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Editorials

Missing the mark in Riyadh

External Affairs Minister Joe Clark demonstrated little understanding of Saudi Arabia's current oil policy when he told Bell Canada employees in Riyadh that Canada shares the interest of the Saudis "in maintaining a stable and orderly market for this vital commodity."

This missed the mark as much as the comment of U.S. Vice-President George Bush, also visiting Riyadh during the weekend, that "the United States does not blame Saudi Arabia for the situation in the oil market."

Saudi Arabia deserves considerable blame for the rate of decline in oil prices. Its policy is not designed to sustain a stable and orderly market.

Oil prices have been falling because of world oversupply and a decline in demand caused by conservation and energy substitution. The Organization of Petroleum Exporting Countries, of which Saudi Arabia is the most powerful member because it has the largest reserves, has lost the ability to dictate the world price of oil. Several of its member states, notably Libya, Iran and Iraq, cheat on any agreement made to shore up prices. They pump more than they say they will pump. They sell privately at deep discounts while publicly swearing to keep to an agreed minimum price.

The rate of price drop has been accelerated by a deliberate change in Saudi policy, with the aim of making the world market unstable and disorderly.

The Saudis had traditionally reacted to oil price drops by cutting daily production and insisting on charging the price per barrel publicly agreed by all OPEC members. Saudi Oil Minister Sheik Ahmed Zaki Yamani argued that this was the best way to shore up OPEC's attempts to control the world market. Influential members of the Saudi royal house, including King Fahd, eventually decided that this policy was bad for Saudi Arabia and overruled him.

Saudi Arabia doubled its daily crude oil production last fall from less than two million to over four million barrels. It began offering price discounts, using a netback method that relates the price of crude oil to the market price of refined products made from that oil.

The dumping of two million barrels daily extra supply on a market already awash with a surplus turned a gentle price decline into a steep drop.

This policy has several goals. One is to punish other OPEC member states that have been cheating. Another is to punish non-OPEC major producing states, such as Britain and Mexico, for refusing to go along with OPEC market-rigging production and pricing strategies, persuading these countries to bow to the cartel's whims in future. Another goal is to make oil cheap enough to get former addicts among the advanced industrial states hooked again. The idea is to make responsible conservation measures seem unnecessary, to make expensive alternative energy sources uneconomical, to discourage production of domestic oil supplies, to create an appetite for lavish oil use that will restore the old dependence on imported oil from OPEC states.

The chaos that the rate of price drop is causing in the Canadian oil industry, for instance, serves Saudi interests and is part of the plan. The stable and orderly market about which Mr. Clark was burbling in Riyadh is not the short-term goal that he imagines but a long-term goal after the market has been re-shaped to return to Saudi Arabia and its OPEC partners the economic and political power that they once had.

Saudi Arabia suffers less than others from its strategy of rapid depression of the world price because it is selling more oil than anyone else. It is making loud complaints about having to cut back its ambitious development programs because of reduced oil revenues but that is a tactical manoeuvre to fend off criticism from other OPEC members that really are suffering. At any time, the Saudis could make things worse by pumping even more than four million barrels daily.

Mr. Clark is not in a position to do much about this Saudi policy but he is in a position to avoid making the unjustified claim that it is evidence of a common interest between Canada and Saudi Arabia.