

Embargo till thursday 20 hours.

**RELATIONS BETWEEN OIL PRODUCERS  
AND CONSUMERS : DIALOGUE OR CONFRONTATION ?**

SPEECH BY  
Mr. Henri SIMONET  
Vice-President  
of the Commission of the European Communities  
to the  
Solus Club of London  
on  
April 17, 1975

RELATIONS BETWEEN OIL PRODUCERS AND CONSUMERS:  
DIALOGUE OR CONFRONTATION?

---

More than a year and a half have passed now since the oil crisis blew up, or rather since it reached political flashpoint with the unilateral decision of a group of producer countries to take their destinies in their own hands when, in Kuwait on 16 October 1973, they resolved to control output and prices themselves. They were able to take this eminently political decision so unexpectedly under cover of another crisis, equally political, which was rocking a Middle East already in turmoil. This was the pretext offered by the Yom Kippur War. But, as I have already said elsewhere, the OAPEC was in a position to take this decision only because it was the sequel to a process, a development in the world oil market situation. The extremely sharp rise in oil consumption, the excessive role - indeed the almost privileged role - played by oil in our total consumption of energy, the steady slide of the market from surplus to relative shortfall, largely as a result of the emergence of the USA as a major net importer of petroleum, together with the upsurge of nationalism in the producer countries and their organization as a cartel: these were the main factors which enabled a single spark to detonate a major crisis. And we are still feeling the effects of this today.

Basically, the situation has scarcely changed. Admittedly, there is less tension on the oil market. There is now a surplus production capacity estimated at some 6 million barrels per day. The supply crisis has been resolved

directly; petroleum is in abundant supply and the economic repercussions of the price increases have been found to be less serious than expected. Indeed, do we not hear on all sides that worldwide inflation is not the result only of the rise in oil prices? Do we not hear that the scale of the problem of recycling the capital which the producer countries suddenly have on their hands is less serious than had been feared? Have we not concluded that the problems are manageable?

I would agree that the world economy has shown a tremendous capacity for absorption. Economic systems, particularly financial systems, have adjusted amazingly quickly. But, while this prodigious adaptability means that pessimism is certainly not in order, I cannot help feeling that our energy supply situation is still bedevilled by too much uncertainty, that we are getting bogged down in detail in the elaboration of policies on substitute products to replace imported petroleum, and that energy costs are still weighing down heavily on an economy whose outlook is uncertain and which is mortgaged virtually to the limit.

Our position is indeed unstable and unsure. It is possible that the excess supply of oil in the market is only an appearance: a mild winter and the cutback in energy consumption provoked by the economic depression provide much more reliable explanations of the state of the market than the alleged success of the energy-saving policies which industrialized countries have apparently been able to pursue all of a sudden. Let us get one fact straight: the savings we made in 1974 were forced upon us. No country has genuinely established a rigorous and worthwhile programme for restricting energy consumption.

On the supply side too, the situation is still the same as that which sparked off

the 1973 crisis. Producer countries are still both willing and able to cut down the flow of oil. It may well be that the OPEC presents a less united front than before, for some of its members have embarked upon investment programmes on such a scale that they are pretty well forced to continue stepping up production while others, the richer among them, could easily put the brakes on. But the firmness of the tone adopted by the representatives of the producer side at the Paris preparatory meeting leaves me in no doubt as to their determination. It seems to me that their determination is further backed up by their very skillfully expressed desire to stand up as the poor nations' friend. We are all well aware that what one might call the "trialogue" between producer countries, rich consumer countries and poor consumer countries, which certain of us hoped would get under way in the International Energy Conference proposed by President Giscard d'Estaing, will end up as a debate with the rich on one side and the poor on the other. Here, it is curious to note that the producer countries have accused the industrialized countries of setting up a consumers' front in the OECD's International Energy Agency, while their whole strategy has been to establish a dual front on the other side, one of producer countries (OPEC) and one of needy countries. Cheerfully changing from front to front to suit the cause, playing on their ambivalent status as Third World countries, the diplomats of certain producer countries are making full use of the pressure they can bring to bear on an industrialized world sunk axle-deep in the quicksands of its energy needs, trying to remain wealthy but ashamed to say so to the poor countries.

In fact, there is no need for the producer countries to present a united front all the time in order to keep us guessing at the outlook for our supplies. It is enough for them to do so at times of crisis. By relaxing their position they foster the climate of optimism and tergiversation which makes it so tempting to put off the political

./.

decisions which are so essential for the long term.

We are in danger of prolonging this period of blurred and ambiguous procrastination, vacillating between dialogue and confrontation with the producers.

There is one point I should like to make here, an important one, as regards the pretexts for acute confrontation. These are still present. No settlement has been reached in the Middle East, and each development on the international political scene simply brings us up against new unknown factors. Apart from the question of Israel, there are other pretexts, no less worrying in a part of the world where the idea of "playing with fire" is not just a figure of speech.

The ambiguity of the situation lies not only in the organization of a dialogue, as can be seen clearly from the difficulties now being met in Paris simply in drawing up the agenda for an international conference where petroleum would be one item among others, but also in the positions taken by each camp.

As I have already said, the producer countries are playing at two tables; they are exploiting their power while taking advantage of the fact that they belong to the Third World. They, too, may hesitate as to what they are really aiming for: are they to cut back their production and use up their reserve stocks, are they to put their spare capital into development programmes, or are they to go for the profits to be drawn out of the economic and financial systems of the industrialized world?

Another thing is that they differ the one from the other: they differ socially, economically and politically. The only things which a country as vast, diversified, densely populated and socialist-oriented as the People's Republic of Algeria has in common with the Emirate of Abu Dhabi are oil, religion and language.

Yet the consumer countries are even more divided. Firstly, there is the radical difference in the degree of economic development which separates rich and poor, even though the poor stand to gain a great deal if the rich bring pressure to bear on the producers to cut their energy bill.

But the rich countries, the industrialized countries, are not so closely knit as the producer countries allege. Admittedly, there is the International Energy Agreement signed in Paris on 18 November last year. However, a number of countries, among them France, are not taking part in the Agreement; this is one factor making for diversity, which some find irksome and some find pleasing.

But within the Agency, although the parties to the Agreement have paid lip-service to the idea of cooperation, are they ready to make the efforts needed in order to prove that they really wish to cooperate? There is a world of difference between the commitment entered into by a State in signing a general declaration of a diplomatic and political nature and an undertaking which binds it to take concrete measures affecting public funds and the budget.

Here we cannot help but conclude that we have not yet gone particularly far in expressing international solidarity in any form other than declarations of intent. The only really binding commitment so far

entered into is the machinery for allocating oil resources in times of crisis. All the other programmes are still at the intention stage and, let us bear this in mind, will require further international agreements which will apparently have to operate case by case, whether the promotion of alternative resources or research and development are involved.

The interests of the consumer countries are not always the same. America, Europe and Japan have basic grounds for advocating courses of action which may well differ. Take the question of the "floor price", for instance, where there are in fact two lines of argument. America has its own energy resources whose development would be guaranteed if the threshold of profitability of private investment was also guaranteed. But this will only be possible if the price of the reference source of energy, in this case oil, cannot vary too much nor fall so sharply as to jeopardize decisions already taken to invest in alternative sources of energy. The proposed floor-price system is based on the fundamental American belief in a market economy operating subject to "safeguards". For Europe, the really fundamental question would be the level of the floor price, for there is little doubt that the negotiations which must eventually get under way with the producer countries will hinge upon this. Furthermore, there is a long-standing conviction in Europe that special financing arrangements (deficiency payments) can be set up when the situation so requires. This is why we have spoken in favour of a system involving three reference price levels: the first would be relatively low and would set a limit below which market forces would play freely; secondly, there would be a price

level at which financing and guarantee measures would be taken for the development of alternative sources; the third level would correspond to specific measures of restricted scope paid for out of public funds without direct consideration for the general level of prices.

This simple example shows just how far the consumer countries are from adopting a consistent approach. It is hardly surprising if we cannot see where we are going in the dialogue with the producer countries. Our interests are not the same, our ideas do not run along the same lines, and the result is procedural disagreement such as that witnessed at the preparatory meeting for the international conference canvassed by President Giscard d'Estaing.

The question is now : why the preparatory meeting in Paris did not achieve success?

In my opinion, there are some principle reasons involved, as well as reasons related to procedure and timing.

As for the principles, I must admit that the Parties involved came to preparatory meeting with opposed interests and views concerning the real goal to achieve in the main conference and the contract within which the various issues would be discussed. In fact, while the industrialized countries had in mind a discussion centered around energy, the others wanted to profit of such an occasion to debate the whole range of issues relating to the establishment of a new world economic order.

As far as the procedure is concerned, widely differing views were presented by the Parties concerning such issues as the participation of the International Energy Agency to the main conference and to a certain extent, its composition.

Last but not least, the timing of the preparatory meeting was perhaps fixed without having given enough opportunities to sufficient preparatives and preliminary contacts through the appropriate channels.



This meeting has undoubtedly brought us some useful lessons.

The most important one, in my opinion, being the demonstration of cohesion among the Third World and the emergence role of some oil producing countries as its leaders.

This cohesion has represented a decisive factor in the development of the debates, and it must be undervalued in devising our future strategy.

However, it appeared also, during the discussions, that a certain number of basic problems, linked to energy are common to all Parties, and that a solution to them must be sought only through cooperation.

In particular, it was recognized that such problems as raw materials and development could not find equitable solution without the will of the industrialized world.

That meeting at least provided an opportunity to highlight the really fundamental questions. These are the extension of the dialogue to products other than oil, the problem of indexation and guaranteeing the incomes of producers. There is also the problem of the participation of producer and consumer organizations in such conferences. The main problem, however, is the truly remarkable phenomenon of the politicization of the whole dialogue, which amply illustrates the fact that the oil market is not and will never be what it was in the past when deliveries and prices were decided on at the headquarters of the oil companies. Henceforth, the game will be played between States. It is up to them to decide whether or not they want a dialogue, whether or not they want to avoid confrontation.