US-OPEC tensions over rising oil prices

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Surging world oil prices are leading to increasing tensions between the United States and the Organisation of the Petroleum Exporting Countries (OPEC) as concerns grow in the US over the impact of the price hikes on the American economy.

The rise in oil prices to $34 per barrel—the highest level in 10 years—has been cited as one of the reasons for Tuesday's 374-point fall in Wall Street's Dow Jones Index, the fourth largest ever points decline and the biggest drop in the market since the Russian default crisis in September 1998.

Rising oil prices prompted a tour by US Energy Secretary Bill Richardson to some of the leading oil producing countries in a bid to secure increased output but he returned without definite commitments.

Prices for world oil have risen to the present levels from a 1998 low of $US10 per barrel mainly due to an agreement reached in March 1999 between OPEC member nations Saudi Arabia, Venezuela, Kuwait, the United Arab Emirates, Iran, Iraq and Algeria and by four non-OPEC countries, Mexico, Russia, Norway and Oman to cut their combined output to arrest the slump in prices.

The agreement has reduced the daily output by around 5 million barrels to some 75 million barrels compared to world consumption of approximately 77 million barrels.

As far as the oil producing countries are concerned, the price increases are merely compensation for the massive losses they suffered when prices were cut by half in December 1998.

In a recent interview with the BBC, Rilwana Lukman, the outgoing general secretary of OPEC, stated that he expected the price of crude oil to stabilise at around US$25 a barrel. He estimated that the slump a year ago cost the oil producing countries$50-$60 billion in export revenue.

Lukman said the current prices were not unusually high and that three or four years ago they were around $25-26 per barrel before sliding precipitously to $10.

But with the US economy increasingly dependent on falling raw material prices to hold back inflation and sustain the stockmarket, the increase in oil prices—even if only to levels which prevailed in the past—has sparked nervousness about the economic outlook.

In a recent article entitled "Look Out, Oil Power Is Here Again," leading *Washington Post* financial journalist Robert Samuelson pointed out that while higher oil prices alone "might not cause a recession" interest rates were also increasing, the stockmarket was drifting lower and that "all these developments could weaken consumer spending, the pillar of America's economic boom."

The article went on to point to the political and military issues that are so intimately bound up with oil. If prices drifted up from $30 a barrel, Saddam Hussein could demand the end of economic sanctions against Iraq "because the world will need Iraq's oil to maintain price stability."

"A confrontation may occur just before the US presidential election. This highlights the true oil problem. Two thirds of known oil reserves lie in the Middle East. While that is so, catastrophic disruptions remain a chronic threat. The United States ought to fortify itself against the worst by expanding its strategic petroleum reserve and prudently discouraging oil use through taxes. Oil power endures."

The world's two largest economies, the US and Japan are highly dependent on imported oil. Continuing high oil prices will have a significant impact on both economies, which in turn will severely affect the world economy. The US currently imports about 55 percent of its consumption and its own domestic production is said to have fallen in 1999 to its lowest level in 50 years.

Japan imports 99.7 percent of its oil. Economists have attributed Japan's shrinking trade surplus to the current high oil prices. Its trade surplus decreased more than 30 percent in January according to Japan's Finance Ministry.

Of major concern in the US is the effect current oil prices will have on economic growth and its growing balance of payments gap. The stock market boom in the US, which has been central to domestic growth and the growth of the world economy, has been sustained by low inflation, made possible in part by falling oil prices.

Last month the US Commerce Department reported that the US trade deficit for the whole of 1999 was a record $271.3 billion, 65 percent more than the previous record of $164.3 billion. Rising oil prices have already had an impact. Although exports increased by 2.7 percent in 1999, imports rose by 12 percent, boosted by a 33 percent increase in the dollar value of oil imports.

While the value of the US dollar continues to remain high and the payments gap is still being covered by the inflow of foreign capital, US financial authorities are aware that it cannot expand indefinitely. They fear that at a certain point a shock, such as oil price increases, could trigger a slide in the dollar, threatening interest rate rises and a recession.

These considerations have led to increased tensions between the US and the oil producing countries, OPEC and non-OPEC. Richardson returned largely empty-handed from his tour, with only Saudi Arabia, Mexico, Venezuela and Kuwait agreeing to increase output but without making a firm commitment on production levels or a time frame. Oil industry analysts predict that oil prices will remain at their present level or may rise leading up to the next OPEC meeting scheduled for March 27 in Vienna.

Demands have been made in the US for President Bill Clinton to release oil into the US market from the country's Strategic Petroleum Reserves (SPR) to increase levels in order to force prices for heating oil and gasoline down. However Richardson has opposed these demands.

“This is not an emergency supply problem,” he said, “it's a price problem. We should use the SPR when it's only dire national emergencies, and this is not a national emergency.”

Other forces are looking for stronger action by the US. Last week, the chairman of the US House International Relations Committee, New York Republican senator Benjamin Gilman said he would introduce legislation to cut off US assistance and arms sales to OPEC members and other oil exporting nations that engage in oil price fixing to the detriment of the US economy.

Gilman told a committee hearing on US oil policy: “As our dependency on foreign oil has increased over the past decade, the administration has fallen short, thus far, in its efforts to persuade OPEC and non OPEC nations alike to moderate their aggressive policies designed to punish oil importing nations.”

This was followed by calls from the chairman of the US House Banking Committee, Republican Jim Leach of Iowa, for the US and other oil importing nations to file an international anti-trust lawsuit against OPEC for its price fixing activities.