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OAPEC AND AFESD

OIL MONEY AND ARAB ECONOMIC COOPERATION

by

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Pre-1967 Failures in Arab Economic Cooperation

In the Arab world, proposals for an organisation for economic cooperation has been in the air at least since 1945, when the Pact of the League of Arab States stipulated the establishment of an Economic Committee. The function visualised for this organisation was to bring close cooperation among members regarding "economic and financial affairs, including commercial relations, customs, currency, and questions of agriculture and industry."[1] Later in 1950, the members of the Arab League signed a special treaty for "Joint Defense and Economic Cooperation,"[2] which led to the establishment of an Economic Council to which member countries sent their ministers in charge of economic affairs. Among other steps taken by it, the Economic Council made a decision in 1967 to establish an Arab Financial Institution for Economic Development. The Arab League worked closely with the World Bank in preparing a study to examine the need for such an institution, since the Arab institution's functions were based on those of the World Bank, the only difference being their regional basis.

The institution which grew out of this effort was the Arab Development Bank which was formally inaugurated in January, 1957, but reported little activity in later years. Writing in 1964, Robert Macdonald stated: "In retrospect it appears that the establishment of the Arab Development Bank has failed to capture the imagination of Arab political leaders."[3] Commenting further in connection with the projects for Arab economic cooperation, Macdonald wrote, "The proliferating Arab League projects for joint Arab commercial ventures, however, seem to have little real connection with the work of the Arab League as a regional organisation under the terms of its own charter. The proposals, most of which concern transportation enterprises, include the formation of an "Arab Tanker Company" and "Arab Pipeline Company," and an "Arab Airline". These projects were broached during the 1950s and were spurred to some extent by the Suez Crisis of 1956, but none had gone beyond the planning stage by mid-1964 despite the attempt to resurrect them following the January 1964 Arab Summit Conference."[4]

The only proposed joint venture of this type to show any sign of transcending the planning phase was the Arab Potash Company, a joint undertaking of the Governments of Jordan, Syria, Saudi Arabia, Lebanon and Egypt with the participation of the privately-owned Arab Bank.[5]

Just as the efforts for establishing joint Arab economic ventures met with a failure, so did the efforts for promoting trade relations in the area. In 1958, the Arab League Economic Council approved in principle the concept of a Council of Economic Union with objectives modelled on those of the European Common Market. But nothing happened until 1962 when only five of the then twelve Arab League states signed an agreement to establish a Council for Arab Economic Union.[6] It took another two years before the member countries decided to establish a Common Market in 1964, whose purpose was the removal of customs duties and other restrictions on trade among member countries by January 1974.[7] As the record shows, the Arab Common Market was unable to achieve its goal. Instead, as Musrey tells us, bilateral agreements continued to be much more significant than the Common Market framework.[8]

Another potential area for Arab economic cooperation was oil, which a number of Arab states produced in large quantity. The Arab League established an Arab Petroleum Congress for the purpose of coordinating oil policies, but, as we shall show later, these efforts soon stagnated.

Post-1967 Successes in Arab Economic Cooperation

It was not until after the 1967 War with Israel that a new 'breed' of Arab economic organisations began to grow up: these new organizations were either outside the Arab League (such as *OAPEC*) or outside the traditional Cairo-based power structure of the Arab League (such as *AFESD*, which was located in

Kuwait and largely controlled by the oil countries, notably Kuwait). Their fate was to be quite different from that of the organisations mentioned earlier; that is, they met with substantial success.

It is this contrast of success and failure which leads us to carry out a more detailed analysis of the two post-1967 organisations for Arab economic cooperation, OAPEC and AFESD. In the following pages an attempt has been made to analyse why the operation of these organisations has been successful and why their counterparts, the Arab Petroleum Congress and the Economic Council of the Arab League, have been unsuccessful. Also AFESD and OAPEC are placed in the larger picture of inter-Arab relations since 1967, which have been characterised by "Pragmatic Arabism".

Arab Fund for Economic and Social Development (AFESD)

The Arab Fund for Economic and Social Development was established by an agreement signed in Cairo on May 16, 1968. Its membership is comprised of the member states of the Arab League.[9] The functions of the Arab Fund are described as follows: "to participate in the financing of economic and social development projects in the Arab World by:

(1) Financing economic projects of an investment character by means of loans granted on easy terms to governments and to public or private organisations and institutions giving preference to economic projects which are vital to the *Arab entity* and to *joint Arab projects.*

(2) Directly encouraging the investment of public and private capital in such a manner as to ensure the development and growth of the Arab economy.

(3) Providing technical expertise and assistance in the various fields of economic development."[10]

The Arab Fund started its operations including lending in 1973. For the first two years the volume of its lending activity was $24.5 million, granted to three countries in 1973, and $100 million, granted to five countries in 1974. Among the recipients of the loan were: Syria ($40.8 million), Sudan ($27.2 million), Egypt ($22.1 million), Algeria ($20.4 million), Yemen: Sana ($20.4 million), Yemen: Aden ($13.6 million), Tunisia ($9.18 million).

For years one of the standard explanations by Arab and outside analysts for the failure of achieving Arab unity was that the elementary infrastructure for regional integration did not exist: Arab countries had poor transport connections, poor telecommunication links, and in general, a lack of a base for industrial production. Since they had nothing to exchange among themselves, they were dependent on outsiders rather than on each other.[11] Consequently, one of the primary concerns of AFESD was to overcome the above mentioned obstacle to Arab integration. It actively pursued the preparation of master plans for a Pan-Arab telecommunications network and a Pan-Arab surface transportation network.[12] Without waiting for the completion of the master plan, according to the 1974 Report of the Fund, work on several projects was begun. The Report says, "pending the completion of these plans, the Fund identified segments of these two networks, which were eligible for financing. Thus the co-axial telecommunications link between Algeria and Morocco, the micro-wave network in the Sudan, the Aden-Taiz highway and the Beirut-Syria highway, are all under preparation for inclusion in the 1975 programme."[13]

The Fund has also given special attention to what it calls "exploring possibilities for a systematic and productive utilisation of the region's economic potential."[14] This effort started with the preparation of a "Basic Programme for Agricultural Development in the Sudan." The rationale of the above project as stated by the Fund Report reads;

> "Implementation of this program will also meet some of the basic *security requirements* of the Region, in so far as it would provide increasing quantities of foodstuffs to satisfy the long term needs of the Arab world.
>
> The program can also be expected to open up new investment horizons in the Arab world and contribute to an *increase in its capacity to absorb investment funds available in the area*".

It represents a concern with security against international threats to use the "food weapon" and a concern with the inability of Arab oil countries to invest their surplus funds in the Arab regions because of a lack of infrastructure for absorbing paying investments. 15

In response to the surplus capital created after the 1973 oil price rise, the Fund gave special attention to promoting the investment of Arab capital in the region. In 1974, the Fund established a special unit for the servicing and promotion of investments. For the same purpose it expanded the scope of its assistance to Arab financial institutions in connection with the technical evaluation of projects. [16]

Investment Focus

The Fund rightly underlined the significance of investments as opposed to trade which was a traditional concern of the Arab Common Market and other efforts for Arab economic unity. The Fund Report states:

> "Financing of inter-Arab projects is considered one of the priority objectives of the Fund. This stems from a belief in the effective role these projects can play in fostering economic integration and cooperation among member countries. This viewpoint is in harmony with the new trend in economic thinking which considers that trade liberalisation measures of the conventional type are insufficient as a vehicle for achieving economic integration. Cooperation in the form of multinational investments and regional projects in specific fields of production has proved to be more flexible and more effective tool in establishing strong economic links between countries of the same region..."

"The scarcity of well-identified and well-prepared inter-Arab projects, however," says the Fund Report, "has been a major obstacle preventing the Fund from converting these concepts into practical steps."[17]

The help overcame this obstacle and it has sought active cooperation with international agencies such as UNDP and Arab agencies such as the Council for Arab Economic Unity (CAEU).

Judging from the activities of the Fund, it is clear that it is attempting to provide the initial capital which can play a catalytic role in the financing of economic projects by individual countries and an infrastructure for economic development in the region. In most cases the Fund loans have covered only a part of the total project cost.

The activities of the Fund have also shown that it has made a conscious effort to minimise political considerations in granting loans. It is significant to note that in the first years of its operation, the Fund financed as politically diverse countries as North and South Yemen, Tunisia, and Algeria.[18]

Key to AFESD Success: Depoliticisation and Oil Money

The most distinctive characteristic of its activities, however, has been none of the above. Rather, what has distinguished this organisation from the earlier Arab efforts for economic cooperation has been the fact that it was established on a firm institutionalised base and started performing its stated functions in a relatively short period of time. In addition, it functioned for the most part independently of the political rivalries and disputes which still characterise relations among many of its member countries. The reasons for its success can be summarised as follows; Firstly, since 1967, economic cooperation has been relatively *depoliticised* a fact symbolised by the Funds location in Kuwait. The Arab Fund has not taken active interest in such highly political issues as the boycott of Isreal or even the Arab dialogue with Western industrial countries, and has emphasised the purely functional activities of economic and social development. Political issues have been allowed to remain a major concern of the Arab League Economic Committee situated in Cairo which has performed a political role in international economic diplomacy as well.

Secondly, as we will explain in Part III, the Arab Cold War along doctrinal lines declined significantly after 1967. As a result, governments with very different internal systems and international affiliations became willing to sit together and cooperate. The Arab Fund thus provided a framework for such cooperation. As we pointed out earlier, it is notable that in the first year of its lending operations, the Fund granted loans on the one hand, to an avowedly rightest country affiliated with the West, *i.e.*, Tunisia, and a leftist people's democracy with strong Soviet connections, South Yemen on the other.[19]

Thirdly, one should not forget that the lack of resources was partly responsible for the failure of organisations which preceded AFESD. Few resources were available to be shared among member or cooperating countries. The Arab countries were dependent on outsiders for capital required for development. The United States and Western Europe were still the major donors (and trading partners, which they continue to be) of capital for the Arab countries. As a result, the recipient Arab countries were inclined more towards the outside donor countries than towards fellow Arabs who had very little to offer.[20] Since 1967 and more significantly after 1973, the availability of Arab resources has increased dramatically. Consequently, the Arab oil countries have become by far the major donors for the poor Arab countries. The surplus capital available to several Arab countries is definitely a strong lubricant for Arab economic cooperation. Nevertheless, in the absence of the factors mentioned earlier, that is, the depoliticisation of economic cooperation and the cooling down of the Arab Cold War, the surplus Arab capital could not have led to similar results.

The Organisation for Arab Petroleum Exporting Countries (OAPEC)

Just as economic development and cooperation for economic development have been perennial but often unfulfilled Arab goals, so has the urge to make a coordinated effort to utilise their oil resources. As far back as 1954, Nasser wrote in his *Philosophy of Revolution* that oil was one of the Arabs' three major sources of strength. Writing in some detail about the potential uses of oil, Nasser wrote;

> "The Centre of world oil production has shifted from the United States, where oil wells have been exhausted, land prices have risen, and wages have increased, to the Arab region where oil wells are still untapped, vast tracts of land can be had for next to nothing and labour is incredibly cheap...If I have succeeded in explaining the importance of this vital element of strength as I sincerely hope I have, it would thus follow that we are strong, strong not through wailing, shouting or appealing for help at the top of our voices, but strong through our composure, our correct estimation, supported by figures of our capacity for work and our true understanding of the strength of ties that bind our peoples together, those ties which make our homeland an integral and indivisible whole, which should be defended as such and not as an isolated unit."[21]

Despite such keen awareness of potential strength in Arab cooperation in the field of oil, nothing happened until 1959, when an *Arab Petroleum Congress* was established under the auspices of the Arab League, whose purpose was to coordinate oil policies. The Congress seemed to work initially, but later broke down in the face of Arab rivalries and the Cold War.[22]

Later in 1968, three Arab oil-producing countries established the OAPEC outside the Arab League framework. In marked contrast to the Petroleum Congress, OAPEC was successful in bringing about coordination of Arab oil policies and in establishing a framework for joint Arab ventures in the oil industry.

In order to see why OAPEC experienced success while the Petroleum Congress was a failure, it would be useful to look at the functioning of OAPEC in some detail.

Background to Formation and Functions of OAPEC

The idea of OAPEC was promoted by Saudi Arabia after the 1967 War. In an interview in December 1967, Saudi Petroleum Minister, Sheikh Yamani, said that Saudi Arabia, Kuwait and Libya—and probably Iraq—would shortly sign an agreement aimed at coordinating the utilization of Arab oil wealth "as a means to realize success for Arab economic and foreign policy". He said the agreement would also provide for the formation of a new Arab Petroleum Organisation,[23] whose activity would, however, be completely different from that of OPEC. He said that it would be a source of strength to the Arabs and to the OPEC at the same time.[24] The Organisation was formally established in January 1968, with Saudi Arabia, Kuwait and Libya as members. By 1974 its membership rose to ten: the expansion in numbers is an interesting subject which is given separate attention later.

According to the official "Agreement of the OAPEC", the principle objective of the Organisation has been:

> "The cooperation of the Members in various forms of *economic activity in the petroleum industry*, the realization of the closest ties among them in this field, the determination of ways and means for safeguarding the *legitimate interests of its members* individually and collectively: the unification of efforts to *ensure the flow of petroleum to its consumer markets on equitable add reasonable terms*, and the creation of a suitable climate for capital and expertise invested in the petroleum industry in the member countries.

In pursuit of the above objectives, the Organisation proposes to take adequate measures for the coordination of the petroleum economic policies of its members, and for the harmonisation of the legal systems of the member countries to the extent necessary for the Organisation to carry out its activity. It also plans to assist members in exchanging information and expertise and provide training and employment opportunities for citizens of members countries. And it seeks to utilise the members' resources and common potentialities in establishing joint projects in various phases of the petroleum industry.[26]

Success in Economic Projects

Reviewing the performance of OAPEC it appears that it has been quite successful in its task of trying to realise the objectives set forth in its Agreement in the form of joint projects, and in preparing a comprehensive survey of the potentialities of cooperation in the Arab world.[27] In the first six years of its live operation (1968-74) the Organisation has shown the following achievements:[28]

Joint Projects

1. The Arab Maritime Petroleum Transport Company: the Company located in Kuwait operates on a commercial basis with an authorised capital of $500 million and a subscribed capital of $100 million. It was established in January 1973.

2. The Arab Shipbuilding and Repair Company: a joint Arab venture aimed at developing the shipbuilding and repair industries in the Arabian Gulf, and training and preparing personnel for these activities. It was established on November 30, 1974. The Company is responsible for the construction of the Bahrein Dry Dock.

3. The Arab Petroleum Investment Company: the Company intends to finance petroleum projects and industries as well as auxiliary or complementary projects related to these industries. The Company is to give preference to joint Arab projects aiming to develop the member countries, enhance their ability to exploit their petroleum wealth, and consolidate their economic and financial potential. It was formally established in 1975 and based in Damam, Saudi Arabia,. The authorised capital was set at Saudi Riyal 3,600 million, of which SR 1,200 million represented the subscribed capital already provided by the participating countries.

4. The Arab Petroleum Services Company: its purpose is to provide petroleum services through the establishment of one or more companies specialised in various petroleum services or activities, based on technical, economic and legal studies. The Company will also be concerned with the training of specialised technical personnel. The draft agreement for its establishment was approved in October 1974.

Studies

OAPEC has prepared several studies as part of its programme for Exchange of information and Training, notably a; Report of the Energy Crisis and Sources of Energy Alternative to Oil, Study of the Refining Industry, Study of Natural Gas Utilisation in Fertiliser and Petrochemical Industries, Study of the Volume of Petroleum Investment in the Arab World, Proposed Study of the Methods for Developing the Oil Sector in Each OAPEC Member Country and Determining the Opportunities for Joint Venture Projects among them.

Hence within a relatively short period of time OAPEC has been successful in laying out several large scale joint projects and establishing a framework for sharing information and training personnel

Success in Conflict Resolution

The ability to produce tangible gains strongly distinguished the OAPEC from earlier efforts for economic cooperation. But perhaps equally significant has been its remarkable tenacity in the face of internal conflicts, *i.e.*, its capability for managing conflicts. Most significantly that OAPEC has successfully resolved the dilemmas regarding who should be permitted membership in the Organisation. Besides, it has successfully dealt with the continuing conflict among its members regarding the price of oil. After the 1973 War the Organisation successfully managed the so-called oil weapon, which, because of the different political orientations of its member countries, could have been extremely divisive. It has also resolved conflicts among members regarding policy on nationalisation of oil companies.

Considering that the conflict over membership involved OAPEC's relations with the Arab World and inter-Arab conflicts and rivalries, it is of interest to study in some detail how OAPEC handled this issue.

Conflict over Membership: Conservatives or All Arabs?

At the time of its creation in January 1968, OAPEC comprised three countries, Saudi Arabia, Kuwait and Libya, all of them monarchies with large revenues and small populations, all on common grounds in terms of political and economic orientations. Iraq was the only other country which qualified for membership according to the original charter of OAPEC which required that oil should be the principal source of revenue for the member countries. But it opted out, insisting that OAPEC headquarters should be located in Baghdad rather than Kuwait. Iraq also insisted that disputes between member countries be resolved through negotiations and consultation: the others favoured the creation of a legal body to decide disputes. The fact of the matter, however, was that Iraq had a very different political orientation and economic base than the others (Iraq was not a surplus capital country like the rest of them), and its membership would have challenged the harmony which the founder members greatly treasured. Their major purpose in restricting the membership to only those countries in which oil represented a basic source of income was to have any decision that was made affect all the countries equally.

The formula of limited membership proceeded smoothly until the coup by Qadafi in Libya in 1969, which provided the opponents of limited membership an opportunity to demonstrate their opposition. Libya, Egypt, Syria and Iraq, all opponents of a limited OAPEC, met in Baghdad in December 1969, to discuss closer cooperation in oil affairs. It was widely speculated at that time that the four countries would attempt to create their own organisation to replace OAPEC, which would automatically dissolve when reduced to two members. But the Baghdad meeting ended with no known accomplishments and for a while the future of OAPEC was left in doubt. Nevertheless, Libya continued to participate in OAPEC meetings, and the crisis seemed to have passed in January 1970, Libyan Suheil Saadawi replaced Saudi Sheikh Yamani as the Secretary General of the Organization.

By 1970, several Arab countries including Algeria, Abu Dhabi, Qatar and Bahrein were interested in membership. The latter three were oil sheikdoms with surplus capital, which qualified them for ready acceptance. But Algeria was more like Iraq; politically radical and though a major oil-exporting country, had none of the surplus capital enjoyed by the others. Most importantly, Algeria had taken a strong position against the French oil companies and favoured the nationalisation of Foreign oil companies. Saudi Arabia, fearing Algeria's radicalism, was hesitant to allow its entry into OAPEC. The matter was still under discussion when it was reported that a high level Algerian delegation had visited Saudi Arabia early in 1970 to discuss the avenues for cooperation. Apparently, the Algerians were successful in removing Saudi misgivings. It was perhaps the beginning of continued cooperation between Saudi and Algerian oil technocrats despite their differences in political outlook and bargaining strategy regarding oil companies. After Saudi opposition to Algeria's entry had been withdrawn, the first expansion of OAPEC membership occurred in May 1970; four new members, Algeria, Abu Dhabi, Qatar and Bahrein were admitted, thus increasing the total membership to seven.

Only a year after the first extension of its membership, the solidarity and the existence of OAPEC were strongly threatened by the dispute over two issues; the membership of Iraq and the Algerian oil policies. An OAPEC meeting scheduled for June 1971 was postponed after a disastrous start. The meeting had been scheduled to discuss the Organisation's stand on the France-Algerian crisis, the acceptance of Iraq as a member, and proposals for a number of joint development projects. None of these subjects were adequately discussed.

The source of failure to achieve any progress on its agenda was, according to an *al-Nahar* comment, "traditional inter-Arab differences."[29]

The major dispute revolved around the admission of Iraq to the Organisation. Saudi Arabia moved against acceptance, arguing that the admission of another progressive Arab country would certainly lead to radical changes in Arab oil policy and might ultimately disrupt the organisations' relations with the operating foreign oil companies in their respective countries The Saudis brought up the example of the deterioration of relations between Algeria and France, which resulted from a partial nationalisation of French oil firms

While Saudi Arabia was strongly opposed to nationalisation, the Arab progressive regimes like Algeria, Libya and Iraq, strongly supported the idea. Within OAPEC Saudi Arabia was able to obstruct any move by Algeria and Libya by seeking the support of Bahrain, Abu Dhabi and Qatar.

Iraq was not admitted, but Algeria was formally promised support in its dispute with French companies. The Kuwaiti Oil Minister Atiqi told the Kuwait Parliament; "should the companies uphold their decision to boycott Algerian oil, then we shall be compelled to take measures which we consider our duty within the framework of OAPEC." In opposing the Iraqi membership, Saudi Arabia argued that Iraq had refused to take part in the creation of OAPEC and had failed to cooperate with its member states. Saudis said that Iraq had changed its position only after OAPEC had proved to be a success and now hoped to benefit from projects to which Iraq had contributed nothing. For this reason, Saudi Arabia preferred to see Iraq remain outside OAPEC until all its planned projects had been implemented and were functioning well. After this had been achieved, Iraq, along with other interested Arab states, could be allowed to apply for membership.

Due to the dispute on Iraqi membership, OAPEC was unable to proceed on some of its most significant projects, like the construction of a dry dock, the building of a tanker fleet and the formation of companies of petroleum enterprises and petroleum services.

Expansion Beyond Conservatives

After a disappointing meeting—June 1971—the next meeting held in Abu Dhabi—December 1971—was extremely successful: the major achievement being the successful resolution of the question of Iraqi membership. Together with Iraq, Egypt and Syria were approved as members.[30] This required a basic amendment to the Constitution of OAPEC which stated that oil must be the principal and basic source of a member's revenue. This phrase was changed to a new condition requiring that members must receive "important export revenues" from their oil. The amendment was proposed jointly by Libya, Algeria, Kuwait, and Saudi Arabia.

Although some saw the entry of Iraq as a victory for the progressive Arab countries, others thought that by admitting Egypt and Syria who did not support radical oil policies, Saudi Arabia had restored the balance of power against any radical trend. Saudi Arabia was expected to stay on top of OAPEC, being the biggest Arab oil exporter and having better relations with Egypt than either Syria or Iraq.

A broader base for OAPEC was thus seen as a consolidation of the leading position of Saudi Arabia. The Saudis were obviously happy about the outcome. After the meeting Sheikh Yamani said the Organisation "is now reborn."[31]

In later years the successful but meaningful expansion of the Organisation has been regarded as a major achievement. In the foreword to the 1974 Report, OAPEC Secretary General Ali Attiga wrote :

> "It is my opinion that the greatest achievement of the Organisation during its five years of existence was the expansion of its membership from three to ten Arab countries, representing the larger part of the Arab homeland's population and resources. This provides the Organisation with a broad and integrated base of demographic, economic and geographic factors whose interaction with the oil and gas sectors may well alter the solid groundwork for development and progress not only in the OAPEC countries, but also in the rest of the Arab world".

Representing the considerable enthusiasm for economic cooperation and development in the Arab world in the wake of the 1973 War and rise of the price of oil, Attiga continued to write:

> "The opportunities available locally and internationally to the Organisation and our countries to proceed towards this great objective are better now than at any time in the past. They need only further strengthening for common development of joint Arab endeavour".

Just as the Organisation has expanded its membership gradually, it has also politicised its activities gradually. Before its role in the use of "oil weapon" in 1973, OAPEC did not assume any political role. And even its participation in the use of the "oil weapon" was cautious. It tried to avoid formal involvement. As the OAPEC Secretary General put it:

> "The Organisation responded to international reaction to the demonstration of Arab solidarity that found one of its most vital expressions in the decision of Arab Ministers of Petroleum *to use oil as a strategic commodity*. Although this decision, for practical reasons, lay outside the legal scope of the Organisation, the Organisation was not precluded from following international developments which resulted from Arab action in using oil in the national battle"[32]

OAPEC's Role as Replacement of MNCs

One of the reasons for the relative solidarity and success of OAPEC is the transformation of the international oil market. As the oil companies have been gradually phased out of their role as concessionaires, the responsibilities of the producing-countries have increased in terms of making decisions about production and delivery of oil. Since they are not individually equipped to perform this function, there is great incentive to collaborate on a collective basis. In a certain sense collaboration among Arab oil producers becomes crucial to the survival of their new relationship with the oil companies.

It can be argued that the establishment of OAPEC was essential after what the Arab oil producers had achieved through OPEC in terms of changing their basic relationship with the oil companies. The new transnational actor OAPEC was now to take over many of the functions previoulsy provided on a transnational level by a different, transnational actor, namely, the oil companies. As the OAPEC Report phrases it:

> "(During the 1960s) coordination was confined to harmonisation of the Member countries' demands for amending certain terms of the concern on agreements to their benefit, while maintaining the essential character of the relationship defined by the agreements. At that time the task of coordination was easier than it is now because of the fundamental changes that have since occurred in the relationships between the international oil companies and the petroleum producing countries...
>
> The new relationship between these countries and the oil companies is based on the principle of each country's right to make oil the major decision, thus reversing the situations that prevailed under the con-

cession system. Even since the producing countries had decided on nationalisation and/or participation, they were in a position to make decisions concerning exploration, development, production, prices, marketing and all other economic and financial issues related to the petroleum industry. At this point the importance of coordinating the petroleum policies of Member countries gained new weight and urgency. It may be said that the survival of this new relationship with the oil companies is largely dependent on the success of our Member countries and the other countries of OPEC in relaising the objectives described above".

OAPEC has defined these new functions acquired from the oil companies as the "industrialisation of oil" The Report continues:

"The transformation of the oil market, from a buyer's to a seller's market brought industrialisation and crude oil refining opportunities to the forefront. A sound economic policy will require the integration of the national economy with the oil sector of each producing country with the result of adding substantially to its national income. Such developments tend to strengthen and stabilise the oil market to an extent that gives the exporting countries extra power in dealing with the oil importing countries who, themselves, exert considerable control over the terms of export of their industrial products."[33]

"Such developments make it necessary to consider formulating a comprehensive plan for industrialisation and oil refining in the member countries, in a manner that would allow the realisation of the aims of member countries, both individually and collectively. A comprehensive plan of this nature would accelerate the trend towards coordination and would enable to producing countries to cope with economic blocs that dominate the capital and consumer good markets. Industrialisation and the processing of oil locally., as well as the export of petroleum products, require for their success, the prior agreement of the member countries to a well-defined and coordinated program. This necessitates the creation of institutions capable of performing such vital functions both individually and collectively."[34]

The OAPEC Report quite explictly states the necessity to cooperate if the producing countries wished to replace the functions earlier performed by the international oil companies.

> "The close coordination that has always characterised the relationship of the international oil companies in their dealings with the countries in which they operate—though for different objectives—should also characterise the relations of the national oil companies in the member countries in order better to protect their legitimate interests."[35]

Although OAPEC originally started as a very exclusive organisation, over the years, it has not only expanded its membership to all Arab countries which had any relationship to the export of oil, but also established close links with other inter-Arab economic organisations. A recent annual Report states:

> "The Organisation is currently consolidating its relations with the Arab Fund for Economic and Social Development, the Arab Labour Organisation, the Arab Planning Institute, the Economic Department of the Arab League, the Arab Economic Unity Council and the other organisations concerned with objectives similar to those of OAPEC."[36]

Below are summarised the reasons for the success of OAPEC.

Causes for Success

First, as was mentioned earlier in the case of AFESD, the Arab political environment in which the OAPEC operated was far more conducive to cooperative action than the political environment available to comparable organisations in the past. The end of the Arab Cold War and a period of Pragmatic Arabism has been the political framework for the operation of OAPEC.

Second, the sequential expansion of OAPEC seems to have contributed to its success. OAPEC started with a homogenous group of three which later provided leadership to the additional membership. As a result many of the disputes were managed before the formal entry of a member. The rationale for restricted membership was provided by the functional (oil policy) nature of the Organisation.

Third, the gradual politicisation: OAPEC seems to be an outstanding case where a functional organisation has experienced gradual, though periodic and impermanent politicisation. Its routine functions continued to be highly functional. But in a period of crisis like the 1973 War, it was readily available for political activity. Since the War, its activities have been again basically economic. Such gradual and restricted politicisation seems to have contributed towards its success.

Fourth and perhaps most important, *OAPEC took over the role formerly performed by the oil companies* in certain crucial areas. As we explained in detail earlier, OAPEC provides the transnational framework which was the backbone of multinational oil companies. Since all Arab oil-producing countries are in the process of nationalising their oil production, the need for a collective transnational organisation is crucial. OAPEC has been able to absorb many internal conflicts, because it performs a task which is crucial to its members. The cost of exit from OAPEC or its dissolution or ineffectiveness is high and deters members to carry conflict beyond a tolerable limit.

Conclusions

The quality and quantity of Arab economic cooperation has significantly increased since 1967. The two major factors responsible for this are the decline in the Arab Cold War and the availability of surplus Arab capital.

The above analysis shows that the power (to exert influence in Arab affairs) of the oil-rich countries, expressed in AFESD and OAPEC, has considerably improved with respect to the traditional political-military powers of Egypt and Syria. This diffusion of power is symbolically expressed by establishing the headquarters of AFESD and OAPEC (both autonomous bodies linked to the Arab League) in Kuwait, while retaining the political and military organs of the Arab League in Cairo.

REFERENCES

1. See articles 3 and 4 of the *Pact of the League of Arab States*, signed March 1945. Reproduced as Appendix B in Robert Macdonald, *A Study in the Dynamics of Regional Organization* (Princeton, N. N. J.; Princeton University Press, 1965).

2. For its text, see Appendix C in Macdonald, *op. cit.*

3. *Ibid.*, p. 203.

4. *Ibid.*, p. 207.

5. *Ibid.*, p. 207.

6. These countries were Jordan, Kuwait, Morocco, Syria and Egypt. For details, see Alfred Musrey, *An Arab Common Market: A Study in Inter-Arab Relations*, 1920-67, (New York; Frederick A. Praeger, 1969).

7. *Ibid.*

8. *Ibid.*, p. 255, Footnote No. 17.

9. See article 3 of *Agreement Establishing the Arab Fund for Economic and Social Development* (signed May 16, 1968: Kuwait, n.d.). It should be noted that Saudi Arabia was not a full member in the beginning and became so only in 1974. The 1974 Annual Report of the AFESD says: "With all twenty Arab states having become full members, the Fund takes on its full regional dimesion and its scope of activities now covers the entire Arab world." Arab Fund for Economic and Social Development, *Annual Report*, 1974, (Kuwait, n.d.), henceforth referred to as *Arab Fund Annual Report.*

10. *Arab Fund Agreement, op. cit.*, Article 2.

11. This point was especially brought out in interveiws with the members of the Egyptian Institute for National Planning and the Council for Arab Economic Unity. Also see the Appendix on the Direction of Trade in this thesis.

12. *Arab Fund Annual Report,* 1974, *op. cit.*

13. *Ibid.*, point 7.

14. *Ibid.*, point 9.

15. According to the 1974 Report; "Increased attention has been given to the physical and social infrastructure and to instruments which help increase the absorptive capacity of the recipient countries. Infrastructural projects thus accounted for the largest share of the funds' total loan commitments during 1974". *Arab Fund Annual Report,* 1974, *op., cit.*

16. *Ibid.*, point 8.

17. *Ibid.*, point 9.

18. Even though articles like the following are not always meaningful, one should note that article 17 of the AFESD Agreement reads; "The Fund and its officers in charge of its management shall not interfere in political affairs. Economic and social considerations shall be the only relevant factors in making of decisions." *Arab Fund Agreement, op. cit.*

19. See *Arab Fund Annual Report*, 1973.

20 As late as 1965, Robert Macdonald reported the serious dependence of the Arab region on outside capital for its development. See Macdonald, *op. cit.*, p. 206.

21. Gamal Abdul Nasser, *The Philosophy of The Revolution*, Arab Republic of Egypt, Ministry of Information, (originally published 1954), p. 66-69.

22. The Arab Petroleum Congress began its annual gatherings under the aegis of the Arab League in 1959. Enthusiasm in its activities waned with the Fourth Congress, which was scheduled to be held in Beirut in 1962, but was postponed until the fall of 1963. Since then the congresses did not meet on an annual basis.

In 1970 the Seventh Arab Petroleum Congress was held in Kuwait. But, according to an Al-Nahar Arab Report, it ended in an Atmosphere of general apathy.

While all the countries involved (all members of the Arab League) sent delegations to Kuwait, most were low level delegations. The only cabinet-rank delegation was the host, Kuwait's oil minister.

Many observers viewed the absence of senior officials as proof that general oil congresses had become superfluous since the creation in January 1968 of OAPEC.

The recommendations of the Congresses were purely suggestions and had no power. The seventh Congress in 1970 repeated the old proposal for the development of petrochemical industry, utilization of flare gas, efficient utilisation of financial resources derived from oil for economic development, and the need for more favourable terms from foreign oil companies.

For all practical purposes the above functions had been taken over by OAPEC, which was beginning to make progress in them faster than the Arab League ever had. The Arab League Petroleum Congress had thus become, for all practical purposes, redundant. (*Al-Nahar Arab Report*, (March 30, 1970).

23. The Arab Petroleum Congress of the Arab League was already in existence.

24. *Arab Report and Record*, 1967, p. 396.

25. *Agreement of the Organisation of Arab Petroleum Exporting Countries*, January 1968, Article 2, n.p., n.d.

26. *Ibid.*

27. Abdul Aziz al-Turki, *Potentials of Arab Cooperation in the Petroleum Industry as Viewed by the Organisation of Arab Petroleum Exporting Countries*, Paper presented at the Seminar on "Administration of the Arab Countries, held in Tripoli, April 20-23, 1975 (mimeo).
The author is the former Deputy Secretary General of OAPEC.

28. *OAPEC Secretary General's First Annual Report*, Presented to the 13th Ordinary Meeting of the Council of Ministers, Kuwait, November, 1974.

29. *Al-Nahar Arab Report*.

30. They formally became members in March 1972.

31. Al-Nahar Arab Report, (December 27, 1971).

32. *OAPEC Secretary General's First Annual Report, op. cit.*

33. *Ibid.*

34. *Ibid.*

35. *Ibid.*

36. *Ibid.*