Opec at (More Than) Fifty: The Long Road to Baghdad, and Beyond

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Towards the beginning of the third volume of the *History of the French Revolution*, as overall proceedings are taking a sinister turn that will culminate in parliamentary regicide, Thomas Carlyle penned the following lamentation: ‘it is unfortunate, though very natural, that the history of this Period has so generally been written in hysterics. Exaggeration abounds, execration, wailing; and on the whole,

darkness.' These lines, aside from being a fine example of a pot calling kettles black, succinctly sum up both the tone and the explanatory sterility of much of the oceans of ink that have been spilled in the name of OPEC. However, the deep shadows in the field of OPEC historiography, more than a cause for regret, ought to be a source of shame for all concerned. After all, the fact that Carlyle himself could refer to History as the 'distillation of rumour', reflected in no small measure the difficulties still posed in his day by the collection, collation and dissemination of reliable information and data. Today, where contemporary issues are concerned, these difficulties have become sufficiently attenuated as to no longer constitute a credible excuse. Moreover, in the particular case of OPEC, it is clear that much of the prevailing darkness is the result of people ignoring (or even taking deliberate pot shots at) sound sources of illumination, with cover for this unedifying pursuit being provided by the din of axes being ceaselessly ground.

Consider, for example, the issue of the circumstances and motives that led to the birth of OPEC (a timely topic, given that the organisation has just celebrated its fiftieth anniversary). Daniel Yergin, the award-winning and decorated author of *The Prize* (a book which, for better or worse, has become the embodiment of conventional wisdom regarding the development and evolution of the international oil industry), offers the following account of this chain of events (pp. 516–18). At one point during the first Arab Petroleum Congress, held in Cairo in 1959, formidable journalist Wanda Jablonski – who was later to set up *Petroleum Intelligence Weekly* – invited Juan Pablo Pérez Alfonzo, Venezuela's Minister of Mines and Hydrocarbons at the time (as well as an acquaintance of hers and happily present at the conference as an 'observer'), to her hotel suite. The head of the Saudi Directorate of Oil and Mining Affairs, Abdullah Tariki (an even closer acquaintance of Jablonski's), was already there. According to Anna Rubino (Jablonski's biographer), 'although Tariki and Pérez Alfonzo were planning to meet ... it was Wanda who made the introductions – over Coke or bourbon, depending on who was listening to her story – a typical, quietly influential moment that would change the nature of the oil trade forever.' And the international oil panorama changed forever because the Saudi and Venezuelan ministers found that they had much in common and got along famously (an outcome that Ms. Jablonski had predicted). As a result of this, the Gentlemen's Agreement of Cairo was signed a couple of days afterwards, and only one year later, OPEC – the offshoot of this Agreement – would come into being in Baghdad. And less than 15 years after that, of course, the OPEC Member Countries would stand accused of stoking the furnaces of an overheated petroleum market in order to push oil prices to extortionate levels (thereby unforgivably weakening the capacity of advanced industrial societies to withstand the Communist threat), for good measure adding insult to injury by nationalising the most valuable pieces of real estate in the planet from the hands of their rightful corporate owners. Small wonder, then, that in 1979, at a juncture when oil prices were at record highs and 'OPEC seemed to have the entire world economy in its grip', Jablonski's role as 'the matchmaker of an alliance that would develop into ... OPEC' (Yergin) led an interviewer to put it to her that she might have been better advised to let sleeping dogs lie.

So what, if anything, is wrong with this picture? Is it not true that Tariki and Pérez Alfonzo initiated their fruitful relationship through Jablonski's good offices? And was it not the case that, as a result of their brief encounter in Cairo, it suddenly began to dawn on policy makers in the largest oil-exporting countries of the world that there might be something to the idea of defending their respective fiscal incomes through collective bargaining with the major oil companies?

The answer to the first question is 'No'. The accounts that place Wanda Jablonski at the epicentre of the goings-on in Cairo are at variance with those of first-hand witnesses, notably Manucher Farmanfarmaian (who was the Iranian signatory to the Gentlemen's Agreement). Moreover, the two men had already been introduced to one another in an official capacity as soon as the Cairo congress started. In charge of introductions had been Manuel R. Egaña, founder of the Venezuelan Ministry of Mines and Hydrocarbons, and its first incumbent in 1950 and, by some distance, the most intellectually gifted and able among all the men that have ever been responsible for the oil portfolio in Venezuela.

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Egaña's very presence at the conference, as much as that of Pérez Alfonzo (or Farmanfarmaian's, for that matter), shows why the answer to the second of the questions above also happens to be 'No'. Simply put, the Pérez Alfonzo–Tariki handshake was no bolt out of the blue, not least because the major oil-exporting countries had not simply been passing one another like ships in the night up until that point. For all that the Gentlemen's Agreement might have looked like a discharge triggered by Anglo-Persian's unilateral reduction in posted prices (an action that the other majors were quick to imitate, and would come to rue at their leisure), this informal agreement in fact represented the first major result of a bold long-term strategic initiative that Manuel Egaña had conceived and put into motion a decade before. His successors – most notably Pérez Alfonzo – were eventually able to bring it to fruition, in the form of OPEC, thanks to the actions and collaboration of their counterparts in other exporting countries (first and foremost Saudi Arabia), as the development of the latter's respective oil sectors and policies gradually caught up with those of Venezuela. It is worth remembering

here that the most important oil exporter in the world from the late 1920s until 1970 was Venezuela.

Placing Egaña's initiative within its broad historical context serves not only to highlight its visionary nature, but also to understand its role as the keystone for the institutional framework for oil activities in Venezuela; i.e. the block that provides the finishing touch to an underpinning structure while, at the same time, doubling up as an indispensable support element within it. During the 1930s, as Minister of Development, Egaña had been instrumental in putting down the foundations of this institutional and legal framework. Among other things, it was he who tempered and honed the principle that has served as the fundamental tenet of Venezuelan oil policy ever since (except for an aberrant interlude during the 1990s); namely, that

> the action of the public power should be aimed towards the realisation of the *right* that the State has to the highest possible participation in the wealth of its subsoil and to take advantage of the economic benefits obtained therefrom to increase qualitatively and quantitatively our population, and to foster and strengthen the other productive activities in our country. (Egaña, *Memoria del Ministerio de Fomento, 1939)*

However, Egaña was under no illusions that realising this right in practice would be fraught with complications, not least because in Venezuela (as elsewhere), the penurious government of a backward country had struck early concession agreements with very powerful companies under conditions of informational asymmetry and, as a result, had accepted to receive modest payments in exchange for long-lived concessions that were granted blanket exemptions until expiry from any kind of payment or tax not contemplated in the original agreement. On top of this, the major oil companies were organised into an oligopsony (underpinned by the Red Line Agreements and numerous cross-holdings in the most important concessions), that not only sought to prevent host states from playing companies off against one another but also to make it difficult for these states from resorting to the market to ascertain the value of their resources (i.e. the value that companies outside the charmed circle would have been willing to pay for access). Last but not least, the companies had a well deserved reputation for aggressively upholding their rights – the ones they had in writing as much as the ones they thought they ought to have – with a panoply of enforcement mechanisms courtesy of obliging home governments).

The 1938 expropriation of the oil industry in Mexico, followed by the outbreak of World War II, gave the government of President Isaías Medina Angarita an excellent opportunity to begin addressing the imbalances embedded in the concessions granted in Venezuela between 1910 and 1935. The most important of these concessions were set to begin expiring by the late 1940s but, as they were hopelessly flawed from a legal point of view, there was no chance whatsoever of their being extended (unless Venezuela were strong-armed into it, a course of action which would not sit well with the avowed 'Good Neighbour' policy of the Roosevelt administration and which, in any event, seemed fraught with intolerable risks at a time of Total War).

Thus, with the active encouragement and collaboration of President Roosevelt and the US State Department, the Venezuelan government hammered out an agreement with the oil companies, which crystallised in the landmark 1943 Hydrocarbons Law. This law was drafted with the help of American oil experts with the explicit objective of replicating the most favourable fiscal conditions obtainable in leases on American public lands at the time. According to the terms of the law, the Venezuelan government extended the concessions by a period of forty years and, for good measure, waived all claims related to their many dubious aspects. In exchange for these immensely valuable rights, however, the concessionaires had to agree to a number of conditions, the most important of which by far was their unconditional acceptance of the sovereign right of the Venezuelan state to levy income taxes on their activities (the country's first Income Tax Law entered into force in 1943).

The oil companies were far from thrilled with this outcome but the US government, mindful of the catastrophic consequences that their intransigence and arrogance had had in the process leading up to the nationalisation of the oil industry in Mexico, brooked no dissent on their part and, quite literally, thrust the relevant papers under their noses and pointed out where to sign. Venezuela then found itself in the position – unique among all the countries that were later to form OPEC – of being able to continue redressing the economic balance of its oil concessions through sovereign tax legislation, rather than through constant, often acrimonious, negotiation. For Egaña, however, that could never be the end of the matter, because he understood that isolation would make it difficult, if not impossible, for Venezuela to hold on to its sovereign gains. After all, the acquiescence of the oil companies and the pressure brought to bear on them by the mighty US government, had not been unrelated, and Egaña grasped that it would be foolhardy to assume that the companies would be content to let the matter of taxation drop once the war ended.

As things turned out, he did not have to wait long to see his fears begin to materialise. In 1949, only two years after the United States became a net importer of oil, global oil demand shrank in absolute terms (something that was not to happen again until the 1970s). As a result of this drop, world oil output fell by 1.5 percent, and oil production in Venezuela and the USA fell by 1.6 percent and 8.8 percent, respectively. However, oil output in the Middle East actually *increased* by 14.8 percent, as the Seven Sisters brought the prolific oilfields of Saudi Arabia and Kuwait on stream. Although Venezuela at this point was still producing as much oil as the entire Middle East combined, it was quite clear that since production costs

in the new fields were but a fraction of costs anywhere else in the world, Middle East oil would gradually account for an increasingly large share of global oil demand, to the detriment of higher-cost producers like Venezuela.

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Joseph Pogue – an oilman-turned-banker who had strong links to Standard of New Jersey – visited Caracas in that year and gave a much publicised address in which he said that Venezuela would only be able to defend its market share from Middle East oil if it lowered its taxes significantly and offered new concessions with more attractive terms for investors. Unsurprisingly, Egaña saw matters in a different light. He reckoned that the solution to the undeniable challenge that the new entrants to the market posed for his country lay in getting Middle East states (desperately poor and backward at the time) to put their own low levels of taxation on a par with Venezuela's, rather than the other way around. Thus, in his capacity as Minister for Development of the military *junta* government presided by Colonel Carlos Delgado Chalbaud, Egaña had all Venezuelan oil legislation and other relevant documents (including his own book, *Tres décadas de producción petrolera*) translated into English and Arabic, and arranged for a Venezuelan Mission to tour the Middle East: Iran, Saudi Arabia, Kuwait, Iraq, Egypt and Syria. In Egaña's instructions to this delegation, one can clearly discern the logic that would underpin Venezuela's eventually successful bid to forge a common front of large oil exporters:

> there is no doubt that it is in Venezuela's convenience to initiate direct relations of friendship with governments in the Middle East, in order to seek a way to reach a price equilibrium for oils from both origins, so that all can be received by world markets without detriment to the benefits which we obtain for ours . . . [We] have attained invaluable social and economic conquests, and we must avoid any retreat from these achievements. It is possible that we can get an equilibrium of competitive forces through which benefits for the peoples of the Middle East can be obtained without a deterioration in the economic position of the Venezuelan people.

Egaña was very confident about the soundness of this last hunch in particular because, even though he did not have much by way of specific information on the Middle East concessions, he had had enough dealings with the oil majors (and their home governments) to suspect that their terms would be egregiously unbalanced. In this, of course, he was not mistaken.

The four members of the Venezuelan Mission to the Middle East (diplomat Ezequiel Monsalve Casado, mining law specialist Luis Monsanto, oil official – and future minister – Edmundo Luongo Cabello, and secretary Milo Panella) had their work as good-will ambassadors cut out for them, partly because their government's understanding of Middle Eastern affairs was somewhat patchy, partly because of the complications inherent both to the region and to long distance travel at that time, but mainly because personages linked to the major oil companies were keen to throw a variety of spanners in the works. To an extent (in the cases of Saudi Arabia and Kuwait), these efforts at sabotage succeeded, and ill-health intervened to render the visit of the Mission to Iraq less than fruitful. However, in Iran, an initially cagey reception gave way to a dual sense of astonishment and gratitude, prompted by – to use Monsanto's own words – 'the fact that the Mission gave them the wealth of information that it had with it, as well as all the information that the technicians of the Iranian government requested in successive long interviews, and yet asked for no information in return.' This flow of information had a readily perceptible practical impact on the legal initiatives associated with the nationalisation of oil in Iran, many of which bore an unmistakeable Venezuelan imprint.

The Mission's activities beyond Iran led to another important result. As part of their brief, the members of the Mission had been told to request that the countries they visited send delegates to the first Venezuelan National Petroleum Congress, convened at the initiative – once again – of Manuel Egaña. After much delay, the Congress was finally held in Caracas in 1951 and attendance from Middle East countries exceeded expectations. There were delegates from countries that had welcomed the Mission, but also representatives from places where its message supposedly had not been received. Among the former was Farmanfarmaian, who had been entrusted (back in 1949) with greeting the Venezuelans upon their arrival to Teheran. Among the latter was none other than Tariki, whose instructions (according to his statements to the Venezuelan press at the time) were to 'study in depth the technical and economic structure of the Venezuelan oil industry, as well as the Law that governs the relationship between the State and the concessionaires'. The tenor of Tariki's brief, as can be appreciated, was the tangible embodiment of Egaña's hypothesis underpinning his cooperation initiative; namely, that 'the only countries in the world whose position *vis-à-vis* oil is comparable to ours [i.e. Venezuela] are Iran, Iraq and lately, Saudi Arabia ... But [in terms of] ... oil fiscal policy ... they have nothing to teach us. Maybe it will be us who might serve as an example for them one day.'

Farmanfarmaian and Tariki were not the only persons in attendance at the Caracas congress whose names were to become indissolubly linked to the events that took place in Cairo eight years later. Also in Caracas, keeping her trained eye on organisers and delegates alike, was none other than Wanda Jablonski. Had Ms. Jablonski

been privy to Manuel Egaña's designs, it is fair to assume that her reports would have highlighted that his visionary initiative for fostering a sense of solidarity and a unity of purpose and objectives among the major oil exporters of the world had made significant strides as a result of this event. As things turned out, though, further progress along this front stalled, as attested by the longish interval between the Caracas and Cairo congresses. The length of this gap doubtless had much to do with the turbulent nature of this period, which witnessed, *inter alia*, the overthrow of Farouk, the nationalisation of the Suez canal and the Suez campaign, the nationalisation of oil in Iran, the flight of the Shah, the oil embargo against Iran and subsequent overthrow of Mossadegh, the fall of Marcos Pérez Jiménez in Venezuela. However, towards the end of the 1950s, the process leading to the eventual imposition of mandatory American oil import quotas (and the attendant deterioration of world oil prices outside the United States) provoked a return of a sense of urgency to the oil exporters' camp. It was against this backdrop that the League of Arab States, half galvanised and half terrorised into action by the heady brew of Nasserism, decided not only to convene its own first petroleum congress but also to reciprocate the invitation to the Caracas congress that Venezuela had extended to some of its members years before. Iran was invited for good measure, although anti-Nasser sentiment meant that this country did not send an official delegation (and neither did Iraq, Bahrein, Jordan or Tunisia). This lack of official status however did not prevent the Iraqi and Iranian representatives from signing up to the Gentlemen's Agreement.

Venezuela jumped at the chance that this invitation afforded to put Egaña's cooperation initiative back on track. Thus, despite the fact that the country was in a state of political ferment (Pérez Jiménez had been deposed in January 1958 and the new civilian administration of President Rómulo Betancourt had only been inaugurated in February 1959), an impressive delegation was assembled and sent to Cairo. At its head was new oil minister Pérez Alfonzo, but its ranks also included Egaña (as noted before), plus Monsalve Casado and 11 other highly-qualified men. The trade press picked up on the intense behind-the-scenes activity of the Venezuelan delegation but the consensus view was that 'nothing ... resulted from the informal discussions' (*MEES, 24 April 1959)*. As often happens, the conventional wisdom turned out to be wrong, not least because trade press and companies alike underestimated the degree to which the receptivity of Persian Gulf producers to Venezuelan overtures would be enhanced by the fall of posted prices (in much the same way as the task of setting up OPEC one year later was both precipitated and made easier by Jersey's unilateral reduction of its postings).

As should be obvious from the above, OPEC is an institution with a distinguished intellectual pedigree, whose origins go much further back than is generally appreciated, and whose conception and birth owed very little, if anything at all, to Wanda Jablonski. Indeed, the fact that 'it [i.e. OPEC] would have happened anyway', whether or not she had been around in Cairo in 1959, is something that Jablonski herself readily acknowledged. Granted, this never stopped her from enjoying (and milking to the full) the mixture of celebrity and notoriety, high-level access, and all-round street credibility that being retrospectively cast as 'OPEC's midwife' afforded her (and her publications). But it seems churlish to begrudge her a little bit of self-advertisement when one considers that Wanda Jablonski was very much in a class of her own in terms of her knowledge and insight regarding not only the policy ideas that were gradually taking form during the 1950s in places like Venezuela, Saudi Arabia and Iran, but also the personalities and motivations behind such ideas. And even though she considered the goals and strategies of OPEC countries to be fundamentally misguided, Jablonski nevertheless strove to give them a reasonably balanced exposure in her writings and publications. This, again, set her very much apart from the governments of major consuming countries and the oil companies, which greeted the foundation of OPEC with a resounding silence, and then went out of their way to disparage the organisation as a talking shop of no consequence whatsoever. This was but a feigned indifference on their part: the implications of the existence of OPEC were not lost on these actors, and they began hatching plans to destroy the organisation from its very inception, as chronicled in James Bamberg´s magisterial corporate history of British Petroleum.

> "During 1997–8, PdVSA's anti-OPEC strategy brought the organisation to its knees"

In Farmanfarmaian's reminiscences about the birth of OPEC, he dismissed the claims of Jablonski's involvement in the inception of OPEC as a foolish conceit: 'Strangely, many years later I discovered to my great surprise that some oil experts wrongly credited Wanda [Jablonski] for having started the whole idea of OPEC.' For all of his patrician hauteur, however, what Farmanfarmaian failed to appreciate was that there is nothing strange to the pervasiveness of the idea that OPEC might have never come into being had it not been for the Jablonski *deus ex machina*. After all, this idea fits very well with a partisan image of OPEC that oil companies, consumer governments and supranational organisations alike have for a long time sought to project, and which has gained near universal currency on the back of the phenomenal success of *The Prize*.

According to this representation, oil companies have always been the only genuine *actors* in Yergin's 'epic quest for oil, money and power', because it is solely through their enterprise and technological ingenuity that wealth is created. In contrast, the owners of oil resources – for the most part governments – are conceptualised as passive bystanders, who bring nothing to this particular table, not least because it is

also posited that in the absence of capital to exploit their natural resources, these are effectively worthless. Were these governments as endowed with common sense as they are with natural resources, the argument goes, they would have allowed companies to get on with the job at hand. Unfortunately (to paraphrase Adam Smith), governments love to reap where they never sowed, and demand a rent for their natural resources. Thus, resource owners are accused of placing obstacles in the path of the companies, so as to hinder productivity, and thereby avail themselves of a surplus that by rights ought to have gone to consumers (in the form of lower prices) or else to company profits.

The intuitive appeal that such an unfavourable foundation myth might have in places where OPEC-bashing has become an integral part of the political discourse is easy enough to grasp. Not so readily understandable is why and how this version of events has gone unchallenged elsewhere, notably in OPEC countries themselves, and most particularly in Venezuela. In this country, a major part of the blame ought to be put at the feet of the revisionist account of the institutional evolution of the Venezuelan oil industry that Pérez Alfonzo and Rómulo Betancourt – the undisputed leader of the Acción Democrática (AD) party at the time – propagated. This 'official history', as rewritten by AD, was predicated on a dogmatic denunciation of Venezuela's economic, political and social conditions previous to their being in power, between 1945 and 1948, and again from 1959 onwards, with the consolidation of a democratic regime in the country (1958). Whatever happened before 1945, and between 1948 and 1958, was deemed to be part of the dark ages. The article of faith at its core was that Venezuela's democratic administrations deserved sole credit for putting to rights the disastrous petroleum legacy bequeathed to them by the authoritarian regimes that preceded them: in the words of Pérez Alfonzo, 'a situation of: exaggerated vulnerability and dependence … [towards an industry dominated] by foreign investors in cahoots with [local] opportunists', who thought nothing of functioning 'as the advance guard of imperialism to …promote the despoliation of the main economic resources of all Venezuelans'.

The idea that democracy brought in its wake a sharp discontinuity in Venezuelan oil policy is, of course, as false as it is absurd. In fact, in many cases, the policies of Venezuela's conservative (in deed, if not in rhetoric) civilian rulers represented something of a climb-down from the more radical implications of the policies that preceding military administrations had enacted. Typically, though, these climb-downs – like the famous Fifty-Fifty principle, adopted at a time when the division of the spoils in practice was already translating into an approximately 60/40 share in favour of the Venezuelan government – were hailed as major triumphs. Certain episodes, though, did not lend themselves to the revisionist treatment, in which case the clear preference was that they be relegated to oblivion. The prime example of this was the Venezuelan Mission to the Middle East: since this trip could not conceivably be construed as a capitulation on the part of the lackeys of imperialism, both it and its sequels were airbrushed out of history. In this way, OPEC was transformed into an exclusive brainchild of Pérez Alfonzo's and Egaña was not asked to be part of the Venezuelan delegation at the Baghdad meeting where OPEC formally came into being, despite his having advised Pérez Alfonzo from the moment that the latter took over the Hydrocarbons portfolio.

The result of this Manichaean approach to policy is that fruitful discussion in Venezuela has been hampered ever since by the fact that all sorts of issues on the historical record were either taboo or else settled by *diktat* (i.e. the 1943 Law was a sellout). The end result of this situation was that it eventually became impossible to ask (and understand) what had gone well and what had gone wrong before (and why), and this fatally set the stage for Pérez Alfonzo's legacy being hijacked 15 years later by PdVSA, the state oil company that was supposedly the very incarnation of his nationalistic project.

During 1997–8, PdVSA's anti-OPEC strategy brought the organisation to its knees. The company was able to wreak particularly severe havoc in OPEC because, by then, Member Countries seemed to have forgotten the insight that had made their collective fortunes during the 1960s, arguably the organisation's finest hour (in this decade, after all, the OPEC countries managed the feat of increasing their fiscal income significantly amidst falling prices, and all of them were developmental success stories). This insight can be summed up in the words that Luongo Cabello said to his friend Farmanfarmaian during the Mission's visit to Teheran: 'the companies speak to each other all the time. We should be doing the same ... None of us compares notes, as though we were just so much real estate. This must change. The more we can learn from each other, the better our position will be.'

From the mid-1970s onwards, though, and especially as the OPEC state oil companies came to the fore in the wake of the nationalisation of concessions, the Member Countries themselves increasingly bought into the unhelpful notion that OPEC is a cartel, which led to their no longer comparing notes, no longer learning from one another (OPEC is no more a cartel than was the Texas Railroad Commission, the regulatory body which it effectively superseded in the world stage). Division, war and political paralysis followed. Nevertheless, OPEC somehow managed to endure all that, and reach its fiftieth birthday. The survival of such a disparate group constitutes a most persuasive proof of the ultimate scarcity of petroleum. And, given the way Mother Nature saw fit to distribute global petroleum resources, there are not that many strong reasons to think that OPEC will not be able to muddle through as it has done until now for the next fifty years. But the propensity of Member Countries, whether singly or collectively, for buying into narratives and ideas espoused by their unconditional detractors, would certainly be among them.