

ISSUES AND POLICY

Multilateral Energy Negotiations: Lessons of the Conference on International Economic Cooperation

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The oil question continues to loom large in international relations. Notwithstanding the current oil surplus, the dependence of the West (as well as the oil-importing developing countries) on petroleum imports from the Organization of Petroleum Exporting Countries (OPEC), will persist for the next decade and beyond. As Joseph Nye writes, the "sudden loss of Persian Gulf oil for a year could stagger the world's economy, disrupt it, devastate it, like no event since the Great Depression of the 1930s."¹ Seen in this context, it is not surprising that interest in multilateral energy negotiations between oil producing and consuming countries — a prospect that has tantalized Western statesmen since the dawn of the oil crisis in 1973 — still lingers.² Undoubtedly, the possibility of such a dialogue will figure prominently in the United Nations' discussions of "global negotiations" now beginning in the wake of the October 1981 North-South summit conference held in Cancun, Mexico.

The Conference on International Economic Cooperation

Given the continuing interest in producer-consumer negotiations, it would be wise to review the pertinent lessons of the Conference on In-

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1. David A. Deese and Joseph S. Nye, eds., *Energy and Security* (Cambridge, Massachusetts: Ballinger Publishing Company, 1981), p.3. For projections of future world oil demand and supply, see, for example, Exxon, "World Energy Outlook," December 1980.
2. US Secretary of State Henry Kissinger made one of the earliest calls for producer-consumer consultations in his speech at London's Pilgrim Society on December 12, 1973. *New York Times*, 13 December 1973, p. 28. More recent proposals for producer-consumer negotiations are cited below.

ternational Economic Cooperation (CIEC), the first and to date only, intergovernmental conference bringing together the oil producing and consuming nations to consider energy and related issues since the oil crisis of 1973-74.³ The conference emerged from the complex and heated diplomacy that accompanied the oil crisis of late 1973, and crystallized at the specific initiative of France in cooperation, notably, with Saudi Arabia. Agreement in October 1975 to establish CIEC, along with a modicum of accord between developed and developing countries, was reflected in actions taken by the Seventh Special Session of the United Nations General Assembly in September of that year. Both the agreement and Seventh Special Session signaled a willingness among nations to restrain conflict and moderate differences through multilateral negotiation.

The institutional framework of CIEC represented a forum for discussion of economic concerns on a global level. The arrangements were global in two respects. First, they provided for participation by a representative sampling of nations from the industrialized "North" and from both the oil exporting and energy deficient countries of the developing "South." Second, the four commissions established discussed the entire spectrum of international economic issues, including energy. Until the creation of the CIEC Energy Commission in October 1975, this issue had not been addressed in the postwar era by a broadly representative international economic institution.

CIEC continued to meet intermittently from December 1975 to June 1977 in Paris. During the course of those months, discussions between and within the Northern and Southern groups proved difficult, and at several stages a complete breakdown of the negotiations appeared imminent. Under the pressure of a self-imposed time deadline of June 1977, however, a limited agreement was ultimately reached. This agreement fell far short of the expectations of many and raised questions about the value of attempting to negotiate a global bargain in a single forum. In the absence of a consensus to establish a permanent CIEC-like organization, the United Nations and its specialized fora again became the main locus of the North-South deliberation.

On balance, however, all participants — developed countries, non-OPEC developing countries, and OPEC members — registered limited net gains at CIEC. To the benefit of the North, CIEC may have helped to stabilize Northern relations with OPEC as well as with the Southern group as a whole. For the non-OPEC developing countries, CIEC brought

3. This article focuses primarily on the energy-related lessons of CIEC. For a broader treatment of CIEC as well as a full exposition of the evidence from which the argumentation below flows, see David Michael Adamson, "Oil and North-South Negotiation" (Ph.D. dissertation, unpublished, The Fletcher School of Law and Diplomacy, 1980).

some advances, mainly in the resource transfer area, toward their demands for a "New International Economic Order" (NIEO) designed to enhance their wealth and power. CIEC may also have contributed to making the North more flexible in accommodating Southern demands in subsequent years. Furthermore, OPEC's exposure, through CIEC deliberations, to the problems faced by oil importers was regarded as useful by the latter and probably served to strengthen the hand of the price moderates within OPEC.⁴ For the OPEC members, the legitimacy of the cartel was reinforced by the fact that the industrial powers joined in energy negotiations with them and, perhaps more importantly, by the fact that despite some friction, the developing countries maintained their diplomatic alliance with OPEC.

At the same time, many of the objectives of the participants were not attained. The Conference proved to be neither an effective forum for the negotiation of a "planetary bargain" — as many developing countries had wished — nor a risk-free organ for the management of international economic and energy problems, as many developed countries had hoped.

The Future Prescriptions

The meeting of the Conference on International Energy Cooperation suggests that several lessons can be learned about the "oil weapon" and the future of the international politics of oil. First, despite the reality of OPEC power stemming from the dependence of the major industrial countries on oil imports, there is little prospect that OPEC will use the "oil weapon" — namely, the manipulation of the price and supply of petroleum by exporting nations with the intention of affecting the behavior of the consuming nations — in the North-South context.⁵ OPEC's price decisions are the product of hard intra-cartel bargaining shaped primarily, but not exclusively, by perceptions of national economic interest. While OPEC representatives may try to influence individual countries policies regarding the supply of oil, such decisions tend to be made unilaterally by national leaders.⁶

4. The cleavage between the price moderates led by Saudi Arabia and the more "hawkish" majority of OPEC members stems essentially from the former's relatively high ratio of oil reserves to population and oil production.

5. Our definition of oil weapon is adapted from "The Oil Weapon Examined," *The Petroleum Economist*, Vol. 42., no. 1 (October 1975), p. 402. Although the use of the oil weapon in the Arab-Israeli dispute may be more likely, it should be recalled that direct interest in that dispute is limited to Arab oil producing states. The latter, which in 1979 produced about two-thirds of OPEC oil, were the only OPEC members to restrict their oil exports following the outbreak of the 1973 Arab-Israeli War.

6. On OPEC's price and supply behavior see, for instance, Robert S. Pindyck, "OPEC's Threat to the West," *Foreign Policy*, no. 30 (Spring 1978), pp. 36-52.

Within this dynamic there proved to be little scope for external political considerations during the conference, despite rhetoric by important oil producing countries linking CIEC results and OPEC policies. The developing countries' economic demands simply do not command sufficient dedication among OPEC members for the latter to pursue petroleum-related policies inconsistent with their own national interests, which are tied to the sale of oil, and to the economic health of the West. For its own reasons, notably the desire to perpetuate its diplomatic alliance with other developing countries, OPEC will continue to espouse the NIEO proposals, but a chasm between the rhetoric and the reality of the "oil weapon" will likely persist.

Producer-Consumer Agreements

If CIEC demonstrates that the "oil weapon" is largely illusory, it also suggests that the possibility of negotiating a meaningful consumer-producer oil agreement — encompassing, above all, the price and supply of petroleum — will remain elusive. OPEC countries displayed scant interest in such an agreement during the course of the conference negotiations. To the contrary, some members, specifically Algeria and Iraq, insisted upon OPEC's price and supply autonomy. Ultimately, OPEC refused even to agree to the perpetuation of a producer-consumer forum at the conclusion of CIEC, a concession sought by the West. For just as the national interests of individual OPEC members do not necessarily coincide with the use of the "oil weapon" in the North-South context, neither do they imply any need for a price-supply negotiation with consuming nations. Actually, the very factors that contributed to the OPEC revolution of 1973 — notably, a high degree of Western dependence on OPEC oil and the prospect that such dependence would continue for years to come — provide OPEC with a strong bargaining position. OPEC has nothing of sufficient significance to gain in an agreement with importing nations to warrant relinquishing its hard-won control of the extraction and pricing of its oil.

Nonetheless, Western governments and commentators continue to call for the negotiation of a detailed agreement between petroleum producers and consumers. In June of 1980, for example, the industrial nations at the Venice Summit called for "a constructive dialogue on energy and related issues between energy producers and consumers" — code words for a negotiation on oil prices.⁷ As in the oil diplomacy of 1974, the main

7. *New York Times*, 24 June 1980, p. 7. While making no explicit reference to energy negotiations, the communique issued at the conclusion of the industrial countries' Ottawa Summit in July 1981 does make a positive reference to "global negotiations" at the United Nations—which like CIEC would encompass energy as well as other economic topics. *New York Times*, 22 July 1981, p. D18.

proponents of such negotiations at the Venice meeting were the West Europeans, who with the exception of the British, continue to be especially dependent on imported oil and therefore vulnerable to supply interruptions. Also in mid-1980, the Independent Commission on International Development Issues chaired by Willy Brandt, called for "an understanding between producers and consumers on all internationally traded energy supplies," that would encompass "the assurance of regular supplies of oil, more vigorous conservation, more predictable changes in oil prices, and the development of alternative energy sources." To this end, the Commission proposed "a major global agreement" including an international energy strategy, a large-scale transfer of resources to less developed countries, a global food program, and a start on some major reforms in the international economic system. A summit of some twenty-five world leaders, representing major world regional and functional groupings, would begin the negotiating process.⁸

If these proposals are reminiscent of CIEC, so too are several proposals fashioned by private individuals such as Herbert E. Hansen, a Gulf Oil executive, Oystein Noreng, who expresses his views in a book associated with the 1980s Project of the Council on Foreign Relations, and Walter J. Levy, a prominent energy expert, who have joined in the call for producer-consumer talks. These experts envisage talks which would encompass trade, investment, and financial topics, as well as oil pricing and supply.⁹ While Hansen and Noreng acknowledge that the proposal they advance has a precursor, the CIEC, they do not adequately explain why a price-supply agreement did not emerge from that group. In 1982, just as in 1977, the question facing the industrial democracies is not one of either "confronting" or, alternatively, "negotiating" with OPEC. Rather, the question is what emphasis to give, within energy policy, to domestic, intra-consumer, intra-producer, and producer-consumer measures.

Regarding producer-consumer relations, the question is not whether to negotiate, but what, if anything, there is to negotiate about. That is, on what matters could negotiation conceivably serve all parties' interests? Hansen, Noreng, and Levy — and, for that matter, the Venice Com-

8. Report of the Independent Commission on International Development Issues, *North-South: A Programme for Survival* (Cambridge, Massachusetts: The MIT Press, 1980), p. 170 and pp. 276-77. The Brandt Commission's summit recommendation stimulated the diplomacy leading to the Cancun summit.

9. For further detail regarding the opinions of these experts, see: Herbert E. Hansen, "The Option of International Energy Negotiations," *The Fletcher Forum*, Vol. 4, no. 1 (Winter 1980), pp. 118-19; Oystein Noreng, *Oil Politics in the 1980s* (New York: McGraw-Hill, 1978), pp. 138-56; Walter J. Levy, "Oil: An Agenda for the 1980s," *Foreign Affairs*, Vol. 58, no. 5 (Summer 1981), pp. 1089-94; and Walter J. Levy "Oil and the Decline of the West," *Foreign Affairs*, Vol. 58, no. 5 (Summer 1980), pp. 1014-15.

munique and the Brandt Commission Report — do not adequately indicate what OPEC would gain. Given OPEC's leverage over both the consumers and international oil companies, OPEC countries, and especially the price "hawks" within the organization, have little incentive to give up their price and supply autonomy in exchange for what amount to marginal Western concessions in investment, technology transfer, trade and finance. Without making a *quid pro quo* in oil pricing or supply issues, OPEC could probably negotiate successfully in either bilateral or multilateral forums many of the arrangements specified as being advantageous to its interests.

To attribute the deadlock reached at CIEC to an unwillingness on the part of OECD countries to link energy and North-South concessions would be to misconstrue the Conference proceedings. In fact, CIEC materialized because the West bowed partially to OPEC demands that energy and North-South issues be linked. The fundamental problem was that OPEC members insisted upon a link which reflected not only OPEC's general ideological affinity with, and loyalty to, the Third World, but also a desire to deflect attention from energy issues which might erode the cartel's power. Never was there any indication at CIEC that substantial North-South concessions by OECD countries would induce OPEC countries to negotiate a price-supply agreement with oil importers. OPEC did claim that such concessions would have a moderating influence on OPEC's price and supply decisions, but even this connection proved to be tenuous at best.

This is not to say that the OPEC countries alone stood in the way of the negotiation of an oil price-supply agreement at the conference. Western governments themselves had ambivalent and divided views on such a prospect. Although their national dependence on OPEC lent a certain appeal to such a negotiation, Western officials at the same time doubted that they could secure favorable terms in an agreement, or that OPEC would adhere to an agreement which might become politically or economically disadvantageous to them. Thus, even if both OPEC and the OECD countries had been of a mind to reach an oil deal, the broad North-South agenda of the CIEC would have proved an unwieldy forum for such a negotiation.¹⁰

Despite wishful thinking in the West, OPEC countries themselves have generally displayed little interest in negotiating a multilateral oil price and supply agreement with importing nations. Indeed, in an off-the-record meeting in late 1979, a high OPEC official emphatically stated

10. One of the broader lessons of CIEC is that negotiation is most effectively undertaken in specialized forums with the participation of directly interested countries, rather than in broadly-focused North-South fora.

that OPEC had no interest in negotiating on oil prices with the consumers. Moreover, in multilateral debates, notably at the UN, OPEC has continued to resist any direct focus on oil.

One must keep in mind, however, that in May 1980, the OPEC Committee of Experts on Long-Term Strategy — chaired by Saudi Oil Minister Sheik Ahmed Zaki Yamani and composed of the OPEC Deputy Secretary-General and experts representing Algeria, Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela — did make a variety of proposals regarding producer-consumer cooperation. These experts judged that pressure from industrialized countries for discussions with OPEC made such a dialogue “inevitable, if not desirable.” The experts concluded that because of the poor experience at CIEC, it would be desirable to limit any future discussions to OPEC and OECD members (though OPEC would first establish contact with other developing countries). The Committee also suggested that OPEC seek financial, trade, technology transfer, and industrial concessions in such negotiations. In return, with the belief that consumers are more concerned about supply than pricing questions, it was recommended that OPEC countries be prepared “to offer a certain degree of assurance on security of oil supply.” Regarding prices, the experts advocated steady, real price increases with a view to elevating the price of oil in the long term to the approximate cost of alternatives — which of course represents the maximum sustainable price. The Committee did not envisage any relaxation of OPEC’s pricing autonomy, though it did make reference to the possibility of price restraint in times of shortages as well as to price maintenance during gluts.¹¹

In sum, then, while recommending producer-consumer negotiations with some hesitation, the Long-Term Strategy Report by the Committee of Experts indicates only a very limited OPEC willingness to negotiate on the crucial questions of price and supply. Furthermore, the Report’s recommendations on producer-consumer cooperation may well have been tilted toward the Saudi point of view by Sheikh Yamani, and therefore may not embody any consensus within the historically divided councils of OPEC.

Since May 1980, OPEC has not moved to enact the Report’s recommendations. Indeed, following the price hike of 1979, OPEC members were unable to agree until very recently on the crucial question of setting uniform oil prices. On 29 October 1981, OPEC finally did announce a unified pricing system, but the durability of this agreement remains to

11. For a summary of the Report, see *Platt's Oilgram News*, Special Supplement, vol. 56, no. 89-A (6 May 1980). The real price increases envisaged by the experts would be based on a formula that takes into account inflation, exchange rates, and GNP growth in OECD countries. In effect, the formula would permit OPEC to charge what the market would bear.

be seen. Sheik Yamani has conceded that the possibility of adoption by OPEC of a long-term pricing formula for oil "is now in the deep freeze."¹²

For a variety of reasons then, the burden of proof is on proponents of a consumer-producer oil price and supply package to demonstrate why such an agreement is not a chimera. Specifically, they must deal with issues touched upon in the following questions. Why would the OPEC countries be induced to enter into such an agreement on terms more favorable to the consumers than the oil market itself might dictate? How could OPEC, which has difficulty reaching internal agreement on oil prices and which does not control the supply decisions of its member states, come to terms with consumers on price and supply issues? Could OPEC countries, a number of which are politically unstable and have a history of abrogating oil-related agreements as it suits them, including instances where such action is politically induced, be reliable partners in an international oil agreement? Would the linking of North-South issues to an oil deal, as advocated by the Brandt Commission, not add serious complications to an already formidable negotiating problem?¹³

The Utility of a Consumer-Producer Forum

While indicating that the possibility of negotiating a meaningful consumer-producer oil agreement is remote, CIEC at the same time suggests as a final lesson that a forum for producer-consumer consultation on energy matters can be useful, particularly to the West. At the very least, such a forum allows for a regular, institutionalized means of access to OPEC. Given the impact of OPEC decisions on the economies of the Western world, this accomplishment should not be underestimated. Additionally, any such forum can facilitate consultation and even negotiation on matters of common interest. At most, such a broadly based body might serve to undercut OPEC's unity by exacerbating the fissiparous tendencies within OPEC and, if oil importing developing countries are included, within the OPEC-Third World coalition. In fact, this happened at CIEC and probably served to strengthen the hand of the price moderates within OPEC.

12. *New York Times*, 22 August 1981, p. 1; *New York Times* 29 September 1981, p. D21; and *New York Times*, 30 October 1981, p. D13.

13. While Noreng pays lip service to the need for the OECD countries to make North-South concessions in order to make an energy agreement possible, the agreement he outlines embodies few North-South concessions. In fact, the proposed agreement is inconsistent with such concessions to the extent that it grants special preferences to OPEC countries alone, for instance by giving OPEC countries trade preferences in OECD markets.

By the same token, however, to most OPEC countries such a forum entails certain risk, especially insofar as it includes non-OPEC developing countries, with little obvious benefit to OPEC interests. This accounts for the fact that most OPEC members resisted the perpetuation of an energy related institution at the conclusion of CIEC, and suggests that consumer-producer contacts may remain essentially bilateral, rather than multilateral in nature. The most promising avenue open to multilateral consultations would probably be direct OECD-OPEC talks of the kind envisaged in the OPEC Long-Term Strategy Report. The political feasibility of encouraging such talks, however, is open to question.

Conclusion

In summary, CIEC suggests three important lessons for the future with respect to multilateral producer-consumer talks on petroleum: First, that the use of the oil weapon in the North-South context is unlikely; Second, that the negotiation of a meaningful consumer-producer oil agreement is similarly improbable; and Third, that structured, multilateral producer-consumer contacts can be of some — albeit limited — benefit to the oil importing countries. These lessons in turn underscore the validity of Henry Kissinger's most consistent theme during the oil diplomacy that followed the OPEC revolution of 1973. Namely, that only concerted efforts by the oil consumers themselves tending to increase non-OPEC energy production and the efficiency of energy consumption will fundamentally improve the importing nations' energy situation. International energy negotiations simply are no substitute for such unilateral efforts. Rather, increased Western production and conservation will tend to create the basis for a consumer-producer negotiation by reducing OPEC's leverage in the international energy arena.

Admittedly, even in the best of circumstances, Western production and conservation efforts will not erase the West's dependence on OPEC for a substantial portion of its energy supply during the next several decades. Nonetheless, as the decline in Western oil consumption following the recent price increases has shown, a very real opportunity for meaningful policy choices such as price decontrol exists. Ultimately, the extent to which Western dependence on OPEC oil can be diminished significantly will affect the West's control of its own destiny and reduce the possible requirement that it attempt to use military force to protect its oil lifeline. To the extent that the West's dependence on OPEC petroleum persists, Western security will remain mortgaged to the vicissitudes of OPEC.