid For Insurgents", New York Times, 30 May 1973, p. 14.

⁵Arnaud de Borchgrave, "Kaddafi's 'New Look'", Newsweek, 20 September 1976, p. 59.

arms which originated in Libya allegedly destined for the IRA. The New York Times, in April 1972, reported a claim by Ghadaffi that his government financed the IRA and other liberation groups.⁶ In response, the IRA disclaimed any connection with the Libyan government. By 1976, the Libyan attitude towards Northern Ireland had taken a complete turn-around. Whereas, in 1972 Ghadaffi made reference to the 'wickedness' of British 'colonialism' in Ireland,⁷ he now emphasized that "...the IRA chapter is behind us...I believe we should drop anything that does not present us with an imperative urgency."⁸

Libyan intervention in sub-Sahara politics involves not only support for liberation movements but also a reward system based upon pro-Arab positions taken by African governments. When Chad broke-off diplomatic ties with Israel in November 1972, Libya halted arms supplies to rebels in Chad, apparently as a reward. In addition, Chad's action pleased Ghadaffi so much that he offered the government of Chad ninety-two million dollars in Libyan loans. When the Organization of African Unity (OAU) announced that it would

⁶Flora Lewis, "Qaddafi Quoted As Saying Libya Sent Help to IRA", New York Times, 21 April 1973, p. 3.

⁷Henry Tanner, "Libyan Predicts Oil Will Become Defense Weapon", New York Times, 14 May 1973, p. 1.

⁸"Kaddafi's 'New Look'", p. 60.

establish a fund for guerrilla-controlled Portuguese Guinea, the Libyan delegation pledged a half million dollar donation.⁹

In the countries of the Arab World, particularly the Sudan and Egypt, accusations are constantly reiterated that Libya is behind various plots to overthrow each respective government. Sudanese President Nimer, in May 1974, charged that the Sudan had uncovered a Libyan plot aimed at overthrowing his government.¹⁰ When confronted with alleged evidence of Libyan involvement, captured Soviet equipment with Libyan markings, Ghadaffi stated that

If I had wanted to do this, the first that I would have done was erase any trace of Libyan markings. Other governments in the area when faced with internal dissent, have now found a convenient gimmick - blame it on Libya.¹¹

Similar accusations have been put forward by Egypt and subsequently denied by Libya.

Support for the Palestinian resistance movement is taken by the Libyan government to be a sacred responsibility,

⁹"Fund To Aid Guinea Rebels", New York Times, 6 April 1974, p. 7.

¹⁰"Sudan Charges A Libyan Plot", New York Times, 12 May 1974, p. 7.

¹¹"Kaddafi's 'New Look'", p. 59.

for the national rights of the Palestinian peoples is a part of Arab nationalism. As such, while Libya may condemn aerial hijackings (like those carried out by the Popular Front for the Liberation of Palestine (PFLP) as anti-productive it does not feel that it has to be held responsible for the bad judgement of the PFLP.¹² Blanket support for the Palestinians also accounts for Libyan involvement in the Lebanese Civil War.

While the accusations of Libyan involvement in the affairs of foreign countries are almost wholly based upon circumstantial evidence, the accusations occur too often to be ignored. The rise of the military-bureaucratic oligarchy in 1969, coupled with the accumulation of excessive petrodollars, provided the ideal circumstances for Libya's role as an activist in international politics.

To understand the activities of the Libyan army regime, the Revolutionary Command Council (RCC), one has to look into the nature of the military in a post-colonial state. The coup d'etat, such as that experienced by Libya in 1969, is a recurring phenomenon in post-colonial societies of the Third World. Usually, the coup brings to power a military-bureaucratic oligarchy which runs the country through its power over the state machinery. In pre-independence days the

¹²ibid.

army was the primary means of upward social mobility for the masses, so that, in relation to the rest of society, at the time of independence, it is 'over-developed'.

In the case of post-colonial societies lacking a strong economic base, a military-bureaucratic faction takes on the role of a ruling class; such is the case of the RCC in Libya. Under colonial rule the economy of Libya, a subsistence society, was such that a strong petit-bourgeoisie capable of taking power after independence did not materialize. Hence, with the advent of excessive petro-dollars, the military assumed the role of co-ordinator of the various factions in Libyan society. When the RCC assumed control of Libya it had to work into its co-ordinating efforts the fervent Arab nationalism of the army officers. For Ghadaffi the army revolution of 1969 was the means of bringing Libya back into the Arab 'fold', to make the final break of the monarchy had positioned Libya not towards the Middle East but towards the West. The current foreign policy followed by Libya is thus one which the RCC hopes will help Libya break into the Middle East and help it become part of Arab aspirations. This is one reason why Libya, remote from the confrontations with Israel, insists on trying to influence the settlement of the conflict. Added to fervent Arab nationalism is Ghadaffi's equation of Islam as not only religion but also as politics. Political action in the world is viewed in terms of a spiritual commitment the execution of

policy as a moral crusade.

With regard to the other member countries of OPEC which had previously been of little significance in international politics, they now took on a role unequalled in history for developing nations. The new found wealth of Iran, for example, coupled with its sheer size and population, enabled this state to purchase military equipment which in turn permitted the country to emerge as a significant regional military and political power in the Arab/Persian Gulf and the Indian sub-continent. Arab nations, such as Saudi Arabia, in conjunction with their conflict with Israel, were now able to 'purchase' votes in international organizations like the United Nations. A country like Iraq which had hitherto been considered too deviant to converse with, now took on a noticeable importance.

B. Third World Leadership Challenge

The petro-dollar reserves of the member countries of OPEC, particularly the reserves accumulated following the events of October 1973, have also moved OPEC as a group into a position of being able to challenge the Western industrial countries and the communist bloc countries for the leadership of the Third World. For OPEC, the means of attaining the leadership of the Third World are two-fold - first, the utilization of foreign aid programs and second, expounding the

idea of group identification, that is advocating that all countries of the Third World have a vested interest in forging a united front against the developed world.

The term Third World, generally used to identify the less-developed countries (LDCs) or non-industrial countries of the world appears to be a misnomer when one takes into account the petro-dollar reserves of the member countries of OPEC. In terms of realizing their aspirations for economic development the OPEC countries are moving at a much more rapid rate than the non-oil developing countries. Nazli Choucri labels the less-developed countries of Africa and Asia whose terms of trade have worsened over the past two years and whose development prospects may have suffered setbacks, possibly as a result of increased oil prices, as the 'Fourth World'.¹³ George Ball puts forward a suggestion that with the OPEC price action the so-called Third World ceased to be an homogeneous group. He categorizes the less-developed countries without oil production or other lucrative exports as the Fifth World. The Fourth World consists of those nations that have achieved a considerable growth momentum, such as Taiwan, South Korea, Brazil, Israel, and

¹³Choucri and Ferraro, p. 60.

Singapore.¹⁴ While it may be difficult to arrive at a consensus with regard to categorizing the less-developed group of countries it is obvious that the Third World is no longer the homogeneous group it was once perceived to be. The actions of OPEC have created further cleavages in the international system.

The channels through which foreign aid is generally distributed by a country are national and multinational in nature and OPEC member countries have not deviated from the accepted practice. Prior to 1974 individual OPEC countries had established their own funds, the major providers of economic assistance being Libya, Kuwait, and Saudi Arabia. Libya's practice of distribution of foreign aid was discussed earlier in this study. With regard to Kuwait and Saudi Arabia the aid programs, prior to the October War, were directed primarily to Arab countries. (Kuwait has co-operated with the World Bank and has contributed to the International Development Association.) While it is acknowledged that historically Arab oil-producers' aid is concentrated to a high degree in the Arab world, given the large disparities of wealth within the Arab world, it is not surprising that priority should be given to the poorer Arab States.

¹⁴George Ball, Diplomacy for a Crowded World, Toronto, Little, Brown and Company 1976, p. 283.

Following the 1973 oil embargo a sizeable portion of OPEC oil earnings went into bilateral aid to Third World countries (see Figure 3.2). According to the OECD's (Organization for Economic and Cultural Development) Development Assistance Committee OPEC countries in 1974 spent 1.8% of their GNP on "official development assistance", as against .33% for OECD member countries.¹⁵ Changes in OPEC aid policy from bilateral to multilateral aid programs took place in 1975. In November 1975 an OPEC aid fund was established, its purpose was to alleviate non-oil Third World balance-of-payments deficits resulting from increased oil costs. At a meeting of OPEC finance ministers in Paris, May 1976, a decision was made to make available \$400 million for the International Fund for Agricultural Development, to be run by the World Food Council.¹⁶ Obviously the OPEC group wants its aid carried out by multilateral institutions rather than through the existing Western-dominated channels.¹⁷ Maurice Williams, in reference to OPEC aid programs, notes

¹⁵Maurice J. Williams, "The Aid Programs of the OPEC Countries, Foreign Affairs, 54, 2 (January 1976), p. 323.

¹⁶Facts on File, June 5, 1976, p. 389.

¹⁷"New Focus on OPEC Aid", Middle East Economic Digest, January 16, 1976, p. 8.

Country	COMMITMENTS						DISBURSEMENTS					
	Bilateral			Multilateral			Bilateral			Multilateral		
	1975*	1974	1973	1975*	1974	1973	1975*	1974	1973	1975*	1974	1973
Saudi Arabia.....	1,840.77	2,182.63	596.90	1,280.10	2,565.30	65.70	121.50	894.69	290.40	899.40	1,314.70	15.70
Kuwait.....	2,546.89	1,056.81	477.58	243.00	942.00	187.70	1,334.28	851.25	363.03	185.60	352.00	167.70
Iran.....	1,273.30	2,269.40	10.20	509.80	1,082.20	4.60	126.00	358.10	0.80	167.80	769.20	4.60
Venezuela.....	792.20	20.00	-	250.70	1,667.60	1.00	85.90	15.00	-	397.60	743.60	1.00
United Arab Emirates....	816.88	713.19	119.94	4.00	444.70	3.00	242.05	457.16	82.48	37.60	197.60	3.00
Nigeria.....	-	5.30	4.30	353.80	376.40	3.10	-	0.90	0.90	271.50	128.60	2.30
Iraq.....	318.17	492.32	112.50	0.50	48.60	37.60	6.00	389.32	3.00	7.50	78.60	0.70
Libya.....	288.45	295.14	896.45	9.20	270.50	107.40	134.45	158.35	317.65	53.50	47.90	107.40
Qatar.....	161.20	297.35	113.72	-	55.20	20.30	161.20	218.94	93.72	5.00	15.70	0.30
Algeria.....	-	6.56	23.97	-	127.70	20.60	-	5.15	23.97	-	20.40	0.60
TOTAL.....	8,037.86	7,338.70	2,355.56	2,651.10	7,580.20	451.00	2,211.38	3,343.86	179.35	2,025.50	3,668.30	303.30
Excluding IMF oil facility..	-	-	-	239.10	4,424.20	451.00	-	-	-	984.90	1,860.70	303.30

Figure 3.2

OPEC Assistance To Developing Countries And
Multilateral Institutions

*Jan-June 1975.

Source: International Monetary Fund (IMF) and United Nations Conference on Trade and Development (UNCTAD).

Source: "New Focus on O.P.E.C. Aid," Middle East Economic Survey, January 16, 1976, p. 8.

that,

Information concerning OPEC aid programs, and their effectiveness in helping less-developed countries, has been shrouded in the claims and counterclaims of the propaganda battle to influence and win the political support of non-oil developing countries. Since most OPEC governments publish only fragmentary information on their aid activities, there has been scope for such competing interpretations.¹⁸

OPEC foreign aid programs provide only a part of the over-all strategy for attaining the leadership of the Third World. The major thrust is in the form of an appeal which is based upon the assumption that both the non-oil Third World and OPEC have the same vested interest in altering the present dichotomy between the industrialized and non-industrialized worlds. Algeria's raw materials doctrine provides the ideological plank which she claims to be the desired goals of all Third World raw material producers. Hence, the need to forge a powerful alliance of the developing versus the developed.¹⁹

From the viewpoint of the non-oil Third World the Algerian proposal for a new economic order has a broad appeal. The success of OPEC in achieving a uniquely sudden and large transfer of "bargaining power" made a particularly

¹⁸Williams, p. 309.

¹⁹"OPEC bids for Third World Leadership," Canadian Business, Toronto, July 1976, p. 70.

profound impression on non-oil developing countries which are major producers of primary commodities. As a result the possibility of cartels that might attempt to emulate OPEC's success was perceived as plausible by non-oil developing countries. OPEC's success depended on objective institutional features of the world economy and on the skillful exploitation of opportunities so that any attempt by producers of non-oil raw materials to emulate OPEC are slim. Dankwart Rustow suggests that the relative place of non-oil commodities in the total pattern of world trade and finance is such that it would hardly be in their interests to risk any naked contest of economic power. "All this is to say that petroleum, even before OPEC's steep price increases, was far and away the single most valuable commodity traded in the world generally and from the Third World to the industrial nations in particular."²⁰

The successes of OPEC appear to offer the Third World a means of obtaining some kind of new international economic order through diplomacy rather than confrontation. As such, the OPEC member countries retain the requisite

²⁰Dankwart Rustow, and John Mugno, OPEC Success And Prospects, New York, New York University Press, 1976, pp. 75-76.

abilities and experience in negotiating a new international economic order. Through a process of extra-polation it could be suggested that OPEC may well take a leadership position on other issues.

C. Changes In Attitude Of Western Industrialized Countries

The major implication of the oil crisis 1973-1974 was that the industrialized countries of the West came to realize that the strategy of the major oil-exporting states is not directed so much at the oil companies, but at governments of the major oil-consuming countries. In response to the state-of-affairs created by OPEC, the United States government, in the spring of 1974, called for a conference of oil-importing countries to develop a common response to the attempts by OPEC member countries to make them pay more for oil.²¹ However, perceptions of the oil crisis varied too much from country to country to make a common response feasible. Considering that the Middle East member countries are the centre of power in OPEC relations with these member countries were of prime importance for each respective consumer country. Japan and the West European countries were

²¹ Philip Windsor, Oil, A Guide Through the Total Energy Jungle, Boston, Gambit 1976, p. 111.

dependent, to a large degree, upon Middle East oil therefore, their attitude was bound to differ from the attitude of the United States with regard to OPEC actions. The heavy dependence of the Japanese and Western European economies upon Middle Eastern oil made a hard line policy, on the part of the governments of these countries, impossible. Thus, a situation developed where the OPEC group of countries had achieved a high degree of solidarity, whereas the Western industrial countries were somewhat divided.

The Increased Importance of Bilateral Agreements

The initial response of a number of Western industrial countries to the 1973 oil embargo was to increase the number of bilateral agreements with oil-exporting countries in order to secure a continuous supply of oil. The traditional method of the negotiations system regarding the supply of oil to consumer nations was dropped. The interaction was no longer between a political actor (the governments of OPEC member countries) and a non-political actor (the international oil companies). Rather the dialogue now took place between two political actors. Thus, a new pattern of international politics emerged in which oil became a 'power' by which governmental policy could be structured. When faced with the alternatives of bilateral and of collective approaches in their relations with the oil-exporting countries, the consumers opted for the former.

Bilateral arrangements were arrived at prior to the embargo, but they did not take-on a position of primary importance until an uncertainty of supply and of price increase developed. The political objectives of a bilateral agreement are twofold: first, to maintain a continuous supply of oil which would act as a security factor in sustaining the national economy of each industrial country partaking in a bilateral agreement; and second, to develop 'special relationships' with particular producer countries. The mass movement to bilateral agreements marks an overt transformation of function for OPEC. Not only were the member countries of OPEC beginning to pursue a policy of "trade-offs," that is, offering oil in return for political concessions or for military hardware to exhibit their political power but also the consumer countries were obliged to participate in the game of trade-offs. Heavily involved in bilateral processes were industrialized countries such as France, Britain, Japan, West Germany, Italy, and Belgium.

The most aggressive industrial nation seeking bilateral agreements was France. In fact, during the negotiation process with Saudi Arabia, French Foreign Minister, Michel Jobert, in an unprecedented move, visited three Arab countries, Saudi Arabia, Kuwait, and Syria, during January 24-29, 1974. An important result of Jobert's visit was that France and Saudi Arabia came to an understanding whereby their respective Foreign Ministers would meet twice a year in order

to promote co-operation between the two countries in all fields. Jobert emphasized the French government's desire for an Arab-European Economic Community (EEC) Conference to discuss oil supplies within the context of broader Arab-European co-operation. The conviction with which the French pursued their objectives is best expressed in the attitude of Libyan Prime Minister, Major Abjul Jalloud, who, upon the conclusion of a visit to France, stated that "France is a friendly country and we shall treat her as such."²² In an arrangement negotiated with Abu Dhabi, the French government was to supply thirty-five Mirage fighter aircraft in exchange for a supply of crude oil covering the value of the aircraft. The French position regarding bilateral agreements appears to be based upon a belief that political ties could possibly yield lower oil prices.

Other European countries which established agreements with the OPEC members were West Germany and Italy. West Germany established a co-operation agreement with Iran in 1974. Italy established agreements with Iraq, Saudi Arabia, and Libya. Although political exchanges involving West Germany and Italy are not obvious it can be speculated that there is a connection between the bilateral agreements

²²"French Agreement with Libya", Keesing's Contemporary Archives, 18-24 March 1974, p. 26408.

and West European calls for Israeli withdrawal from the occupied Arab lands during the imposition of the embargo.

Japan, which had a policy of establishing bilateral agreements prior to the 1973 oil embargo, sent Deputy Prime Minister, Takeo Miki, to the Middle East in December 1973. The purpose of his visit was to secure a base for Japan in establishing future bilateral agreements. Early in 1974, agreements were negotiated with Iraq and Iran, which is Japan's largest individual supplier of oil.

The relative importance of the bilateral agreements following the oil embargo is underlined by the fact that the major consumer-industrial countries were now concerned that the international oil companies performed a dual role as a middle-man between the oil-producing and oil-consuming governments, and as a buffer between the oil-exporting countries and the industrial countries. Implicit in the 'buffer' concept was the assumption that political considerations could be kept out of the oil world. The oil embargo left the oil companies incapacitated with regard to their dual role. The two industrial countries most affected by the vacuum left by the international oil companies were Japan and the United States. For the Japanese a correlation between oil and politics was necessitated by virtue of Japan's dependence upon oil for its survival as an economic superpower. As the most powerful industrial nation in the

world the United States had to fill the vacuum left by its liaison in the Middle East, the international oil companies.

D. Japanese Foreign Policy - A Policy For Survival

OAPEC and OPEC actions during the period 1973/1974 had such an impact upon Japan's economy that a change in attitude, with regard to Japanese foreign policy, was necessitated if Japan was to survive as an economic power in the international system. Japan's three principal goals, since the cessation of the Second World War, have been to promote its prosperity, to ensure its security, and to gain recognition as a leading world power. Given the strong internal and external constraints placed upon its military forces, Japan has had no alternative but to rely upon its economic power as a means of achieving its goals and of exercising its influence in the world.²³

Deprived of natural resources essential to a highly industrialized economy the Japanese were obliged to secure foreign sources of energy. In conjunction with Western Europe and the United States, Japan placed a heavy reliance upon oil to feed its industrial growth (see Figure 3.3 for an indication of Japan's dependency upon oil to feed its

²³F. C. Langdon, Japan's Foreign Policy, Vancouver, The University of British Columbia Press, 1973, p. 191.

industrial machine). The Middle East oil countries became the major supplier of oil for Japan (see Figure 3.4 for an illustration of the relative importance of the Middle East region as a supplier of oil to the Western industrial countries). Japan soon found it difficult to separate political and economic matters in her dealings with OPEC nations. For the Japanese the mixing of political and economic matters marked a reverse from the principle of foreign policy practiced in the post Second World War Period.

	United States	European Community	Japan
1. Energy consumed per capita	8.2	3.6	3.1
2. Per cent of energy from oil	47.2	59.5	76.4
3. Per cent of oil imported	36.9	98.7	99.7
4. Per cent of energy from imported oil	17.4	58.7	76.2
5. Per cent of oil imported from Arab sources	29.4	66.0	42.0
6. Per cent of energy from Arab sources	5.1	38.8	32.0
7. Energy per capita from sources other than oil imports	6.8	1.5	0.7

Figure 3.3

Oil Imports As A Percentage of Total Energy Consumption:
United States, European Community, and Japan

Source: Adapted from D. Rustow, "Who Won The Yom Kippur and Oil Wars?", Foreign Policy, 17, (Winter 1974-75), p. 168, cited in Dankwart Rustow and John Mugno, OPEC Success and Prospects, New York, New York University Press, 1976, p. 42.

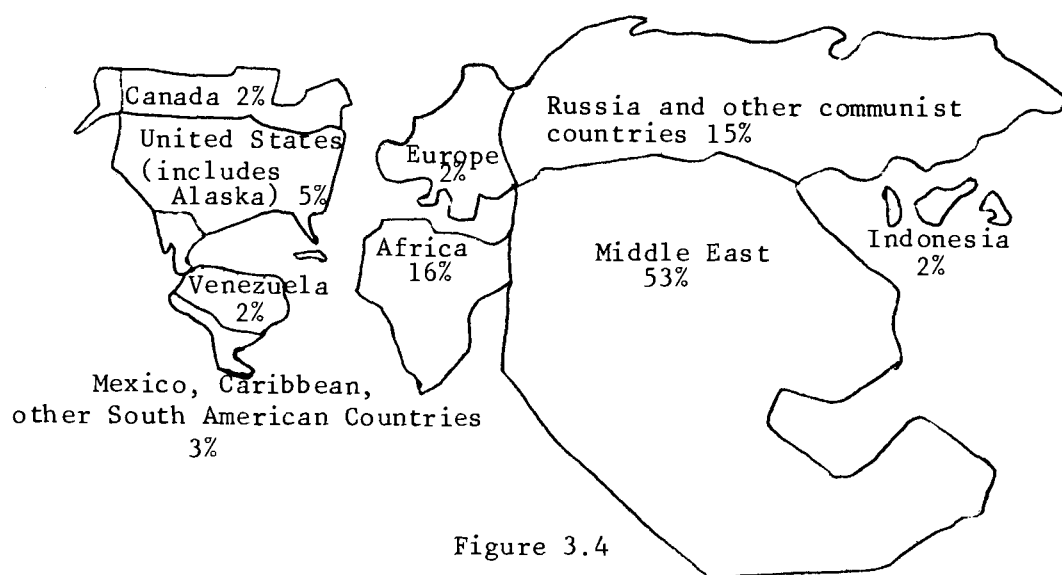


Figure 3.4
Geography of World Oil Reserves

Source: Oil and Gas Journal 1972; Exxon, 1974, cited in Naiem Sherbiny and Mark Tessler, eds., Arab Oil Impact On The Arab Countries and Global Implications, New York, Praeger, 1976, p. 246.

Post-1945 Japanese foreign policy is one which is based on a rather unusual dichotomy. Although diplomacy was utilized to secure economic ends, the Japanese government has also officially made an attempt to distinguish between political and economic matters in foreign affairs. Lacking natural resources but finding itself sustaining a large pool of skilled labour, Japan has become solely dependent upon industrial production and international trade for its economic growth. As such business has become a primary concern of the Japanese government and government policy has become a major concern of Japanese business. Thus, while Japan has officially distinguished between political and economic matter in the international system, the high degree of consultation

between the domestic economic system and the domestic political decision-making system would appear to make one skeptical of the ability of the government to make a distinction between political and economic matters in foreign affairs. Japan's foreign policy following 1945 is one characterized as being heavily influenced and directed by the United States.

During the American Occupation, Japanese governments were subject to the authority of SCAP²⁴ and had little choice but to act within the boundaries of policy directives dictated by SCAP. The 'philosophy' of the Occupation was based upon two goals - 'demilitarization' and 'democratization'. The removal of the armed forces as a factor in politics, coupled with the re-structuring of Japan's political institutions, left the Japanese little choice but to follow United States' policy in international politics. Hiroshi Itoh describes the impact of the American occupation in the following manner.

The American occupation greatly influenced the course of Japan's foreign policy even after it ended in 1952. The successive LDP administrations have followed the policy of a close relationship with the United

²⁴This abbreviation stands for Supreme Commander for the Allied Powers, the term used to designate the Occupation authorities as such.

States and its Western allies.²⁵

The 1973 oil embargo marked the overt alteration of the close relationship with the United States.

Although the Japanese government attempted to differentiate between political and economic matters in foreign affairs the member countries of OAPEC obviously made no attempt to follow suit. Thus, when OAPEC classified Japan as 'unfriendly' to the Arab cause, the Japanese were genuinely shocked. While the Japanese government publicly reacted to OAPEC actions as being unexpected, Japan was aware of the process of politicization of oil as far back as the Tehran Agreement. Discussing the approval given to oil price increases in 1974, the Economist reported that,

Some are suspicious that the Americans gave in to OPEC so readily because they see increased oil prices as a quick and easy way of slowing down the Japanese economy, whose exports were bothering Americans mightily at the time and which would be more hurt by rises in oil prices than any other nation.

It is an explanation that the Japanese themselves have undoubtedly heard and it may be the reason why they are so difficult to talk to about co-operation in a common anti-OPEC front. The Americans can argue until they are hoarse that competitive bidding for Middle East oil can only hurt

²⁵Hiroshi Itoh, ed., Japanese Politics - An Inside View, London, Cornell University Press, 1973, p. 184.

all the consuming nations, but the Japanese may still feel that higher prices will hurt them less than continued dependence on Western (mostly American) companies for their oil.²⁶

The reluctance of the Japanese government to align itself with the United States government in a united front against OPEC has its roots in the special relationship that exists between government and business in Japan. Japan's major corporations would obviously prefer not to have themselves become dependent upon the United States for arranging energy supplies, considering that American corporations are the major competitors of Japanese business. At the same time it is apparent that over the past few years the strong position maintained by American multinationals in the international system has been slowly eroded by the more rapid growth rates of European and Japanese-based multinationals.

Considering the close tie between government and business in Japan, Japanese-American co-operation in carrying out joint energy policies would put Japanese business in a very vulnerable position. After all, Japanese business goals may very well conflict with what the United States government perceives to be in its own interests.

²⁶ Leon Howell and Michael Morrow, Asia, Oil Politics And the Energy Crisis, New York, IDOC/North America, 1974, p. 55.

In a study of the role of business in Japanese politics, Chitoshi Yanaga, shows that organized business maintains an important position in political and economic decision-making.²⁷

Since economic viability is the categorical imperative, both domestic and foreign policies are formulated and implemented by the government with the full co-operation and collaboration of (and are often initiated by) organized business. Economic power, which has been shared by government and private business since the Meiji restoration of 1868, has brought the administrators and managers of private industry closer than ever.... The phenomenal recovery and growth of Japanese economy has been largely the result of the effective utilization of both state power and state funds in support of private enterprises desperately in need of working capital.²⁸

As an interest group, the major Japanese corporations have joined together in a business leader clique, 'zaikai', a term which connotes a big-business power group. 'Zaikai' also denotes the place where the desire for political power is openly expressed and gratified - that hypothetical arena in which big business influences the government, or even society as a whole, by the collective strength and "unified

²⁷ Chitoshi Yanaga, Big Business in Japanese Politics, London, Yale University Press, 1968.

²⁸ Ibid., pp. 3-4.

will" of its economic organizations."²⁹ Recognizing the importance of economic power to Japan's international standing the leaders of business, by organizing, have become the most influential interest group in Japanese politics. The power held by 'zaikai' is taken to be 'legitimate' by both the Japanese government and the Japanese people in general. The upshot is a belief that what is good for Japanese business is good for Japanese society.

Acting pragmatically, the government of Japan put into practice a policy of trading-off political concessions for oil in late 1973. When requested by unnamed Arab governments to break economic and diplomatic ties with Israel in return for 'most favoured' status for supplies of oil, Japan rejected the request. However, in a statement issued on November 22, 1973, and interpreted by the media as a move to reduce Arab hostility towards Japan, the Japanese government 'deplored' Israel's continued occupation of Arab territories. The statement included a clause where Japan, depending on future developments, "...may have to reconsider its policy towards Israel."³⁰ The new policy was far more

²⁹ Suzuki, Seiji wo Ugokasu Keieisha, p. 28, quoted in Ibid., p. 32.

³⁰ "Japan will be cornered if severance of its relations with Israel is demanded; Japan pressed to make adjustments with U.S.," Sankei, 23 November 1973; cited in Daily Summary of Japanese Press, American Embassy, Tokyo, 28 November 1973, p. 6.

inclined toward Arab nation-states than those of the past. For the Japanese government the question of Arab oil became indivisible from the Arab-Israeli conflict. This was also the first open break with American foreign policy in post-war diplomatic history that Japan had dared make.³¹

The overt changes in Japan's foreign policy revolved around an officially proclaimed position that a solution to the oil problem must be preceded by a solution to the problem of the Palestinian peoples. The public forum where the change in Japan's position was most evident was the United Nations. Policy directives for Japan's delegation to the United Nations are formulated with input from the ministries of Foreign Affairs, Finance, and International Trade and Industry, indicating that economic considerations have a major influence in policy formulation. Since the Japanese government considers the United Nations an important forum for carrying out international diplomacy any marked changes in its voting patterns at the U.N. would tend to indicate a change in foreign policy objectives.

Following Japan's admission to the United Nations in 1956 two seemingly incompatible foreign policies were adopted by the Japanese government: (1) co-operation with the nations

³¹Raymond Vernon, ed., The Oil Crisis, New York, W. W. Norton & Company, 1976, p. 124. Other possible causes contributing to Japan deviating from the U.S. foreign policy line are Nixon's 1971 famous "shocks" with reference to China-U.S. relations and, the decline of U.S. military personnel in Korea.

of the 'free' world; and (2) the promotion of Japan's national interests as part of the Afro-Asian bloc. An investigation of Japan's voting behaviour in the United Nations, by Saburo Matsumoto from Japan's entry through to 1962, indicates Japan's concurrence with the American voting bloc to be as high as ninety-eight percent as compared with forty-eight percent with the Afro-Asian bloc.³² Matsumoto concludes that during the period of his research Japan exhibited a moving away from the Afro-Asian bloc with whom she wished to strengthen relations, and a rise in concurrence with the American and West European blocs.

Insofar as Japan's voting behaviour in the United Nations reveals, Japan has apparently not put into practice her foreign policy principle of the promotion of Japan's national interests as part of the Afro-Asian bloc.³³

The vulnerability of Japan to Middle Eastern oil politics, highlighted by the 1973 Arab-Israeli War, marked the reversal of Japan's voting behaviour in the United Nations. (See Appendix V for an example of Japan's U.N. voting pattern). Foreign Minister Kiichi Miyazawa, in a speech delivered to the United Nations General Assembly, October 1975, stressed that Israeli armed forces should be withdrawn

³²Saburo Matsumoto, "Japan's Voting Behaviour in the United Nations", Hiroshi Itch, op. cit., p. 204.

³³Ibid., p. 208.

from all the territories occupied in the 1967 War and that a just and lasting peace in the region required that the legitimate rights of the Palestinians be recognized and respected.³⁴ This change in policy was quite a reversal for a country which had in previous years not participated had abstained on important U.N. issues related to the Middle East. The declarations on the Middle East, following 1973/1974 oil-related events, positioned Japan closer to France and her European neighbours than to the United States, which was seeking to separate oil from other Middle Eastern problems. On the question of observer status in the United Nations by the Palestine Liberation Organization (PLO), Japan took a pro-Arab stance. The volatile 'zionism' issue saw Japan take a position of abstention, a deviation from the Western bloc vote. The issues related to the Middle East conflict were no longer token gestures, formulated to appease the parties to the conflict, because they now took on an aura of right and wrong. Issues sponsored by Arab nation-states, which tended to be belligerent towards Israel, gained support from Japan to the awe of the United States. A Japan-PLO dialogue developed and reached a point where the PLO established an office in Tokyo, in November 1975. The government of Takeo Miki "...regarded the Palestine Liberation

³⁴"Miyazawa Urges UN Seat For All", Japan Times Weekly, 4 October 1975.

Organization (PLO) as representing the Palestinian people and was not opposed to the establishment of its Tokyo office."³⁵

The 1973 Arab Oil Embargo in its ultimate ramifications pushed Japan into assuming a more independent role in international affairs. Beyond the United Nations, a 'resources diplomacy' was being developed in conjunction with appeasement of OPEC member countries. Although alternative sources of energy are attainable in the longterm, the Japanese government is pragmatic in its decision-making. Japan's mixing of economic and political matters, with respect to oil is best expressed in the following quotation.

To safeguard this vital energy source, Japan not only eschews actions which might antagonize Arab oil exporters, but seeks to draw the exporting nations into a network of mutually advantageous diplomatic and economic interchange which neither side will be anxious to disrupt. This approach, which includes active participation in the industrialization of exporting countries, is what Japanese officials mean when they assert that oil is not merely a commercial commodity.³⁶

³⁵"PLO Office in Tokyo not opposed by Government", Japan Times Weekly, 8 November 1975, p. 3.

³⁶Edward Erickson and Leonard Waverman, eds., The Energy Question, An International Failure of Policy, vol. 1, Toronto, University of Toronto Press, 1974, p. 114.

E. Foreign Policy Review - The United States

The 1973 Arab Oil Embargo and its 'catalyst' the October War, are of primary importance in the analysis of United States foreign policy changes. The importance of the United States as an actor in international politics is such that any alteration in American foreign policy would have substantial ramifications for the total international political system. With regard to the Arab-Israeli conflict the embargo and its after-effects mark the beginning of a change in United States policy on the issue. At the same time changes have occurred in the established relationships with Western Europe, Japan, and the two communist powers China and the Soviet Union. Joseph Szyliowicz notes the dichotomy in the American understanding of the consequences of the embargo when he points out the differences in the domestic and international perceptions of the embargo.

While the impact of the embargo was readily apparent on the domestic front, where the announcement of Project Independence symbolized the new concern for energy, the nature of its impact on foreign affairs is more controversial and deserves careful examination.³⁷

³⁷J. S. Szyliowicz, "The Embargo and U.S. Foreign Policy", Joseph S. Szyliowicz and Bard E. O'Neill, eds., The Energy Crisis and U.S. Foreign Policy, New York, Praeger, 1975, p. 183.

The combined actions of OAPEC and OPEC demonstrated very well that as a part of the external environment placing demands on the American political system, the prominent member countries of OPEC, such as Saudi Arabia and Iran, moved into a position of being able to exert substantial influence. The demands placed upon the foreign policy decision-making system of the United States were such that outputs from that system were altered in order to accommodate the changed international system. United States foreign policy after the October War marked a dramatic reversal of that which had existed since 1945.

The importance of oil and of the Middle East to the United States became obvious after World War II. This is not to say that a succession of American governments did not have a world petroleum policy for the United States, for such a policy existed. It was to conserve, at higher prices, oil resources within the continental limits of the United States, while pushing production and development of secure supplies at lower prices abroad.³⁸ But it was with the advent of the cold war and the United States' obsession to contain 'international communism' that oil and the Middle East took on a position of major importance

³⁸Carl Solberg, Oil Power, The Rise and Imminent Fall of an American Empire, New York, Mason Charter, 1976, p. 173.

in American foreign policy. At odds with a policy of bringing the Arab Middle Eastern nation-states into the American sphere of influence was the 'Israeli factor'. As mentioned before, the United States ties with Israel were to be of paramount importance in Arab oil-related matters. No suggestion is being put forward that the United States support for Israel is the major element unifying the Arab oil-exporting countries, except at very specific moments of the Arab-Israeli conflict when oil became the only viable weapon available to the Arabs. The OPEC desire to alter the relations between oil states, international oil companies, and oil-consuming nation-states, so that the oil-exporters could exert more influence in the international system was the principle objective behind the efforts to bring about changes in American foreign policy. The October War provided the forum for the actions.

The need for overt changes in American policy, dictated by the role of oil in the international system, was recognized by two official investigations by the U.S. House of Representatives Committee on Foreign Affairs, dating back to 1972.³⁹ Both investigations recognized the

³⁹U.S., Congress, Foreign Policy Implications of the Energy Crisis, 92d Cong., 21, 26, 27 September; 3 October, 1972. U.S., Congress, Oil Negotiations, OPEC, and the Stability of Supply, 93d Cong., 10 April; 14, 16 May; 11 July; 6, 18 September, 1973.

interdependence between domestic energy policies and foreign economic and political policies. Remarks by Saudi Oil Minister Yamani, in April 1973, supported the contention that OAPEC energy policies and U.S. foreign policies were interwoven.

Yamani said that Saudi Arabia's fulfillment of its plan of increasing production from the present level...is still a "good possibility", provided that the United States creates "the right political atmosphere". He made it clear that he was referring specifically to U.S. policy toward Israel.⁴⁰

Although there existed a realization by the United States that the international political system was going through dramatic changes, it was not until after the 1973 October War that the United States government attempted to come to grips with the changing roles assumed by various countries in the international system.

During the early 1970's United States policy vis-a-vis Israel and the Middle East revolved around a posture that both endorsed the status quo, which favoured Israel and refrained from assuming any forceful diplomatic role to bring about a settlement and particularly, from putting any pressure on Israel to make territorial concessions

⁴⁰"Oil for U.S. Linked by Saudi to Peace", New York Times, New York, 20 April 1973, p. 7.

of significance to the Arab nation-states.⁴¹ Following the October War the United States, conscious of its dependency on Middle Eastern oil and desiring to counter growing Soviet involvement in the region, moved to a position of distributing its support much more even-handedly between the Arabs and Israelis. With the concentrated mediation efforts of U.S. Secretary of State, Kissinger, the U.S. initiated a phased process of settlement of the fundamental issues dividing the parties involved in the Middle East conflict. It also coerced Israel to give up its military gains of 1973 and some of 1967. The process of settlement began with limited military disengagements from the Suez Canal (January 1974) and on the Golan Heights (May 1974). The culmination of American efforts was the Sinai Agreement between Egypt and Israel. In contrast to previous U.S. government opposition to a direct and official American presence in the conflict, American personnel were to begin monitoring the radar system along the disengagement line.⁴² The plan deployed two warning stations operated separately by Egypt and Israel

⁴¹ See statement by Assistant Secretary of State Joseph H. Sisco before the Subcommittee of the Near East and South Asia of the House Committee on Foreign Affairs, 6 June 1973, U.S. Department of State Bulletin, 2 July 1973, pp. 29-33.

⁴² "OPEC", Keessing's Contemporary Archives, 1975, pp. 27429-27432.

and three other stations in the Mitla and Gidi Passes manned by 200 American technicians.

One possible explanation for the abrupt change in U.S. policy, with reference to the Middle East, is that the oil embargo had the full support of Saudi Arabia. Saudi Arabia represents the traditional conservative friends of the West and Middle East. If the U.S. had alienated Saudi Arabia it would have put itself in a precarious position as a voice of influence in the region. The growing strength of Arab nationalism put Saudi Arabia under enormous pressure, from within and without, when the call for an oil embargo was put forward. Realizing the possible consequences for the conservative faction in Saudi Arabia, if oil was not used as a political weapon, the U.S. reviewed and revised its policy for the region.

The marked recognition of the politicization of oil and the extent of influence of the member countries of OPEC is illustrated by the concern expressed by the Ford Administration in late 1976 that the blockage of an arms sale to Saudi Arabia by the U.S. Congress, would have an adverse effect on the Saudi position in an oil price increase proposed by OPEC in early 1977. During the controversy over the arms sale, the Saudis hinted that they would react to any blocking of the arms deal by raising the price of oil. Kissinger contended that the arms deal was essential

for good relations between Washington and Riyadh.⁴³ In the end the arms deal went through but the event does dramatize the extent of the influence exerted by OPEC member countries and the recognition of reality by the U.S. government. In the case of Iran, The Globe and Mail, reported that unnamed senior Ford administration officials wanted the United States to tell Iran that an increase in the price of oil in early 1977 would lead to reconsideration of the multi-billion dollar U.S. programme of arms sales to Iran.⁴⁴

In the realm of Western European and United States relations changes were noted during the October War. In fact, the oil-related events of late 1973 helped to bring to the fore the strained relations between Western Europe and the United States. The pre-occupation with a 'security community' dissipated with the advent of a sense of detente between the Soviet Union and the United States. Also, through the EEC (European Economic Community), Western Europe emerged as a major competitor of the United States in the international economic system.⁴⁵

The reaction of Western European governments to the

⁴³"Clout from the sheiks," The Vancouver Sun, 30 September 1976, p. 4.

⁴⁴Leslie Gelb, "U.S. may warn Iran on oil price increase," The Globe and Mail, 11 November, 1975, p. 14.

⁴⁵O'Neill and Szyliowicz, p. 186.

demands of some Arab governments for a change in policy in the Arab-Israeli conflict was such that the Arab action and European reaction soon spilled over into political conflict between the United States and various European countries. John Campbell's reference to the effectiveness of the oil weapon underscores the divergence of European and United States policies at the time.

The nine members of the European Economic Community, on November 6, 1973, adopted a resolution in which they said that a peace agreement should be brought about between the Arab states and Israel in accordance with the UN resolutions and that it should include a number of points, among them the necessity of putting an end to Israel's occupation of territories held since 1967, the recognition that a just and lasting peace would have to take account of the legitimate rights of the Palestinian Arabs. It so happened that the phrasing of those two points went beyond UN resolution 242 and coincided with specific interpretations and demands made by the Arabs and rejected by Israel.⁴⁶

While the impact of the embargo took the form of confrontation in 'times of trouble' the end result of the embargo was a desire by the United States to establish a consultative mechanism with Western Europe based on a common political perspective. The Washington Conference of February 1974

⁴⁶John C. Campbell, "The Energy Crisis and U.S. Policy In The Middle East", Ibid., p. 115.

marked the new and higher priority that the United States accorded to the need for consultation with Europe in order to ease conflicts between national objectives and the Atlantic unity.

As in the case of Western Europe the oil-related events of late 1973 enunciated the changed relationship between the United States and Japan. The emergence of Japan as an economic superpower deprived the United States of a competitive edge as a dominating actor in the international economic system. Thus, the U.S. and Japan became rivals in the international economic system. Japan's vulnerability to an oil embargo forced the country to endorse Arab positions on the problem of Israel. Recognition by Washington of Japan's vulnerability prompted the United States to establish a mechanism of consultation on political, security, and economic matters with Japan. Like Western Europe there appears to have been a move on the part of the United States towards consultative foreign relations with its major allies.

Prior to and during the October War and the oil embargo, relations between the Soviet Union and the United States revolved around a commitment to furthering detente, while energy was on the periphery of relations. Therefore, Soviet actions during the October War did not have any appreciable negative effects on U.S. foreign policy towards detente.

In the case of the People's Republic of China, there

was little in the way of change in U.S. policy. Given China's minor role in the Middle East there was little reason to expect any changes in Chinese-U.S. relations.

When viewing the changes in United States foreign policy after late 1973, it becomes clear that increased economic interdependence amongst nations has caused changes not only in economic structures, but also in the international political system. From 1945 until the late 1960's the United States was clearly in a position to provide leadership for the security and well-being of the international political and economic system. The economic and military power of the U.S., which outstripped the powers of the countries of the rest of the non-communist world, enabled it to exercise a preponderent influence throughout the noncommunist world. Today, the leadership of the non-communist world is no longer the exclusive domain of the United States. Its economic power has declined relative to the European Community and Japan. In the area of military power, the Soviet Union has attained approximate parity with the United States. The nature of international politics has changed to the extent that the world is no longer dominated by the bipolar confrontation between the Soviet Union and the United States. Co-existence of the two superpowers - and increasingly China - continues to be a major element in international politics but, at the same time actions of other

nations wishing to exert their interests in the international political system, through the non-usage of military force, has become an important characteristic of the international political system today. The actions of OAPEC/OPEC have brought the new complexities of international politics to light for the United States. Thus, the overt changes in American foreign policy in 1974 are in reaction to not only the Middle East situation at the time, but also to the apparent realities of the changing international political system. In 1972 General A. Lincoln, Director, Office of Emergency Preparedness, expressed well the realities of the new international political system for the United States.

Since energy is so much of a target of economic policy, both foreign and domestic, the situation requires a difficult orchestration of things economic with things that are national security, inevitably all in a political milieu.⁴⁷

Thus, the United States government had to give way to the axiom that the ultimate goal of a government is the preservation of the State so that anything emanating from this goal can be considered to be political.

F. Competition for OPEC?

While OPEC is presently perceived to be an organization

⁴⁷U.S., Congress, Foreign Policy Implications, p. 342.

whose members exert substantial economic and political power, the question ultimately arises as to whether or not this can be maintained if one takes into account the emergence of other major oil-exporting countries such as Norway, Great Britain, China, and possibly Canada. From an economic viewpoint it can be argued that these countries are in fact supportive of OPEC actions as they would find oil price increases of immense benefit to their own economies. Canada, for example, because of its short-term import dependence but longer term domestic production potential, views high oil prices as a necessity if frontier, oil sand and offshore exploration and production is to be worthwhile.⁴⁸ Alberta Premier Lougheed recognizes the linkage between Alberta's oil economy and OPEC when he states that, "in the whole area of energy, what they decide to do in OPEC has a tremendous bearing on this province."⁴⁹

For the present, the major beneficiary from oil in the North Sea area is Great Britain. The question arising from Britain's forthcoming wealth is one that revolves around

⁴⁸Peter Foster, "As oil producers meet on prices, the West awaits the guillotine," Financial Post, 11 December, 1976, p. 3.

⁴⁹Allan Fotheringham, "We'll bargain hard - as Canadians," The Vancouver Sun, 11 March, 1977, p. 6.

political concerns versus economic gains. Obviously, the North Sea oil reserves will lessen the degree of dependency of Western Europe on Middle Eastern oil, but, in view of the 'real costs' of oil-exploration, will Britain undercut OPEC prices? The British government would accrue major economic benefits through a balance of payments. However, as a member of the European Economic Community (EEC), Britain would seem to be morally obligated to alleviate the economic burden of its market associates through a lower than world price. A 'special' price for its partners in the EEC could solidify Britain's position in the organization and also yield it some form of leverage in EEC decision-making. At the domestic level, the British government finds itself in a position where high oil prices could be dictated because of Britain's domestic political setting. The Central government must come to an agreement with the population of Scotland, in particular Scottish nationalists for at stake regarding the distribution of income from the oil is the union of the country.

In the Asian arena, China is viewed as a possible rival to OPEC.⁵⁰ In the past few years the Chinese government has been using oil in its diplomatic manoeuvring throughout Asia by offering 'friendship' prices to not only

⁵⁰ Bob Tamarkin, "China has oil to burn and to export," The Vancouver Sun, 20 November 1977, p.37.

Communist countries like North Korea, and Vietnam, but also to Thailand, the Philippines, and Japan. To make political inroads into the rest of Asia, China has been willing to undercut OPEC oil prices. Verbal support is given to actions taken by OPEC, and such support gives China the look of being the champion of the Third World in its struggle against Western imperialism. At the same time, pragmatic action taken by China has not seen its oil export policy being influenced by OPEC.

While alternative sources of oil may be available to oil-consuming countries in the foreseeable future it appears the supportive countries have a vested interest in high oil prices, from an economic standpoint. Only if prices remain high can the oil which the North Sea governments hope to produce stand any chance of competing with Middle Eastern oil.⁵¹ Considering the economics of producing North Sea oil, the political desire to be as independent as possible of the Middle East oil countries provides the motive for developing new oil fields. The political desire to be independent is somewhat artificial, simply because the linkage between the economies of the OPEC countries and oil-

⁵¹ Philip Windsor suggests that the real cost of oil in Saudi Arabia is ten cents a barrel. So far, it has cost a million pounds a sample to bring North Sea oil ashore in Britain. Windsor, p. 146.

consuming countries has been established. OPEC oil is converted into petro-dollars which are in turn partially invested in non-OPEC member economies. Thus, the linkage between Middle East oil countries and Western industrial countries will not be altered radically.

CHAPTER IV

TRANSFORMATION OF ECONOMIC POWER

The introduction of new actors, such as multinational corporations during the past three decades has altered the traditional relationships in the international system. Consequently, political scientists are required to re-examine the conceptual framework utilized in the analysis of international politics in order to reflect upon the changes which have taken place. The oil-related events associated with OPEC have illustrated clearly that nations of the world are now compelled to re-evaluate their perceptions of the international political system and the environment within which the system functions. While economic factors have historically been acknowledged as playing a role in international politics, the changes in the structure and functioning of the international political system have elevated economic factors to the level of actors and core concepts.

The classic state-centric framework of analysis utilized by students of international politics implies that states are the only significant actors in the international system. Increased interaction in the world, however, has shown that the framework no longer reflects the reality of

international relations nowadays. Actors in the international political system now include not only government public officials and politicians but also interest groups, national and international non-political organizations; as which they represent factors which may lie outside the domain of what is traditionally defined as "politics". Since the end of the Second World War a number of organizations have been formed at a new level in the continuum of organized society. The Organization for European Cooperation and Development (OECD), the European Economic Community (EEC), the Geneva Agreement on Trade and Tariffs (GATT), and the Organization of Petroleum Exporting Countries (OPEC) are representative of the variety and scope of structural changes in the international system. The conception of states as the only significant actors in international politics and that they act as individual units has dissipated.¹

A. Economic Factors In International Political Analysis

Historically, the importance of economic factors in the analysis of international politics is readily evident in

¹Joseph S. Nye Jr., and Robert O. Keohane, Transnational Relations and World Politics, Cambridge, Harvard University Press, 1972.

the writings of Marx, Hobson, and Lenin. These writers worked from the premise that a power struggle is itself simply the consequence of underlying economic processes. Politics was viewed as being symptomatic rather than causal in nature.

In the latter part of the nineteenth century major changes took place in the economies of the advanced industrial countries. A manifestation of the changed economic conditions was an alteration in the perception of international politics; there occurred a re-emergence of the phenomenon "imperialism". Raymond F. Betts defines imperialism as

that consciously undertaken state activity in which force, intrigue, or even negotiation is employed to secure the long-range political or economic domination by the state of foreign territory or foreign peoples it wishes for some reason to control.²

For Marx, Hobson, and Lenin this phenomenon principally occurred as a result of maldistribution in capitalist society. A surplus of capital and goods needed an international area of investment, so that colonies were sought. While economic factors were common to the foregoing works the perspective

²Raymond F. Betts, Europe Overseas: Phases of Imperialism, London, Basic Books, Inc., 1968, p. 5.

of the writers regarding the importance of economics differed.

Marx was the major proponent of an economic explanation of political behaviour during the last century. The importance given to economic factors is best expressed in the Preface to his Contribution to the Critique of Political Economy:

In the social production which men carry on they enter into definite relations that are indispensable and independent of their will; these relations of production correspond to a definite stage of the development of the material forces of production. The totality of these relations of production constitutes the economic structure of society -- the relation of foundation on which legal and political superstructures arise and to which definite forms of social consciousness correspond.³

As a major proponent of an economic explanation of political behaviour, Marx was mainly concerned with the influence of European capitalism upon non-Western societies as a catalyst for revolution rather than with a general theory of imperialism. Marx's interest was more related to the societal effects of the European overseas expansion than to its consequences. In fact, there is an absence of a specific explanation of imperialism in Marx's writings. His works may,

³ John Plamenatz, Man and Society, A Critical Examination Of Some Important Social And Political Theories From Machiavelli To Marx, vol. II, London, Longman, 1974, p. 274.

however, be viewed as a general explanation of political and economic behaviour and as a forerunner to successive writers who were to deal with imperialism.

In a sense, Marx's emphasis on economics represents a reflection of the preoccupation with economics in the consciousness of nineteenth century thought. The fact that Europe was in the midst of dramatic changes in its established economic order during Marx's lifetime is believed to form the basis for his belief in the primacy of economics over politics. As Ebenstein puts it,

The dominant view in the nineteenth century was one of almost infinite faith in economic forces as the main engines of social and political progress. Thus, liberals in the nineteenth century confidently expected that the right economic policies would ensure domestic stability and progress, solve the problems of poverty, and lead to universal peace....While Marx's economic formula was different from that of his liberal contemporaries, it was nevertheless an economic formula.⁴

Thus, it appears that with regard to interstate relations Marx was primarily concerned with the societal effects of the overseas expansion of European countries, as a precondition for revolution, rather than with the causes of the expansion, or with its international consequences.

⁴William Ebenstein, Great Political Thinkers, Plato To The Present, Montreal, Holt, Rinehar & Winston, Inc., 1969, p. 708.

Hobson, in his Imperialism: A Study,⁵ provides a causal explanation for the overseas expansion of various European Countries during the latter part of the nineteenth century. He was interested in formulating a coherent theory of political relations between states, based upon economic processes. As Michael Barratt Brown states,

Hobson's aim was to expose the 'economic taproot of Imperialism' in the 'failure of consumption to keep up with the growing powers of production'.⁶

The thesis (underconsumptionist theory) was put forward that European overseas expansion was related to economic causes. The change in Europe's economic structure, that is, an accumulation of surplus capital generated by a conscious policy of fixing the level of consumption in domestic economies, required territories for new investment outside the then existing political domain of various European countries; thus, an emphasis was placed on foreign investment. Karl Deutsch defines imperialism according to Hobson in the following manner.

⁵J. A. Hobson, Imperialism: A Study, Ann Arbor, The University of Michigan Press, 1972.

⁶Michael Barratt Brown, After Imperialism, Toronto, William Heinemann Ltd., 1970, p. 92.

Imperialism, according to Hobson, is mainly underconsumption -- that is to say, it is caused by large groups of entrepreneurs who tend to combine -- to develop monopolies -- and to underpay their workers; and this monopolistic aspect of the competitive private enterprise economy produces underconsumptions on the part of the population of the metropolitan country. Since the metropolitan population does not consume enough, there remains an unsaleable surplus of goods in the metropolitan industrial economy. This unsaleable surplus must be placed abroad, partly through sales but mainly through capital exports. These capital exports then will have to be secured militarily by the acquisition of direct political and military control of colonies.⁷

In order to promote and protect foreign investments the governments of the various European countries found it necessary to extend political authority beyond the borders of their respective nations. The need to adopt policies of overseas expansion inevitably led to conflicts between the expanding European countries.

Interestingly, an important point in Hobson's thesis is his belief that imperialism was simply a 'policy' and not a systematic necessity. For Hobson the problem was not inherent in capitalistic society, for it was susceptible to correction. Imperialism was a policy that was convenient to

⁷ Karl Deutsch, "Theories of Imperialism and Neocolonialism," in S. J. Rosen and J. R. Kurth, eds., Testing Theories of Economic Imperialism, Toronto, Lexington Books, 1974, pp. 17-18.

certain groups but it was really unnecessary. In essence, Hobson provided an explanation of why individual European countries attempted to extend political authority beyond their national borders. While Hobson perceived imperialism to be rooted in a combination of social forces the Marxists, in particular Lenin, attributed all imperial motives to a single 'cause' which was economic in nature.

Lenin built on Hobson's emphasis on individual motivation and self-interest, and developed a general explanation for European imperialism as a necessary property of capitalism. While he supported Hobson's insistence on investment as the root of empire building, he saw imperialism as the highest stage of capitalism. Capitalist competition had given way to monopolies; large investment banks had appeared and soon were enmeshed with industry in a financial net; great quantities of surplus capital were now accumulated, quantities which could be profitably invested abroad only in regions where capital was in scarce supply. Along with goods, the capitalist countries now exported capital.⁸ Lenin called imperialism the 'highest stage', indicating thereby that there would be no later stage, or only a stagnant capitalism thereafter. As Brown notes,

He did so because he regarded imperial expansion

⁸Betts, p. 54.

as essential to capitalism; its ending would be an indication of imminent decay in capitalism at home; indeed, the decay began at home partly as a result of expansion overseas. Stagnation was to be associated with imperialism, he believed.⁹

Thus, for Lenin, imperialism is vitally necessary to the survival of the private enterprise system.

Political and military control of overseas investments became a necessary part of empire building in the early 1900's. Competition for markets to sell goods and invest capital took on military aspects because the globe was finite, thus making warfare among capitalist countries inevitable. The Leninist interpretation asserted that military and political leaders acted subconsciously as tools of capitalist interests.

For Lenin the world was divided into two main groups—the various mother countries (European nations) and their respective colonies.¹⁰ A new situation arose in which capital turned from the exploitation of national to that of international resources. The established relationship of mother country and colony applied not only to overt cases but also

⁹Brown, p. 11.

¹⁰V. I. Lenin, Imperialism: The Highest Stage of Capitalism, Moscow, Progress Publishers, 1966.

to cases of dependency — countries which officially were politically independent, but financially and diplomatically dependent, like Canada and its relationship with Great Britain.

Lenin went further in his doctrine and suggested that imperialism would bring about the decay of the mother country, for capital would eventually be driven into the profitable colonies and the colonies would end up with all the heavy industry. The technological knowledge would accordingly shift to the colony. In time imperialism would reverse the balance of power between the mother country and colony. This shift in power would have serious repercussions on the imperial country. "As colonial power or even as the Western control of quasi-colonies would come to an end, the "chain of world capitalism", which in Lenin's view was girdling the globe, would be broken."¹¹

The factors common to the works of Marx, Hobson, and Lenin were based on power and dependence. Common to all studies was a network of states, politically and economically dependent upon the capitalist countries, and the consequent conflicts between the capitalist countries for economic territory was an indication of the influence exerted by economic factors in international politics. Also,

¹¹Deutsch, in Rosen and Kurth, p. 21.

power struggles between nation-states were viewed simply as being the consequences of economic processes. Thus, the linking together of economics and politics, as shown by Marx, Hobson, and Lenin, is not a new phenomenon. However, what is of prime importance in this study is not an economic explanation of causes for international conflict but an explanation of the consequences of economic influence in the power configuration of international politics. Economic interdependence of the actors in the international system has presently resulted in a situation where economic power has the potential to be directly transformed into effective political power. While political power has traditionally been defined in terms of military force, economic influence has now become a criterion for defining political power.

B. International Economic Interdependence

The idea of international economic interdependence is not a new phenomenon; however, the consciousness regarding the phenomenon is. Three factors tend to account for the mass awareness of interdependence nowadays. First, highly efficient communication and transport has obviously facilitated it. Second, boundary-crossing activities such as tourist traffic, investment, and incomes have facilitated interdependence. Third, government policy has promoted such interdependencies, even if not overtly, by permitting

the acquisition of foreign goods demanded by consumers. In fact, economic interdependence has had a spill-over onto the social and cultural aspects of societies. At the domestic level international interdependence means that the form of domestic relationships is affected by and must adapt to external stimuli and indeed learn continuously to cope with and utilize the ever-changing impulses emanating from the outside world.¹² More specifically, the awareness of economic interdependence has become apparent as a result of the pressure on natural resources in the wake of rapid industrial growth.

The economic interdependence of the past three decades has shown that subsystems of the international system do not function independent of each other. Also, changes in technology have made economic self-sufficiency more impractical for nations. The increased activity of the transnational economic actor -- what is referred to as the global company, multinational corporation, or extranational enterprise -- helped interdependence to flourish. The activities of transnational actors continuously created and still

¹²See Haas, *Web of Interdependence*, pp. 11-14; James N. Rosenau, *The Adaptation of National Societies: A Theory of Political System Behaviour and Transformation* (New York: McCaleb-Seiler, 1970), Cited in Klaus Knorr, *The Power of Nations, The Political Economy of International Relations*, New York, Basic Books, Inc., 1975, p. 214.

create problems for governments. George Ball said that

As institutions which control a significant share of world resources, multinational corporations necessarily command considerable power.¹³

In general terms, multinational corporations play at least three important roles in the day-to-day processes of world affairs. First, they both intentionally and unintentionally set the agenda of issues that arise among governments. Second, they serve, usually unintentionally, as instruments of power by which governments and other groups try to influence each other. Third, some times they act quite intentionally and quite independently to influence political actors and political structures.¹⁴

Parallel to this growth has been the increased governmental intervention in the domestic and international economies. The major role played by multinational corporations in the international system created in numerous countries fear and insecurity that a corporate decision to close a plant or restrict a market could cause severe social, economic, and even political problems. Lawrence Krause

¹³George W. Ball, ed., Global Companies: The Political Economy of World Business, Englewood Cliffs, Prentice-Hall, Inc., 1975, p. 122.

¹⁴J. S. Nye and Seymour J. Rubin, "The Longer Range Political Role of the Multinational Corporation," In Ball, Global Companies, p. 127.

points out that

As the integration of markets has progressed, immobile groups in societies, including large segments of labor, have pressed for governmental protection to redress their relative disadvantage in the competition with trans-nationally mobile competitors. The coherence of national policies has become more difficult to maintain.¹⁵

The impact of economic interdependence, in conjunction with growing nationalism in the Third World, has been such that the major industrial countries and developing countries are tied together in a pattern of mutual dependence. The major implication of this dependence for the international political system has been the decline in the importance given to security issues. Military force, as a measurement of a nation's political power, is no longer the over-riding variable to consider. The increased politicization of international economics has brought about changes in the relative utility of military force. C. Fred Bergsten notes that, as the perceived margin of safety for states widens, non-military goals, such as economic welfare, political autonomy, and status, become relatively more important than military force

¹⁵ Lawrence B. Krause and Joseph S. Nye, "Reflections on the economics and politics of international economic organizations", in C. Fred Bergsten and Lawrence B. Krause, eds., World Politics and International Economics, Washington, The Brookings Institution, 1975, p. 325.

as a component of national power.¹⁶ Bergsten argues that

Economic issues have become far more salient in international affairs than at any point since the beginning of World War II, both because of their increased importance in their own right and because of the decline in concerns about survival¹⁷ and the traditional forms of security.

For non-nuclear industrial countries or non-industrial countries the idea of economic influence to exercise political power is the prevailing norm. For this group of countries military force has taken on a minor role. Britain and Germany, for example, no longer feel threatened by each other. Therefore, force is irrelevant or unimportant as an instrument of power. This is not to discount the plausible use of military force, but simply to re-evaluate its importance. Yet such states are often very interested in influencing each other's policies, and, if force is not a useful tool of policy, other instruments are sought.¹⁸

Even for the United States and the Soviet Union the use of military force, as in nuclear power, has become less efficacious. The onset of detente reduced the importance of security issues to a small degree. The impact of nuclear

¹⁶C. Fred Bergsten, Robert O. Keohane, and Joseph S. Nye, "International economics and international politics: a framework for analysis," in Bergsten and Krause, p.7.

¹⁷Bergsten and Krause, p. 7.

¹⁸Robert O. Keohane and Joseph S. Nye, Jr., "Power and Interdependence," Survival, 15, 4, July-August 1973, p. 159.

force was perceived in both countries to be so negative in its impact that other sources of exerting power were sought. The transformation of economic power into effective political power takes place when military force has lost its effectiveness as a positive force. / For example, the impact of nuclear force is such that the balance of terror which prevents its actual application reduces its effectiveness as an instrument for international politics. Thus, economic power is more positive in that its application is easily carried out without fear of inevitable self-inflicted damages. Considering the complexity of interdependence in the world and the relative decline of military force, the use of 'linkage' as an instrument for both major and minor states in exerting influence over others seems natural.

C. Linkage In International Affairs

A major impact of the present economic interdependence of the world has been the prominence of what Keohane and Nye refer to as inter-issue linkages,¹⁹ like the linking of economic and political issues and to linkages between national and international systems. Of primary importance is a realization that linkage strategies generate counter-

¹⁹Keohane and Nye, p. 159.

strategies. While bargaining is important to any model of a political system the present complexity of interdependence has necessitated the linking of numbers of issues in the bargaining process.

In reference to the Middle East conflict the government of Saudi Arabia has continually stated its intention to link oil price increases to pressure by the United States on Israel to make political concessions to the Arab countries.²⁰ During the 1973 oil embargo shipments of petroleum were linked to a country's position regarding the Arab-Israeli conflict. The United States also applied the strategy of linkage in its discussions with Japan over the status of Okinawa. The tacit linking of the reversion of Okinawa with a textile agreement is a sign of linkage strategy in Japanese-American relations, as that the United States now feels less dependent upon Japanese bases for the defense of South-East Asia²¹ while the textile export to the U.S. is vital to the Japanese economy.

The inevitability of linkage is best exemplified in Soviet-American relations regarding SALT (Strategic Arms Limitation Talks) within the context of detente. Former

²⁰"Saudis Seek Israeli Pact In Return For Price Stand," Vancouver Sun, 21 December 1976, p. 29.

²¹Keohane and Nye, p. 159.

Secretary of State, Henry Kissinger, recognized well the linkage not only between issues, but also between the domestic and international systems. According to Kissinger, there is a direct link between the domestic political structure of a political unit and the conduct of its international affairs.²² The diplomacy of detente, as defined by Kissinger, based on the principle of linkage, meant the interrelationship between issues. He explained it as follows.

Our approach proceeds from the conviction that, in moving forward across a wide spectrum of negotiations, progress in one area adds momentum to progress in other areas. If we succeed, then no agreement stands alone as an isolated accomplishment vulnerable to the next crisis. We did not invent the interrelationship between issues expressed in the so-called linkage concept; it was a validity because of the range of problems and areas in which the interests of the United States and the Soviet Union impinge on each other. We have looked for progress in a series of agreements settling specific political issues, and we have sought to relate these to a new standard of international conduct appropriate to the dangers of the nuclear age. By acquiring a stake in this network of relationships with the West, the Soviet Union may become more conscious of what it would lose by a return to confrontation. Indeed, it is our hope that it will develop a self-interest in fostering the entire process of relaxation of tensions.²³

²²Henry Kissinger, "Domestic Sources Of Foreign Policy," In Robert Pfaltzgraff, Jr., ed., Politics and the International System, New York, J. B. Lippincott Company, 1972, pp. 385-403.

²³Warren Nutter, Kissinger's Grand Design, Washington, American Enterprise Institute for Public Policy Research, 1975, pp. 13-14.

In Kissinger's view the Soviet Union would lose the total network if it renounced any part. The SALT I discussions and agreement formed a part of the linkage.

The recent failure of President Carter in SALT II discussions points to the inevitability of linkage. While the Soviet Union functions from the premise that "linkage" is a vital part of Soviet-American relations the Carter Administration did not put the arms control issue in the context of exploring wider political relations. In particular, Carter's high-profile public campaign on human rights has irritated the Soviet government. Frank Rutter summed up the situation well when he stated, "although Mr. Carter denied that there was any "linkage" between human rights and disarmament, the Russians refused to de-link them."²⁴ Apparently, Carter's thesis was that strong criticism on human rights was domestically satisfying to a country trying to re-assert Christian morality but that this need not interfere with relations abroad. The American Administration's attempt to conduct a foreign policy at two levels did not work. The International Institute for Strategic Studies in an attack on Carter's foreign policy stated that, "President Jimmy Carter's disarmament policies are out of date while his support for human rights has damaged the cordiality and trust which had developed in East-West relations."²⁵

Within the broader context of detente, success in the

²⁴ Frank Rutter, "Carter's world gospel backfires," Vancouver Sun, 2 April 1977, p. 4.

²⁵ "Study Institute Attacks Carter's Foreign Policy," Vancouver Sun, 29 April 1977, p. 16.

SALT II talks is linked to co-operation and interchange in the economic, cultural, and scientific areas. There is a realization that nations are increasingly obliged to seek joint solutions to what are regarded more and more as international problems. By linking economic and security issues, tacit recognition has been given to the new distribution of power in international politics.

D. Transformation Of Economic Power - The Case Of OPEC

Primarily, power is necessary to the values that nation-states seek to preserve and promote, e.g. security, prestige, and pride. It is also recognized as being a coercive influence in contrast to persuasive influence. In Van Dyke's terms,

It is common to think of power as a particular kind of influence, and to define influence as an ability to affect the actions, thoughts, or feelings of others. If something about A (for example, A's presence or activity) makes a difference in the actions, thoughts or feelings of B, A has influence over B. The influence may not be intentional, and B may or may not be aware that he is responding to it.

The more fully A's influence rests on an ability to coerce B (and here the concern is with B's actions, not with B's thoughts or feelings), the more the relationship is one of power. In other words, it is the use or the threat (latent or active) of sanctions that distinguishes power from influence.²⁶

²⁶Vernon Van Dyke, International Politics, New York, Appleton-Century-Crofts, 1972, p. 210.

However, the increasing diversity of actors in the international system; the broadened agenda of foreign policy as a result of the penetration into areas which formerly were considered purely domestic; and the increasing linkages between various issues have brought economic forces into the forefront as having the potential as an effective political power.

For the members of OPEC it is quite clear that they collectively possess the potential to exert effective power. In fact, some member countries, like Saudi Arabia individually hold economic force which can be utilized effectively as a political weapon. The major strength the OPEC member countries collectively possess is the ability to unilaterally decide on the terms at which oil will be available to consumer countries. A second source of power has been the ability, resulting from a huge stock-pile of petro-dollars, to invest in the economies of industrialized countries, to purchase large amounts of manufactured goods, and in the exclusive realm of politics to purchase political support and to reward political favours.

Nevertheless, Klaus Knorr ²⁷ feels that the successful use of monopoly economic power for coercive purposes in

²⁷Klaus Knorr, "The Limits of Economic and Military Power," in Raymond Vernon, ed., The Oil Crisis, New York, W. W. Norton & Company, 1976, pp. 229-244.

matters related to international politics by the member countries of either OPEC or OAPEC is not without its limitations. The use of the oil weapon by OAPEC achieved the objective of calling the attention of the Western industrial countries to the shift in international economic power that had taken place and to consequent Arab expectations that this shift should lead to a co-operative attitude toward Arab goals in its conflict with Israel. Knorr feels that future impositions of oil embargoes would not be as totally encompassing and effective since, for example, the element of surprise would be gone. Also, the western industrial countries would have stock-piled enough oil reserves to cope with a future embargo. What makes coercive efforts such as the 1973 Arab oil embargo successful is a rare combination of international and domestic circumstances. Knorr's argument rests upon the premise that future efforts would not contain the element of surprise and that stock piles of oil would be effective. The credibility of the argument weakens when one considers that a number of the Western industrial countries, to whom the last embargo was directed, are presently even more dependent upon Middle East oil than they were prior to 1973.²⁸ Even the United States which is the most self-

²⁸Peter Cook, "U.S. stands to loose any economic war over oil," Financial Post, 18 October 1976, p. 1.

sufficient of the countries of the West is more dependent than it was (see Figure 4.1).

The political effects of rising economic interdependence, as exemplified by various issues, have made the traditional distinctions between domestic and international systems invalid. Institutions in both systems have become directly involved in international policy questions. As a consequence of the oil crisis of late 1973 oil is no longer an issue between a government and an international oil company; it is now a problem between governments. OPEC processes have shown that economic power can be directly transformed into effective political power.

[In millions of 42-gallon barrels]

COUNTRY	1965	1968	1969	1970	1971	1972	1973	1974	1975	PERCENT DISTRIBUTION				
	1965	1970	1973	1974	1975	100.0	100.0	100.0	100.0	100.0	1970	1973	1974	1975
Total imports.....	452	472	514	483	613	811	1,184	1,269	1,498	100.0	100.0	100.0	100.0	100.0
*Algeria.....	3	2	(Z)	2	5	32	44	66	96	0.7	0.4	3.7	5.2	6.4
*Angola.....	-	-	(Z)	-	1	6	18	18	26	-	-	1.5	1.4	1.7
*Bolivia.....	-	7	6	1	1	-	1	2	2	-	0.2	(Z)	0.2	0.1
*Canada.....	108	169	203	245	263	312	365	289	219	23.9	50.7	30.8	22.8	14.6
*Ecuador.....	-	-	-	-	-	5	17	15	21	-	-	1.4	1.2	1.4
*Egypt.....	1	11	15	8	7	3	5	3	2	0.2	1.7	0.4	0.2	0.1
*Indonesia.....	22	27	32	26	40	60	73	103	138	4.9	5.4	6.2	8.1	9.2
*Iran.....	29	21	15	12	39	50	79	169	102	6.4	2.5	6.7	13.3	6.8
*Kuwait.....	20	16	13	12	11	13	15	2	1	4.4	2.5	1.3	0.2	0.1
*Libya.....	15	42	49	17	19	40	49	1	81	3.3	3.5	4.1	(Z)	5.4
*Mexico.....	-	-	-	-	-	-	(Z)	1	26	-	-	(Z)	(Z)	1.7
*Nigeria.....	5	3	18	17	35	89	164	254	272	1.1	3.5	13.9	20.0	18.2
*Saudi Arabia.....	48	19	13	15	42	64	169	160	256	10.6	3.1	14.3	12.6	17.1
*Trinidad.....	-	-	-	(Z)	-	9	22	23	42	-	(Z)	1.9	1.8	2.8
*United Arab Emirates.....	5	6	5	23	29	27	26	25	43	1.1	4.8	2.2	2.0	2.9
*Venezuela.....	158	126	112	98	111	93	126	116	144	35.0	20.3	10.6	9.1	9.6
*Other.....	38	23	33	7	10	8	11	22	27	8.4	1.4	0.9	1.7	1.8

- Represents zero. Z less than 500,000 or less than 0.05 percent. 1Abu Dhabi prior to 1972.

Source: 1965-1972, American Petroleum Institute, Annual Statistical Review, U.S. Petroleum Industry Statistics, 1956-1972; thereafter, U.S. Bureau of Mines, Minerals Yearbook.

* Members of OPEC

Source: Cited in, Statistical Abstract of the United States, 1976, 97th Annual Edition, U.S. Department of Commerce, p. 551.

Figure 4.1

U.S. Oil Imports: 1965-1975

CHAPTER V

CONCLUSION

With the increased growth in and complexity of interdependence in the international system since the end of the Second World War changes have taken place regarding the means used by countries to exercise power in international relations. In an era of complex interdependency the international organization has become a vehicle by which minor states are able to exert substantial political power over major states.

The formation of OPEC in 1960 was a manifestation of a desire by a group of host governments to counter the control which the international oil companies maintained over the setting of both 'posted-prices' and levels of production. The main goals of the organization, to raise oil revenues of the member countries and to gain control of oil resources, depended on economic and political circumstances and OPEC's skill in exploiting them. In particular, the economic realities of the 1970's coupled with the events surrounding the October War provided the circumstances.

The repercussions of OPEC member countries' actions were such that the relative economic positions of Western

Europe, Japan, and the United States were directly altered. Also, indirectly altered were the Arab-Israeli conflict, political relations among the Western industrial countries, and relations between the Western industrial countries and the 'Third World'. The notion that there are different dimensions of political power in international affairs, in comparison to the traditional balance of military forces, was established by OPEC-related processes. The ability to provide or withhold oil gave an aggregation of minor states power over a group of major states. The interaction between OPEC and various national governments was such that inputs into the national political system of a country or its environment at times altered that country's foreign policy. In turn, the feedback to OPEC influenced the organization's functioning.

While the major goals of OPEC were economic in nature, member countries of the organization were able to use oil as a means of attaining their political objectives. Recognition of the degree of international-national linkages with regard to oil acknowledged OPEC to be an organization which fulfills at particular moments and under certain circumstances a political function. Enough member countries of OPEC perceived the use of an economic good, oil, as a legitimate means of achieving a political objective. Outside observers too, began to perceive the organization functionally as a political

unit in international affairs, especially after the outbreak of the October War.

While the Arab nations had long thought the use of the 'oil weapon' to be legitimate in their confrontation with Israel, they were unable to utilize it until 1973. In spite of the high degree of economic interdependency in the international system in the Fall of 1973, the Arab countries were unable to translate their capability to influence various nations with respect to their stance on the Arab-Israeli conflict. The ability to translate capabilities depended on the willingness to mobilize and use the oil resources, the credibility of the threat by the intended state or states, and the degree of vulnerability of the intended state; and the October War provided the ideal situation.

From the analysis it has become apparent that there exists a strong relationship between power and interdependence. On a continuum with independence at one end and pure dependence at the other, interdependence is perceived as being somewhere between. Power which is conceived as forming the basis of all politics has become increasingly dependent on the degree of interdependence among a group of countries. The impact of interdependence on a national society has been found to take one of two dimensions, either a society is sensitive to environmental change or it is vulnerable. The

degree to which a country is susceptible to environmental change will determine how much influence can be exercised over it.

Sensitivity involves the ability of a national political system to respond to environmental outputs. The OPEC-related processes showed Western Europe, Japan, and the United States to be relatively sensitive to oil price increases from 1970 through 1976. It is assumed that in evaluating susceptibility to environmental change the political framework of the country in question will remain unchanged; but what is of primary concern are the costs incurred in adjusting to environmental outputs. Vulnerability involves the inability to make effective adjustments to a changed environment over a period of time. In the case of Western Europe a lack of consensus in reacting to oil price increases and other OPEC-related outputs made the respective countries vulnerable to environmental changes. Japan's lack of fossil fuel deposits made it virtually impossible for the country to escape OPEC outputs without drastic costs. The study reveals that vulnerability provides a power resource to an actor.

While military force may be the ultimate means of measuring political power at the international level, the case of OPEC lent support to the contention that the 'international organization' has proven to be an expensive way for minor states to maximize their political power. In a

world in which economic powers are easier to apply than threats of military force and which are less offensive to national societies, the international organization's potential role in political bargaining is greatly increased. OPEC has shown international organizations to be an arena where minor states can band together and exert influence by linking issue areas in bargaining. Algeria's call for the formation of a new economic order, which required linking oil prices and its availability to other questions, is indicative of pursuing a strategy of linking issue areas.

The application of across-systems analysis to this study has indicated that this approach has greater explanatory power than single level analysis. While the single level analyst is content with holding levels beyond his immediate interest constant, the across-systems analyst is not content to presume that variables at the level of aggregation that interests him can be adequately explained by holding other levels constant. The application of the across-systems analysis in this study has added impetus to the movement advocating an emphasis on 'linkages' in understanding changes in the operation of an organization in the international system.

The concept of linkage posits a feedback system. Variations at the international level are viewed as being systematically linked to variations at the national level in

such a manner that feedback from the national level becomes part of the behavioural sequence at the original level. The linkage approach has proved valuable in showing how the degree of dependency of the national political system or its domestic environment can influence the foreign policy (output) of the national political decision-making system. Also, the stability of a national political unit is affected by inputs directed towards its internal economic environment (indirect inputs). For the purposes of this study the use of linkage theory in the analysis of OPEC proved to be beneficial for understanding the organization's changing functions. At the same time it clarified how the impact of international events on a nation increased, or decreased, with amount of interdependence between that nation and the total international system. The possible demise of the economies of various Western industrial countries persuaded the respective governments to alter their foreign policies in various issue areas. Thus, the linkage approach has helped to clarify the impact that economic organizations are able to exert on national governments to conduct foreign policy along certain lines.

While the linkage framework of James Rosenau has helped to clarify much about the functioning of OPEC, the approach is not without its shortcomings. The most convincing

criticism of the approach is presented by Ralph Pettman.¹ Complexity in international-national linkages forms the basis for the criticism. Pettman argues that the analysis must take into account all the major elements that form the patterns of power and purpose at the national and international levels.

With reference to the matrix offered by Rosenau, Pettman argues that the types of interaction process actually create three frameworks which are reproducible in turn a number of times to accommodate varying combinations of purpose, from direct intentional policies to indirect informal influence.² The result is 3,800 possible combinations, which when employed would prove to be exhaustive. Rosenau contends that his framework is simply a starting tool, which is suggestive and not exhaustive; but Pettman feels that as such it is not scientific enough to form the basis for a 'general theory'.

Pettman contends that his strongest support in condemning the linkage approach comes from Rosenau himself. Pettman states that Rosenau has condemned the framework as loosely designed, a theoretical, and a failure in research

¹Ralph Pettman, Human Behaviour And World Politics, A Transdisciplinary Introduction, London, The Macmillan Press, 1975.

²Ibid., p. 44.

strategy. If Rosenau does indeed wish to bury his linkage framework we are under no obligation to follow suit.

While the weaknesses in linkage analysis are recognized, the advantages of the framework are felt to be over-riding. First, if one agrees with the contention that subject boundaries have fostered a situation where there is concentration on one compartment of knowledge, with inadequate regard for relevant and related inquiry outside the compartment, then linkage theory provides a means of breaking-out of the tendency towards what Farrell refers to as "intellectual parochialism".³ Second, the theory prevents perpetuation of the gap between comparative and international politics and compels thought about the way in which they are linked. By identifying the overlap between levels the habit of separately examining political systems from an exclusively national or international perspective is modified. Finally, the framework allows us to focus on environmental factors which single level analysis would exclude. That is, the differentiations of the external environments of a given state enable us to recognize and analyze environmental ties of a polity which have never before been subjected to systematic analysis.

³Barry Farrell, ed., Approaches to Comparative and International Politics, Evanston, Northwestern University Press, 1966, p. v.

The notion of applying a methodology to data in order to clarify that data does not mean that the methodology should be looked upon as being exclusive or conclusive. Linkage, as a framework, is merely one way of looking at one of the many aspects that make-up the field of political science. The utility of an approach must be discovered through the use of a variety of data, during which time modifications and improvements may be tried and adapted. This study forms part of that exercise.

APPENDIX I

PROFILE OF OPEC

A. Membership of OPEC

Membership in OPEC is restricted to countries with a "substantial" net export of crude petroleum.¹ A "substantial" net export is translated into oil being the most important natural resource of the country in question. Also, revenues derived from oil exploitation constitute a major portion of the government's income (see Figure I.1) and play a role of major importance in the member country's development projects. This situation arises because member countries have one characteristic in common, namely that oil is the staple of the economy of each member country in question. In 1965, an additional restriction was adopted for new applicants: they should have fundamentally similar interests to those of existing member countries.² This meant that new applicants must be able to fit into the classification of non-industrial countries. Politically motivated, the move

¹Fuad Rouhani, A History of O.P.E.C., New York, Praeger, 1971, p. 80. See also OPEC Statute, Article 7C.

²OPEC, Resolution, VII.56. Middle East Economic Survey, June 1965.

Member Country	GNP (\$ Billion)	Oil Revenue (\$ Million)	% GNP Oil Revenue
Algeria	9.8	3,700	37.6
Iran	39	17,400	44.6
Iraq	8.4	6,800	80.9
Kuwait	11	7,000	63.6
Libya	8	7,600	95
Nigeria	23.4	7,000	29.9
Saudia Arabia	28.4	20,000	70.4
United Arab Emirates	4.1 (1973)	4,100	100
Venezuela	26	10,600	40.7
Indonesia	15 (1973)	3,000	20

Figure I.1

Oil Revenue as a Percentage of GNP
of Selected Member Countries

Source: Compiled from data in Canadian Business July, 1976, p. 72 and The Petroleum Economist, March, 1975, p. 85.

was intended to satisfy certain anti-communist member countries, such as traditionally Moslem Saudi Arabia; it precluded the entry of the Soviet Union and Western industrial countries. The criteria layed out for admission was based upon the assumption that an industrialized country did not have the same vested interests as a non-industrial country.

The OPEC Statute distinguishes between three types of members, namely Founder Members, Full Members, and Associate Members.³ Founder members are those countries

³The Statute of the Organization of Petroleum Exporting Countries, Article 7.

which attended the first meeting in September 1960. Full members include all Founder members plus all countries which have been accepted for membership by the Conference. An Associate member is a country which has not been accepted by the Conference for full membership. The Associate member is however entitled to attend all meetings which the Conference will allow it to attend. All members have the right to withdraw from the organization.⁴ Up to this date no member country has withdrawn from OPEC. While the member countries of OPEC can be categorized into broad ethnic and/or regional groups, within each group there are opposing ideological trends and interests; due to varying degrees of economic and social development the influence exerted by individual member countries inside and outside OPEC differs. This ideological/cultural mosaic notwithstanding, the member countries of OPEC do have, as a group, what might be called an "oil consciousness," that is an awareness of the strategic and economic value of oil.

Arab/Persian Gulf Member Countries

The geographical concentration of crude oil reserves in the Middle East and North Africa puts nearly seventy percent of the non-communist world's proven reserves in the

⁴Statute, Article 8.

control of Arab nation-states and non-Arab Iran. This geographical distribution gives these countries a strong voice within OPEC as a potential voting block.

The largest oil producing member country of the Arab nation-states, Saudi Arabia, has a social system which is centered on the king. The great, but not absolute authority of the king reflects the allegiance and support he has been able to command. Traditionally, the governing of the country has been accomplished through intermarriage by the royal family with prominent and influential families and tribes throughout the country. In recent years the governmental machinery has been modernized with the creation of a bureaucracy which includes well-educated officials from outside the royal family. (The increased revenue from oil, coupled with rapid economic expansion has necessitated a modernization of the governmental machinery.)⁵ An examination of the social history of Saudi Arabia reveals a combination of Bedouin independence (terms indicating a cultural trait) and religious conservatism (social morals are arrived at through a literal interpretation of the Koran) that has produced a conservative, and until recently, isolated society.

⁵See Ibrahim Hayani, "Saudi Arabia - the land of oil and money," Canadian Business, November, 1975, pp. 28-29 for an introduction to the impact of petro-dollars in Saudi Arabia's economy.

Conservative societies are those which attempt to preserve established traditions or institutions and to resist or oppose any changes in these.

Commercially oriented, Kuwait has political power vested in a royal family. Although basically conservative, the government has experimented with various forms of 'participatory' democracy. The country has a parliamentary structure - with a measure of representative government and a legal opposition, though no formal political parties. Presently, Parliament has been dissolved and no date has been set for an election. Oil money has made it possible for the government to establish a welfare state, thus giving it the means to buy-off unrest within Kuwaiti society. The non-Kuwaiti segment of the population, which includes a number of Palestinians, is highly educated and hold important positions in Kuwaiti business and government. This situation has tended to make Kuwait more sensitive to problems which touch the Arab world, particularly the Arab-Israeli conflict.

The mini-gulf states (Qatar and the United Arab Emirates), as a group, have no other significant resources besides oil. With the growth of the oil industry changes have occurred in each respective society. Although traditional power lies in the hands of royal families, there has been a limited diffusion of power to a growing group of foreign technocrats. The political systems are subject to

sudden upheavals at the top because of the personalization of power. Family and tribal rivalries, palace revolutions, and coup d'états are still commonplace.

Continually torn by domestic political problems, Iraq has been governed by a series of juntas since independence. During the 1960's Iraq was dogmatic in its position regarding international political matters. What this meant was that the Iraqis were totally guided by ideological beliefs in their dealings in international politics; pragmatism did not enter the picture. One compulsion of the Iraqis was an on-going advocacy of revolution in what it referred to as reactionary gulf states, such as Saudi Arabia. Successive Iraqi governments have had close ties with the Soviet Union, one consequence being the signing of a fifteen-year treaty of friendship and security in 1972. From an economic standpoint the Iraqis have, in recent years, put forth a concerted effort to make themselves less dependent upon Soviet technology. Dissatisfaction with the reliability of Soviet technology has seen the Iraqis attempting to diversify their sources of technical supply. It appears that the dogmatic 1960's are being undermined by the pragmatic attitude of the mid-1970's.

Non-Arab Iran is a major oil-producer and oil-exporter. Due to its rapid pace of economic development Iran has been a major force in the push for higher oil prices. Politically, since 1946 Iran has been closely allied with the United States.

Although economic aid was terminated in 1967, military aid continues unabated. In fact, the 1969 Nixon Doctrine which recommended that regional leaders assume greater responsibility for security in their areas, has seen the Iranians become the United States' number one arms customer.⁶ Relations with the Soviet Union have been approached in an atmosphere of detente based on growing economic co-operation. For the Iranians the Arab/Persian Gulf is viewed as an area of strategic, economic, political, and cultural importance - as a natural sphere of influence. The dynastic ambitions of the Shah of Iran are expressed in the size and make-up of Iran's armed forces. The largest arsenal of arms in the Gulf region guarantees Iran's overwhelming military superiority to deter overt aggression by within the Gulf region. Domestically, the centre of power in Iran is the autocratic regime of the Shah. In order to stabilize his position and neutralize potential rivals, the Shah has attempted to build around himself a prosperous and loyal middle class.⁷ Brought into prominence through the economic successes of the last twenty years the middle class has a vested interest in a continuation of the status-quo. A basic weakness in Iran's

⁶"Henry's Last Hurrah?," Time, Montreal, 16 August, 1976, pp. 18-19.

⁷"For Iran, Oil Is Not Enough: Its Dreams of Power Must Be Fueled by Change," Financial Post, 22 May, 1976, p. 38.

political system is its lack of a structure of stable political institutions. The Shah's attempts at a centralization of power have left him in a position of absolute power with no guarantee of a successful successor regime.

Although an overview of the Gulf region member countries shows that an ideological/cultural mosaic exists, these countries still have common characteristics in holding the bulk of the world's known oil reserves; being religiously similar, being politically autocratic and conservative, being technically developing industrial countries, and being of great interest to the superpowers.

In order to appreciate the importance of the Gulf region in the functioning of OPEC and the resultant influences on the world political economy, it is necessary to understand the importance of the region, in an historical context, to the superpowers. For one-hundred and fifty years the British, in order to safeguard their interests in India from other European encroachments, set up a system of special treaty relations with the 'independent' emirates and tribalities in the Gulf region.⁸ These treaty arrangements were to have a stabilizing effect on the politics of the region. The exit of the British from the region in 1971

⁸For an overview of the British presence in the Arab/Persian Gulf see: J. C. Hurewitz, The Persian Gulf: Prospects for Stability, New York, Foreign Policy Association, Inc., 1974.

left the area open to an American and Soviet joust for influence in the Gulf region. In terms of security and national interest the United States has been particularly concerned about the potential instability, economic and political, in the region and the threat that such instability might pose to the free flow of oil. The probability of Soviet interference to the flow of oil is an area of particular interest. For the Soviet Union the opportunity is available, as a voice of influence in the region, to manipulate the energy delivery system to the Western industrial countries.

The North African Member Countries

Libya, from an economic standpoint, is representative of an oil-producing country which is unable, due to the size of its population, to absorb the revenue from oil production into its domestic economy. While the population is relatively uneducated, massive programmes are being launched to reform the educational, social, and economic institutions. The government of Mumar Ghadaffi has been very dogmatic in its affairs; since such a high priority is placed on ideological and political ends the government appears willing to forsake economic gains. At the present time the confrontation with Israel is the most likely cause for some kind of punitive action on Libya's part.

As founder of radicalism in the Arab World Algeria

is possibly the least understood of the member countries of OPEC. The growth of a well-educated technocratic middle-class, coupled with the growth of a structure of political institutions, has given the country the basis of stability. Although consistent in its political position vis-à-vis the confrontation with Israel, Algeria has shown pragmatism in its economic and political decision-making. Due to its close ties with the European Community, pragmatism on the part of Algeria is almost necessitated. The historical ties with France, which are evident in Algeria's social structure, have given the Algerian middle-class a feeling of closeness with Europe. In recent years this pragmatism has extended to relations with the United States. Despite the United States policy regarding Israel, the Algerian government has been able to separate economic needs from political obligations. Although, from a moral standpoint, Algeria participated in the 1973 Arab oil embargo, the Algerian government did not cut back on the natural gas production sector of its oil industry. The Algerian government appears to have adopted a philosophy that Algeria's economic development is tied to revenue from the oil industry, but in order to ensure continued economic growth a stable and reliable access must be available to customers of natural gas; hence, a pragmatic attitude has evolved regarding the coupling of economic decisions with political ends and vice-versa.

The Latin American Member Countries

The Latin American group of member countries is clearly dominated by Venezuela. During the 1950's, as the price of Middle Eastern oil dropped below that of Venezuelan oil, the government of Venezuela foresaw the need to create a situation in which the Latin American country could retain a position as an exporter of oil and receive a maximum in currency per barrel. The means was exposed in a model of an oil-producers organization. Rather than compete in price with Middle Eastern oil exporters (Middle Eastern oil could be exploited for a much cheaper price), Venezuela has worked to limit production and keep the market price of oil high. Politically and socially, Venezuela is a source of stability for the rest of Latin America. A large middle class dependent upon a stable economy is evident, as is a structure of political institutions.⁹

As for the other Latin American member country of OPEC, Ecuador exerts very little in the way of influence. This is due mainly to its relatively small production capacity.

Sub-Sahara Member Countries

Nigeria, as an exporter of significant quantities

⁹See for example, T. G. Cullen, "Venezuela: opportunity knocks now," Canadian Commerce, January, 1976, pp. 10-13.

of oil, which allowed it to become a full member of OPEC, is a relative newcomer to the international oil market. Following the Nigerian Civil War (1967-1970) production and exploration were quickly resumed. Nigeria which has a large and unskilled population has found it necessary to increase its currency reserves in order to speed-up the process of economic development. Thus, the Nigerian government, like the Algerian government, has found it necessary to separate economic matters from political, ideological, or religious commitments. Although a predominantly Moslem country, Nigeria gave only tacit moral support to the 1973 Arab Oil Embargo. In the domestic political sphere, with the termination of the Nigerian Civil War, a reasonable degree of political stability was returned to the Nigerian federal system. Ruled by a military government, the political process has not completely returned to normal because of a ban on political parties.

As an associate member country in OPEC, Gabon holds very little in the way of power vis-à-vis the other member countries; as a result it has not been relegated a position of any importance in this study.

The Far East Member Country

As one of the oldest oil producing countries in the world, Indonesia is an important source of oil for Japan and the United States. In comparison with the oil reserves

of Saudi Arabia, those of Indonesia might appear to be of little significance, but Indonesian oil holds prominence in spite of its apparently limited volume. Oil exported by this member country possesses negligible sulphur content.¹⁰ Equally important, the Indonesian fields lie in the backyard of the world's fastest growing energy market, Japan. Indonesia has had an unusual relationship with the multi-national oil companies when compared with the 'host government-oil company relationships' of the other member countries of OPEC. In the 1950's, before the demands for governmental participation in oil production were pressed for by Middle Eastern producers, Indonesia launched its own branch of participation in the oil industry. The Petroleum Law of 1960¹¹ provided the basic framework within which the present Indonesian oil industry has evolved. Under the Petroleum Law, the state company retains all rights to explore and exploit petroleum resources, and foreign companies serve as contractors to the state.

The power base of OPEC, as revealed through an

¹⁰The importance of a low-sulphur content in oil is related to the level of pollution resulting from its usage. This is an important consideration for environmentally conscious industrialized states in their purchase of oil.

¹¹Michael Tanzer, The Energy Crises: World Struggle For Power and Wealth, New York, Monthly Review Press, 1974.

overview of the membership, would appear to be the Arab/Persian Gulf grouping. In particular, the variables of known oil reserves and of production capacity show that the control mechanism of OPEC lies with Saudi Arabia and Iran. Without the support of these two member countries, OPEC with its present objectives, could not function.

B. The Structure of OPEC

The Conference, as outlined in the Statute, is the supreme authority of OPEC¹² (See Figure I.2). Membership in the Conference consists of delegations representing the member countries. Generally, the single delegate or the leader of the delegation is a person holding cabinet rank - generally the Minister responsible for oil affairs of the respective member country. Each member country has a single vote in the Conference. All decisions of the Conference have to be passed by an unanimous vote, excluding the vote of an Associate Member of which enjoys no right of veto.¹³ Formal decisions are issued in the form of Resolutions. The functions of the Conference as listed in the Statute include: formulation

¹²Statute, Articles 10-16.

¹³Abdul Amir Kubbah, OPEC Past and Present, Vienna, Petro-Economic Research Centre, 1974, p. 25.

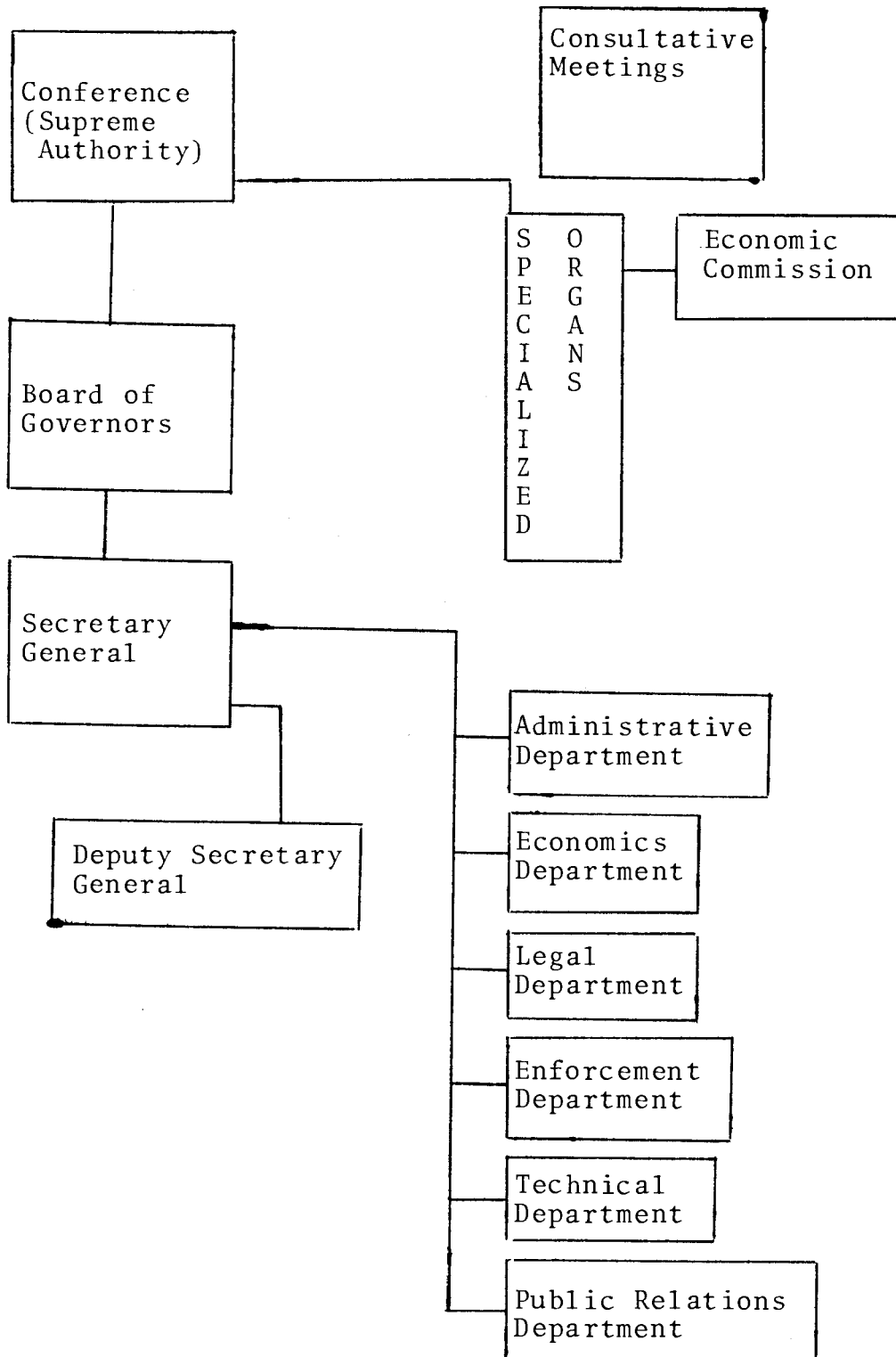


Figure I.2

Structure of OPEC

of the general policy of the organization and determination of the appropriate ways and means of its implementation; decisions upon application for membership; and approval of any amendments to the Statute. In addition, all matters not expressly assigned to other organs of OPEC fall within the responsibility of the Conference.

The Board of Governors, as outlined in the Statute, is empowered to manage the affairs of OPEC.¹⁴ Each Governor has one vote and unlike the Conference, a simple majority of attending Governors is sufficient for concluding decisions. The functions of the Board range from directing the management of the affairs of the organization and the implementation of the decisions of the Conference, to the consideration of amendments to the Statute proposed by any member country.¹⁵ An approval of proposed amendments to the Statute is forwarded to the Conference. This procedure of Statute amendment is rather unusual on two counts. Firstly, it creates unnecessary duplication. In a case where the Board of Governors approves a proposed amendment by less than a unanimous vote, the country or countries who opposed the amendment could defeat it at the Conference (assuming

¹⁴Statute, Article 20.

¹⁵Statute, Article 44.

that consideration is given to the lack of 'veto' power of an associate member. Secondly, the Secretariat, "which implements the Statute and is in a better position to discover its short-comings, is precluded from the right of proposing amendments."¹⁶

The Secretariat carries out the executive functions of OPEC under the direction of the Board of Governors.¹⁷ The positions of Secretary General and Deputy Secretary General, and six departments, namely: Administration Department, Economics Department, Legal Department, Enforcement Department, Technical Department, and Public Relations Department, make up the Secretariat. The Secretary General is the legally authorized representative of OPEC. The Secretaries General were originally appointed for one year and selected from among the nationals of member countries, according to the alphabetical order in the case of founder members and subsequently, according to the date of admission in the case of the other members. However, as Kubbah comments:

"That system of appointment resulted in a loss of efficiency at the Secretariat,

¹⁶Kubbah, p. 29.

¹⁷Statute, Article 25.

and sometimes embarrassment. For one year was too short a period to get acquainted with the job and perform a useful service to the Organization. For another, the alphabetical order could bring mediocrities to this leading position, who can do more harm than good."¹⁸

The appointment time-span did not allow for continuity of management. Thus, in June 1970, Article 28 of the Statute was amended to ensure continuity and strength by the lengthening of tenure to three years, and by instituting a minimum level of qualification in order to ensure the appointment of high calibre personnel to the post.¹⁹ Officially, the staff of the Secretariat are international employees, and as such are expected neither to seek nor accept instructions from any government or from any other authority outside the organization.²⁰

¹⁸Kubbah, p. 30.

¹⁹See OPEC Resolution XX.117, June 1970.

²⁰Statute, Article 32.

APPENDIX II

STATUTE OF THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES

Chapter I

ORGANIZATION AND OBJECTIVES

Article 1

The Organization of the Petroleum Exporting Countries (OPEC), hereinafter referred to as "the Organization," created as a permanent intergovernmental organization in conformity with the Resolutions of the Conference of the Representatives of the Governments of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, held in Baghdad from September 10 to 14, 1960, shall carry out its functions in accordance with the provisions set forth hereunder.

Article 2

A. The principal aim of the Organization shall be the coordination and unification of the petroleum policies of Member Countries and the determination of the best means for safeguarding their interests, individually and collectively.

B. The Organization shall devise ways and means of ensuring the stabilization of prices in international crude-oil markets with a view to eliminating harmful and unnecessary fluctuations.

C. Due regard shall be given at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on their capital to those investing in the petroleum industry.

Article 3

The Organization shall be guided by the principle of

the sovereign equality of its Member Countries. Member Countries shall fulfill, in good faith, the obligations assumed by them in accordance with this Statute.

Article 4

If, as a result of the application of any decision of the Organization, sanctions are employed, directly or indirectly, by any interested company or companies against one or more Member Countries, no other Member shall accept any offer of a beneficial treatment, whether in the form of an increase in oil exports or in an improvement in prices, which may be made to it by such interested company or companies with the intention of discouraging the application of the decision of the Organization.

Article 5

The Organization shall have its headquarters at the place the Conference decides upon.

Article 6

English shall be the official language of the Organization.

Chapter II

MEMBERSHIP

Article 7

A. Founder Members of the Organization are those countries which were represented at the First Conference, held in Baghdad, and which signed the original agreement of the establishment of the Organization.

B. Full Members shall be the Founder Members as well as those countries whose application for membership has been accepted by the Conference.

C. Any other country with a substantial net export of crude petroleum, which has fundamentally similar interests to those of Member Countries, may become a Full Member of

the Organization, if accepted by a majority of three-fourths of Full Members, including the concurrent vote of all Founder Members.

D. A net petroleum-exporting country which does not qualify for membership under paragraph C above may nevertheless be admitted as an Associate Member by the Conference under such special conditions as may be prescribed by the Conference, if accepted by a majority of three-fourths including the concurrent vote of all Founder Members.

No country may be admitted to Associate Membership which does not fundamentally have interests and aims similar to those of Member Countries.

E. Associate Members may be invited by the Conference to attend any meeting of a Conference, the Board of Governors or Consultative Meetings, and to participate in their deliberations without the right to vote. They are, however, fully entitled to benefit from all general facilities of the Secretariat including its publications and library as any Full Member.

F. Whenever the words "Members" or "Member Countries" occur in this Statute, they mean a Full Member of the Organization unless the context otherwise demonstrates to the contrary.

Article 8

A. No Member of the Organization may withdraw from membership without giving notice of its intention to do so to the Conference. Such notice shall take effect at the beginning of the next calendar year after the date of its receipt by the Conference, subject to the Member having at that time fulfilled all financial obligations arising out of its membership.

B. In the event of any country having ceased to be a Member of the Organization, its readmission to membership shall be made in accordance with Article 7, paragraph C.

Chapter III

ORGANS

Article 9

The Organization shall have three organs:

- I. The Conference;
- II. The Board of Governors; and
- III. The Secretariat.

- I. The Conference

Article 10

The Conference shall be the supreme authority of the Organization.

Article 11

A. The Conference shall consist of delegations representing the Member Countries. A delegation may consist of one or more delegates, as well as advisers and observers. When a delegation consists of more than one person, the appointing country shall nominate one person as the Head of the Delegation.

B. Each Member Country should be represented at all Conferences; however, a quorum of three-quarters of Member Countries shall be necessary for holding a Conference.

C. Each Full Member Country shall have one vote. All decisions of the Conference, other than procedural matters, shall require the unanimous agreement of all Full Members. In the case of a Full Member being absent from the Conference, the decisions of the Conference would become effective unless the said Member informs the President of the Conference to the contrary at least ten days before the date fixed for publication of the Resolutions.

D. A Non-Member country may be invited to attend a Conference as Observer, if the Conference so decides.

Article 12

The Conference shall meet twice a year. However, an extraordinary meeting of the Conference may be convened at the request of a Member Country by the Secretary General, after consultation with the Chairman of the Board of Governors after agreement of a simple majority of the Member Countries.

Article 13

The Conference shall normally be held at the headquarters of the Organization, but it may meet in any of the Member Countries, or elsewhere as may be advisable.

Article 14

A. The Conference shall elect a President at its first Preliminary Meeting.

B. The President shall hold office for the duration of the Conference, and shall retain the title until the next Conference.

C. The President of the Conference shall officiate, in the same capacity, at any Consultative Meeting or meetings which may be held between the closure of the Conference and the opening of the next.

D. The Secretary General shall be the Secretary of the Conference.

Article 15

The Conference shall:

1. formulate the general policy of the Organization and determine the appropriate ways and means of its implementation;
2. decide upon any application for membership of the Organization;
3. confirm the appointment of Members of the Board of Governors;
4. direct the Board of Governors to submit reports or make recommendations on any matters of interest to the Organization;
5. consider, or decide upon, the reports and recommendations submitted by the Board of Governors on the affairs of the Organization;
6. consider and decide upon the Budget of the Organization, as submitted by the Board of Governors;

7. consider and decide upon the Statement of Accounts and the Auditor's Report, as submitted by the Board of Governors;
8. call a Consultative Meeting for such Member Countries, for such purposes and in such places, when the Conference deems fit;
9. approve any amendments to this Statute;
10. appoint the Chairman of the Board of Governors;
11. appoint the Secretary General;
12. appoint the Deputy Secretary General; and
13. appoint the Auditor of the Organization for a duration of one year.

Article 16

All matters that are not expressly assigned to other organs of the Organization shall fall within the competence of the Conference.

II. The Board of Governors

Article 17

A. The Board of Governors shall be composed of Governors nominated by the Member Countries and confirmed by the Conference.

B. Each Member of the Organization should be presented at all meetings of the Board of Governors; however, a quorum of two-thirds shall be necessary for the holding of a meeting.

C. When, for any reason, a Governor is prevented from attending a meeting of the Board of Governors, a substitute ad hoc Governor shall be nominated by the corresponding Member Country. Such nomination shall not require confirmation by the Conference. At the meetings which he attends, the ad hoc Governor shall have the same status as the other Governors, except as regards qualifications for chairmanship of the Board of Governors.

D. Each Governor shall have one vote. A simple majority vote of attending Governors shall be required for decisions of the Board of Governors.

E. The term of office of each Governor shall be two years.

Article 18

A. The Board of Governors shall meet no less than twice each year, at suitable intervals to be determined by the Chairman of the Board, after consultation with the Secretary General.

B. An extraordinary meeting of the Board of Governors may be convened at the request of the Chairman of the Board, the Secretary General, or two-thirds of the Governors.

Article 19

The meetings of the Board of Governors shall normally be held at the headquarters of the Organization, but they may also be held in any of the Member Countries, or elsewhere as may be advisable.

Article 20

The Board of Governors shall:

1. direct the management of the affairs of the Organization and the implementation of the decisions of the Conference.
2. consider and decide upon any reports submitted by the Secretary General;
3. submit reports and make recommendations to the Conference on the affairs of the Organization;
4. draw up the Budget of the Organization for each calendar year and submit it to the Conference for approval;
5. nominate the Auditor of the Organization for a duration of one year;

6. consider the Statement of Accounts and the Auditor's Report and submit them to the Conference for approval;
7. approve the appointment of the Chiefs of Departments, upon nomination by the Member Countries, due consideration being given to the recommendation of the Secretary General;
8. convene an extraordinary meeting of the Conference;
9. nominate a Deputy Secretary General for appointment by the Conference; and
10. prepare the Agenda for the Conference.

Article 21

The Chairman of the Board of Governors shall be appointed by the Conference from among the Governors for a period of one year, in accordance with the principle of alphabetical rotation. The date of membership in the Organization, however, shall take precedence over the principle of alphabetical rotation.

Article 22

The Chairman of the Board of Governors shall:

1. preside over the meetings of the Board of Governors;
2. attend the headquarters of the Organization in preparation for each meeting of the Board of Governors; and
3. represent the Board of Governors at Conferences and Consultative Meetings.

Article 23

Should a majority of two-thirds of Governors decide that the continuance of membership of any Governor is detrimental to the interests of the Organization, the Chairman of the Board of Governors shall immediately communicate this decision to the Member Country affected, who in turn shall nominate a substitute for the said Governor before the next meeting of the Board of Governors. The nomination of

such substitute as a Governor shall be subject to confirmation by the following Conference.

Article 24

Should a Governor, for any reason, be precluded from continuing in the performance of his functions on the Board of Governors, the corresponding Member Country shall nominate a replacement. The nominated Governor shall assume his functions upon nomination subject to confirmation by the following Conference.

III. The Secretariat

Article 25

The Secretariat shall carry out the executive functions of the Organization in accordance with the provisions of this Statute under the direction of the Board of Governors.

Article 26

The Secretariat of the Organization shall consist of the Secretary General, the Deputy Secretary General and such staff as may be required. It shall function at the headquarters of the Organization.

Article 27

A. The Secretary General shall be the legally authorized representative of the Organization.

B. The Secretary General shall be the chief officer of the Secretariat, and in that capacity shall have the authority to direct the affairs of the Organization, in accordance with directions of the Board of Governors.

Article 28

A. The Conference shall appoint the Secretary General for a period of one year. Such appointment shall be made in accordance with the principle of alphabetical rotation, first among the Founder Members and thereafter among other

Full Members, at which time date of membership shall take precedence over the principle of alphabetical rotation.

B. The Secretary General shall be a national of one of the Member Countries of the Organization.

C. The Secretary General shall reside at the headquarters of the Organization.

D. The Secretary General shall be responsible to the Board of Governors for all activities of the Secretariat. The functions of the different departments shall be carried out on his behalf and under his authority and direction.

E. The Secretary General shall attend all meetings of the Board of Governors.

Article 29

The Secretary General shall:

1. organize and administer the work of the Organization;
2. ensure that the functions and duties assigned to the different departments of the Secretariat are carried out;
3. prepare reports for submission to each meeting of the Board of Governors concerning matters which call for consideration and decision;
4. inform the Chairman and other Members of the Board of Governors of all activities of the Secretariat, of all studies undertaken and of the progress of the implementation of the Resolutions of the Conference; and
5. ensure the due performance of the duties which may be assigned to the Secretariat by the Conference or the Board of Governors.

Article 30

A. The Deputy Secretary General shall be selected by the Board of Governors from amongst the highly-qualified and experienced national candidates put forward by the Member Countries, for appointment by the Conference.

B. The term of service of the Deputy Secretary General shall be for a period of three years. It may be extended for a period of one year or more, at the suggestion of the Board of Governors and with the approval of the Conference.

C. The Deputy Secretary General shall reside permanently at the headquarters of the Organization.

D. The Deputy Secretary General shall be responsible to the Secretary General for the coordination of the technical and administrative activities of the Secretariat. The functions of the different departments are exercised under the general supervision of the Deputy Secretary General.

E. The Secretary General may delegate some of his authority to the Deputy Secretary General.

F. The Deputy Secretary General shall act for the Secretary General, whenever the latter is absent from headquarters.

Article 31

A. The Chiefs of Departments shall be appointed by the Secretary General, with the approval of the Board of Governors.

B. Officers of the Secretariat, upon nomination by their respective Governments, shall be appointed by the Secretary General in accordance with the Staff Regulations. In making such appointments, the Secretary General shall give due consideration, as far as possible, to an equitable nationality distribution among Members, but such consideration shall not be allowed to impair the efficiency of the Secretariat.

Article 32

The staff of the Secretariat are international employees with an exclusively international character. In the performance of their duties, they shall neither seek nor accept instructions from any government or from any other authority outside the Organization. They shall refrain from any action which might reflect on their position as international employees and they shall undertake to carry out their duties with the sole object of bearing the interests of the Organization in mind.

Article 33

The Secretary General shall be assisted in the discharge of his duties by the Deputy Secretary General, an Administration Department, an Economics Department, an Enforcement Department, a Public Relations Department, a Technical Department, and any other department as the Conference may decide.

Article 34

The Administration Department shall:

1. be responsible for all organization methods, general and Conference services, personnel matters, budgets, accounting and internal control;
2. study and review general administrative policies and industrial-relations methods used in the international petroleum industry which might affect the Organization or be of interest to it.

Article 35

The Economics Department shall:

1. review the economic aspects of the world petroleum industry and carry out a continuous program of economic studies, for the purpose of achieving a speedy and successful realization of the aims of the Organization;
2. undertake special economic studies of particular aspects of the international petroleum industry with a view of ascertaining where the best interests of the Member Countries lie; and
3. bring to the attention of the Secretary General any economic developments in the international petroleum industry which may affect the common interests of the Member Countries.

Article 36

The Enforcement Department shall:

1. follow up the implementation of the Resolutions and

- recommendations of the Conference which call for action by the Member Countries or by the Secretariat, and submit reports to the Secretary General on the progress made;
2. review the legal aspects of the world petroleum industry and carry out a continuous program of legal studies for the purpose of achieving a speedy and successful realization of the aims of the Organization.
 3. undertake special legal studies of particular aspects of the international petroleum industry, with a view of ascertaining where the best interests of the Member Countries lie; and
 4. bring to the attention of the Secretary General any legal developments in the international petroleum industry which may affect the common interests of the Member Countries.

Article 37

A. The Public Relations Department shall be responsible for:

1. the drawing up of programs for the public-relations activities of the Organization;
2. all public and press relations, maintaining the necessary contacts with all appropriate organizations and bodies in order to present the work of the Organization in its true and proper perspective;
3. all publications of the Organization; and
4. the maintenance and continuous expansion of the Information Center, including the establishment of an extensive Library.

B. Any public statement regarding the decisions taken by the Conferences, the Board of Governors or the Consultative Meetings shall be made solely through the Secretary General.

Article 38

The Technical Department shall:

1. review the technical aspects of the world petroleum industry and carry out a continuous program of technical studies for the purpose of achieving a speedy and successful realization of the aims of the Organization;
2. undertake special technical studies of particular aspects of the international petroleum industry with a view to ascertaining where the best interests of the Member Countries lie; and
3. bring to the attention of the Secretary General any technical aspects in the international petroleum industry which may affect the common interests of Member Countries.

Article 39

A. The Secretary General shall commission consultants, as necessary, to advise on special matters or to conduct expert studies when such work cannot be undertaken by the Secretariat.

B. The Secretary General may engage such specialists or experts, regardless of nationality, as the Organization needs, for a period to be approved by the Board of Governors, provided there is a provision for such appointment in the budget.

C. The Secretary General may at any time convene Working Parties to carry out any studies on specific subjects of interest to the Member Countries

Chapter IV

CONSULTATIVE MEETINGS AND SPECIALIZED ORGANS

Article 40

A. A Consultative Meeting shall be composed of Heads of Delegations of Member Countries or their representatives.

B. In case a Conference is not in session, a Consultative Meeting may be convened at any time at the request of the President of the Conference.

C. The Agenda of each Consultative Meeting shall be prepared by the President of the Conference, unless it has been previously specified by the Conference itself.

D. The Consultative Meeting may pass decisions or recommendations to be approved by the next Conference unless otherwise authorized by a previous Conference.

Article 41

A. The Conference may establish specialized organs, as circumstances require, in order to assist in resolving certain problems of particular importance. The specialized organs shall function in accordance with the Resolutions or Statutes prepared to that effect.

B. The specialized organs shall operate within the general framework of the Secretariat of the Organization, both functionally and financially.

C. The specialized organs shall act at all times in accordance with the principles of the Organization, as set out in the Resolutions of the Conference.

Chapter V

FINANCIAL PROVISIONS

Article 42

A. The Budget of the Organization shall be drawn up for each calendar year.

B. The Conference, in accepting any Associate Member to the Organization, shall ask it to pay a fixed annual subscription to be considered as its financial contribution to the Organization.

C. Budget appropriations shall be apportioned on an equal basis among all Member Countries, after taking into consideration the annual subscriptions of the Associate Members.

Article 43

A. Each Member Country shall bear all expenses incurred in sending delegations or representatives to Conferences, Consultative Meetings and Working Parties.

B. The Organization shall bear the travelling expenses and remuneration of the Governors who attend the meetings of the Board of Governors.

Chapter VI

ADDITIONAL PROVISIONS

Article 44

Amendments to this Statute may be proposed by any Member Country. Such proposed amendments shall be considered by the Board of Governors which, if it so decides, shall recommend their adoption to the Conference.

Article 45

All Resolutions contrary to the context of this Statute shall be abrogated.

Article 46

This Statute shall be applied from the 1st May 1965.

APPENDIX III

SUMMARY OF OAPEC CHARTER

The following is a summary of the main features of the Charter of the Organization of Arab Petroleum Exporting Countries (OAPEC):

Aims and Objectives: The OAPEC Charter emphasizes the essentially economic and commercial character of the new organization. Article 2 states that its main aim is to promote co-operation between its members "in various forms of economic activity in the oil industry, and the realization of the closest ties between them."

The Organization also aims "to determine the ways and means of safeguarding the legitimate oil interests of its members, whether individually or collectively, to unify their efforts so as to ensure the flow of oil to its consumption markets at fair and reasonable terms, and to create a favorable climate for the capital and expertise invested in the oil industry in the member countries."

The more specific aims of OAPEC include the following:

- Coordination of the "economic oil policies" of member states.
- Harmonization of the legal systems of the member states to the extent necessary to enable the Organization to carry out its activities.
- Exchange of information and expertise, and the creation of training and employment opportunities for citizens of member countries wherever possible.
- Cooperation between member states in working out solutions to the problems which they face in the oil industry.
- Utilization of the common resources and potentialities of member states in undertaking joint oil industry projects.

Relationship with OPEC: Article 3 stipulates that the provisions of the OAPEC Charter shall not be deemed to affect those of the agreement establishing OPEC "especially in so far as the rights and obligations of OPEC member states are concerned." It also states that the parties to the OAPEC Charter are "bound by the ratified resolutions of OPEC and must abide by them even if they are not members of OPEC."

Character of Organization: Article 4 stipulates that "OAPEC possesses a juridical personality and can own movable and immovable property." It will enjoy such immunities and privileges as are necessary for the performance of its functions.

Relations with Other Organizations: Article 5 states that OAPEC may conclude agreements with its own member states, with other countries, with federations of states or with international organizations, with particular emphasis on agreements for the establishment of joint oil ventures.

Membership: Article 7 defines the founding members of OAPEC as those who have signed the Charter and states that membership in the Organization is open to any Arab state provided it fulfills the following conditions:

- Oil should constitute the "principal and basic source of its national income."
- It should be prepared to abide by the provisions of the Charter and its amendments.
- The "Council" of the Organization (Article 8) should approve its membership by a three-quarters majority vote which must include all the votes of the founding members.

Organization: Article 8 provides that OAPEC shall carry out its functions through four bodies as follows:

1. A Council of Ministers composed of one representative from each of the member states, normally the oil minister or an official of equivalent rank with responsibility for oil affairs. The chairmanship of the Council of Ministers is to rotate among the various representatives according to the alphabetical order of the member states (one-year term).
2. An Executive Bureau composed of one representative from each of the member states, with the chairmanship of the bureau rotating among the various representatives according to the alphabetical order of the member states (one-year term).

3. A Secretariat headed by a Secretary General (three-year term) and a maximum of three Assistant Secretaries General (four-year term). The Secretary General is appointed by the Council of Ministers.

4. A Court which is to be established by a special protocol to be appended to the Charter. The Court's competence covers: (i) disputes regarding the interpretation of the Charter; (ii) disputes which may arise between the member states regarding oil matters; and (iii) disputes which, in the opinion of the Council of Ministers fall within the jurisdiction of the Court.

The Court's jurisdiction may be extended to cover the following matters, subjects to the agreement of the parties in dispute:

- Disputes which may arise between any member and the oil companies operating in the territory of that member.
- Disputes which may arise between any member state and an oil company or companies belonging to another member country.
- Disputes, other than those specified above, which may arise between two or more members of the Organization.

Ratification: The Charter is to be ratified by the signatory parties in accordance with their constitutional procedure and the original of the instruments of ratification shall be deposited with the Kuwait Government within one month of the date of signing of the Charter.

The Charter will come into effect on the first day of the month following the deposition of the instruments of ratification by the members. If, however, this takes place in the latter part of a month, the agreement will come into effect on the first day of the second month following.

Source: Middle East Economic Survey, XI, I, 12 January, 1968.

APPENDIX IV

CHRONOLOGY OF OIL-RELATED EVENTS

Date	Event
1960	
September	Five leading oil-exporting countries founded the Organization of Petroleum Exporting Countries (OPEC) as an intergovernmental, inter-regional organization, whose purpose was the protection of their common oil interests.
1970	
December 1-9	OPEC's Twenty-first Conference, held in Caracas. This conference may well be termed a historical meeting. As a result of its Resolutions, the now ten-member Organization finally achieved, after a lapse of ten years, the principal objective that brought its five founder members together in 1960. (emergence of a seller's market with regard to oil).
1971	
February 14	Tehran Agreement - first instance of

Date	Event
1971	negotiations on a regional basis. The companies were persuaded to accept that approach after diplomatic contacts between the U.S. Government and some Gulf countries had taken place.
April 2	Spill-over agreement from Tehran. After lengthy and difficult bargaining a compromise was reached between the Government of Libya and the oil companies - Tripoli Agreement.
1973	Vienna - thirty-fourth Conference. A review and examination of the terms of the Tehran and Tripoli Agreements called for in light of trends in the oil market and the growing world inflation.
June 27-28	Libya nationalizes 51 percent of oil industry in country.
1973	Outbreak of Arab-Israeli War.
September 1	Iraq nationalizes Exxon and Mobil Holdings
1973	
October 7	

Date	Event
1973	in Basrah Petroleum Company.
October 8-10	Meeting between Gulf state oil producers and oil companies concerning revisions of Tehran Agreement fail.
1973	"Gulf Six" unilaterally raise posted price of crude.
October 16	Call for use of oil "weapon" in the Arab-Israeli conflict.
1973	OAPEC impose embargo against the United States and the Netherlands.
October 19-28	Oil production cutback - 25% less September level.
1973	Embargo extended to Portugal, Rhodesia, and South Africa.
November 23	"Gulf Six" decide to raise posted price of marker crude to \$11.65 per barrel effective January 1, 1974.
December 22-24	

Date	Event
1974	
March 17	<p>Embargo against the United States is lifted.</p> <p>Embargo against the Netherlands is lifted.</p> <p>European Economic Community and OAPEC to have regular contacts and exchange technical information - decision - create a "permanent general commission" composed of representatives of all 29 intersted states.</p>
1975	
January	Libyan embargo on exports to U.S. lifted.
1975	
January 24-26	<p>What was described as OPEC's first political meeting takes place in Algiers. The communique issued after the meeting endorsed the Algerian call for any international conference on energy to cover also "the problem of raw materials and development, as suggested by France."</p>
1975	
April 7-15	<p>International Economic Co-operation Conference, Paris Conference. Failure of meeting to agree on conference agenda between OPEC and OECD and representatives of the United Nations. Unable to reconcile the diametr-</p>

Date	Event
1975	ically opposed viewpoints of the EEC, the United States, and Japan on the one hand and the developing countries, including the three non-members of OPEC (Brazil, India, Zaire), on the other.
October 13-16	Second preparatory meeting for "International Economic Co-operation." Succeeded in reaching agreement on the issues previously in dispute. Conference to open December 6 in Paris; the principal purpose of the conference would be to set-up four expert-level commissions, on energy, raw materials, development and related financial questions.
1975	International Economic Co-operation Conference; agreement on commissions.
1975	Temporary seizure by pro-Palestinian terrorists of leading representatives of Member-states of OPEC, in Vienna.
1975	Termination of seizure of OPEC ministers.
December 23	

Date	Event
1976	
January 14	New government of Ecuador reaffirms ties with OPEC.
1976	
June 8	Libyan Petroleum Minister Izzedin Alu Mabrouk told a news conference that his government favoured Saudi Arabia's ouster from OPEC if it continued to oppose price boosts by OPEC member countries.

APPENDIX V

UN VOTING RECORDS OF SELECTED COUNTRIES ON A RANDOM SAMPLING OF ISSUES: 1967-1975

1967

1. issue draft resolution A/PV 1548 call for Israeli withdrawal immediately to pre-June 5 positions.

1968-1969

negligible General Assembly debate on Middle East problems as a whole. Gunnar Jarring, was continuing his efforts.

1970

2. issue A/L 604 Calls for reactivating the Jarring talks. Serious concern over deteriorating Middle East situation.
3. issue A/8097 Resolution 2750 Calls on Israel to implement the recommendations, on human rights, of document A/8097.

1971

4. issue A/8547 Resolution 2792D (XXVI) Declares the destruction of refugee shelters and the forcible

removal of their occupants to other places outside the Gaza Strip, contravenes the Articles 49 and 53 of the Geneva Convention; calls on Israel to stop.

5. issue A/8933 Resolution 2946 (XXVII) calls on Israel to desist from the annexation of any part of occupied Arab territories.

1972

6. issue A/8917: refuses and asks all states to refuse recognition of any changes and measures carried out by Israel in occupied Arab Territories.
7. issue Resolution A/8915 2963 D (XXVII): calls on Israel to return all Gaza Strip refugees to their camps and provide adequate shelters.
8. issue Resolution A/8879 2963 F (XXVII): stresses the right of the Palestinian peoples to self-determination.
9. issue A/8980: Human Rights - Middle East, asks Israel to stop its policies affecting the human rights of population of the Occupied Territories.

1973

10. issue A/9374, Resolution 3092 (XXVIII): calls on Israel to comply with provision of the Geneva Convention relative to the Protection of Civilian

Persons in time of war.

1973 - December

11. issue A/PV 2203. Territories Occupied by Israel: natural resources; sovereignty.

1974 - November

12. issue A/PV 2296. PLO: observer status in U.N.
13. issue A/PV 2296. Palestine Question.
14. issue A/PV 2303. Human Rights.
15. issue A/PV 2322. Territories Occupied by Israel: refugees; repatriation.
16. issue A/PV 2399. Mid-East Situation: U.N. deliberations; participation of PLD.

1975

17. issue A/PV 2400. Zionism: characterization as form of racism and racial discrimination.
18. PLO: participation in Security Council S/PV 1870.
19. Palestine Refugee Camps: Israeli attacks S/PV 1862.
20. issue A/PV 2441. Special Committee to Investigate Israeli Practices Affecting The Human Rights Of The Population Of The Occupied Territories: work; continuation.
21. issue A/PV 2441. Civilian Persons: protection in time of war; Geneva Convention 1949; observance by Israel.

SAMPLING OF ISSUES WITH RESPECT TO THE ARAB-ISRAELI CONFLICT

I S S U E N U M B E R

COUNTRY	December 1973																							
	11	12	13	14	15	16	17	18	19	20	21													
July 1967																								
December 1975																								
BELGIUM	N	Y	N	A	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
COLUMBIA	N	Y	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
DENMARK	N	Y	N	N	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
ECUADOR	N	Y	N	Y	Y	Y	NP	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
FRANCE	Y	N	Y	A	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
GABON	Y	A	Y	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
GREECE	N	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
INDIA	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
INDONESIA	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
IRAN	Y	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
ITALY	N	Y	Y	N	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
JAPAN	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
JAPAN	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
MALTA	A	A	Y	A	Y	A	NP	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
MEXICO	N	Y	Y	A	NP	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
NIGERIA	Y	A	Y	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
PORTUGAL	A	A	Y	A	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
TRINIDAD/TOBAGO	N	Y	Y	A	Y	Y	NP	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
UNITED KINGDOM	N	A	Y	A	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
UNITED STATES	N	Y	Y	A	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
VENEZUELA	Y	Y	Y	A	Y	Y	NP	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
W. GERMANY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
NETHERLANDS	N	Y	Y	N	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
CHAD	A	N	Y	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	

The countries indicated lie outside the communist and Arab blocks.

Y - Yes A - Abstain
 N - No NP - Not Participating

Source: Compiled from data in Lynn Schopen et. al., Nations On Record: United Nations General Assembly Roll-Call Votes (1946-1973), Oakville-Dundas, The Canadian Peace Research Institute, 1975 and UNDEX (U.N. Documents Index), New York, 1-74-1976.

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