

## Syria in Battle with The Arab Spring

Will The USA Move To  
September 12  
after Usama Bin Laden's  
Assassination?

Half of a Century of  
Oil Prices



ثِقْ بِهَا، اِعْتَمِدْهَا.



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# COMMENT

The fundamental changes in the Arab world (The Arab Spring) continue unabated. In Syria, the regime is still trying to deal with the protests through security measures, while promising reforms; this is a sign that there is still much debate taking place within the Syrian ruling establishment about how to deal with this serious challenge to the regime, as well as an indication of jockeying for influence in Damascus.

According to Gerald Butt: “In the modern history of the Middle East, Syria has survived periods of political and diplomatic isolation. But never has it seemed so inward-looking and friendless as it does today. Syria has been slower than any Arab country to notice how the world beyond its borders has changed. The ruling elite seems not to recognize that the Soviet system, and the dour and rigid centralization of government that it espoused, have been discredited and wiped from the geopolitical map. In a world, shrunk by modern means of communication, people are no longer prepared to stay silent in the face of East-bloc style tyranny and corruption.”

The assassination of Osama bin Laden in Pakistan led the global headlines during the past few weeks. However, the event remained below the political radar screens in the Arab world. But, according to Gerald Butt: “This is not to deny that millions of Arabs and non-Muslim Arabs still support the broad political agenda of al-Qa’ida – the defeat of Israel and the removal of Western influence in the Middle East. But in the current atmosphere in the Arab world it is improbable that a single person could emerge with the charisma of Osama bin Laden, or be able to manipulate the message of Islam in the way he did, seeking to justify the barbaric acts of violence. In a world where young people are sacrificing their lives for freedom from corruption, al-Qa’ida looks like a body that has been left behind by the mass march for freedom.”

Crude oil prices are reaching record levels once more, while fluctuating within wide daily ranges, registering a \$16/B drop in a single day in early May and then reverting to their previous levels. Dr. Ramzi Salman, Iraqi energy expert and head of SOMO for around two decades, reviews the evolution of prices over the past half decade, clarifying the various terms that have emerged: spot price; nominal price; just price, future price, and the real price of oil. Dr. Salman also reviews the history of price evolution and the role and history of OPEC since its establishment half a century ago, and suggests how OPEC member states can preserve and protect their wealth as they exhaust their diminishing hydrocarbon resources. Dr. Salman proposes the following measures for OPEC states to enhance their resources and economies: Establishment of a financial strategic reserve to cope with periods of demand contraction or price collapse; Investment in human resources, providing them with knowledge; Development of non-oil sources of revenue; and, moderation in policies adopted, particularly increasing their savings for future periods.

Food security and provision of adequate supplies of food for mankind are essential concepts guaranteed by international summit conferences and Declarations of Human Rights. Food security is an essential part of human security and “represents a quantitative shift in human consciousness, in the wake of WWII, towards a commitment to universal principles to safeguard human dignity and prevent wars, and to achieve basic human freedoms, binding inseparably, of course, civil, political, economic, social and cultural rights,” according to Hasan Janabi, the Iraqi Ambassador to the Food and Agriculture Organization (FAO).

It is a rare day that an OPEC Ministry of Oil publishes a detailed account of the production program of an oil field. Hence, the letter (originally in Arabic, translated by MEES) sent by the Iraqi Ministry of Oil to Mr. Ahmed Mousa Jiyad in response to his comment concerning the giant Rumaila field (MEES: Energy & Geopolitical Risk-March 2011) provides a rare insight into the current development plans and production profile of the southern oilfield of Rumaila. MEES is publishing herewith the answer by the Ministry of Oil and Mr. Jiyad’s original article.



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# SYRIA AND AL-QA'IDA: OUT OF STEP WITH THE ARAB SPRING



*In the following articles we discuss Syria's motives for its attempt to strangle at birth the Arab Spring in that country; and, after examining how al-Qa'ida's appeal has waned in the new atmosphere in the Middle East, we ask whether the killing of Usama bin Ladin means that Americans can put September 11 behind them.*

## **Gerald Butt\***


In this Arab Spring, the past is colliding with the present in surprising ways. The new atmosphere, in which aspirations for freedom are being voiced assertively, has made some established institutions look suddenly stolid and out of step with the pace and energy of the Arab street.

The governing system in Syria, rooted in a bygone age of stifling state control over all aspects of life, is one example. Al-Qa'ida – an institution in only the loosest sense and a much more recent one – is another.

In the modern history of the Middle East, Syria has survived periods of political and diplomatic isolation. But never has it seemed so inward-looking and friendless as it does today. Syria has been slower than any other Arab country to notice how the world beyond its borders has changed. The ruling elite seems not to recognize that the Soviet system, and the dour and rigid centralization of government that it espoused, have been discredited and wiped from the geopolitical map. In a world, shrunk by modern means of communication, people are no longer prepared to stay silent in the face of East-bloc-style state tyranny and corruption.

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\* Former Editor-in-Chief of MEES.



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This blindness (or, perhaps, unwillingness to see) left the Syrian authorities hopelessly unprepared for the Arab Spring. So hopelessly, in fact, that they barely took it seriously. For the idea of it seeping across Syria's borders was unthinkable – a laughable prospect. In late January, with the uprisings well under way in Tunisia and Egypt, President Bashar al-Assad, in an interview with The Wall Street Journal, was smugly dismissive. The people of Syria, he said categorically, “do not go into an uprising”.

Saudi columnist Dauwd al-Sharyyan (see below) speculates about whether the Syrian leader, surrounded by a clique of senior Ba'th Party officials and therefore unaware of the true pulse of the country, had been fed misleading information. Or perhaps he genuinely believed that the state and the people were living in harmony. Either way, since the escalation of the unrest in Syria there is clearly a debate under way among the Ba'th elite. This is evident in the tone of the president himself. Addressing parliament in the first days of the trouble he was jauntily and flippantly dismissive of the protesters, saying the trouble in Dir'a was merely the work of foreign agitators.

## Reform Failures

Of late, Mr. Assad has looked like a serious and worried man. He has held a series of meetings with delegations from various cities and towns of Syria to hear their views. Even having lifted the state of emergency, the president has continued to speak of the importance of political reform.

So he would seem to represent a wing in the leadership that is pressing for political change, dialogue and restraint. But it is evident that this faction has been overruled by the old guard who espouse force and more force (as happened in Hama in 1982) to crush the unrest. In the view of hardliners, anything less than total repression of the protests would threaten the survival of the regime. It is no surprise, therefore, that the armed forces – with some 80 per cent of the officer corps consisting of Alawis – have not shrunk from their orders to stamp out the protests. For the Alawis, the reaction to the popular unrest is nothing short of a battle to cling on to power and privileges in the Sunni-dominated country.

At the same time, the old guard in Damascus appear to have used the outbreak of protests – blamed still on agitators, variously foreign agents or Islamic militants – to prevent the progress of reform. Since the lifting of the state of emergency, the violent suppression of demonstrations has increased and expanded markedly.

By the same token, the failure of reforms to impact daily life has turned the chants of protesters from political change to the overthrow of the regime. The chance to make those changes existed, but it was not taken. Now, with so many civilian deaths, selling the idea of reform to the Syrian people would be a formidably difficult challenge.

## The Same Mistakes

The result is that Syria has entered a tunnel, with no light at the other end. President Assad's inability to deliver on promised reforms and the security forces' failure to stamp out quickly the unrest means that Syria appears set for many more weeks, perhaps months, of violence. The government is still confident that brute force will win the day.



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But there again it was confident that unrest would never break out in Syria. As Mr. Sharyyan shrewdly puts it: “The Syrian regime is certainly learning from itself – which is why it is repeating the same mistakes.”

As the Syrian crisis grinds on, other countries in the region are watching carefully for the likely outcome. But governments are saying little. They do not know what to say. Israel is torn between a desire to see the last of the Arab “confrontation” regimes topple and fear of what a power vacuum in Syria might produce. Some Israeli commentators are even suggesting the possibility that a wounded Syria, in desperation, might lash out at the Jewish state as a means of rallying domestic and Arab support. Lebanon also has cause for concern. The overthrow of the Assad government would leave Hezbollah stranded and might prompt the latter to make a grab for power to consolidate its position in the country.

Further afield, in states where unrest has broken out, or where even the distant rumbling of protest can be heard, governments would view President Assad’s ability to stay in power as a boost to their chances of doing the same. The success, to a greater or lesser extent, of the authorities in Libya, Syria and Bahrain to use force to resist popular calls for regime change seem to have emboldened President ‘Ali ‘Abd Allah Salih of Yemen, spurring him on to find pretexts to avoid signing a deal that would see him relinquish power.

In short, the future of the Arab Spring is still far from clear. But the popular protests have changed the atmosphere in the region. At very least, autocratic regimes will find themselves under pressure from their own people for change. The Arabs’ aspirations are being expressed loudly and confidently from Morocco to the Gulf, with political freedom and an end to corruption being the main demands. Less and less, by contrast, is one hearing calls for support for al-Qa’ida. So, while the news of the killing of Usama bin Laden reverberated throughout the Middle East, it has not distracted popular attention away from the Arab Spring.

## **Islamists Enter Politics**

This is not to deny that millions of Arabs and non-Arab Muslims still support the broad political agenda of al-Qa’ida – the defeat of Israel and the removal of Western influence in the Middle East. But in the current atmosphere in the Arab world it is improbable that a single person could emerge with the charisma of Usama bin Laden, or be able to manipulate the message of Islam in the way that he did, seeking to justify barbaric acts of violence. In a world where young people are sacrificing their lives for freedom from oppression, al-Qa’ida looks like a body that has been left behind by the mass march for freedom.

Another factor working against al-Qa’ida is a product of the Arab Spring itself – the emergence into public gaze of previously banned Islamist groups. The latter in Tunisia and Egypt see opportunities for influencing society and spreading the Islamic message via the ballot box. Successes at the local level that bring tangible benefits to the poor and needy would probably be more attractive to young Muslims than the call to join a universal jihad against the West.

But as long as festering grievances – in particular the Palestinian-Israeli dispute and the West’s unconditional support for Israel – remain untreated, then the appeal of groups inspired by al-Qa’ida will remain. As Egyptian writer Emile Amin (see below) says, America and the West need to find ways to deal with the issues behind the threats posed by militant Islamic groups that are more creative than the launching of Tomahawk and Cruise Missiles.



# SYRIA: SOLUTION BY MEANS OF SECURITY

**Dauwd al-Sharyyan,\***



Last February, the Wall Street Journal ran an interview with Syrian President Bashar al-Assad about developments in the region and Syria's view of them. The newspaper asked the president if there was any concern that what was happening in Egypt might affect Syria. Assad said: "If you want to make a comparison between what is happening in Egypt and Syria, you have to look from a different point: why is Syria stable, although we have more difficult conditions? Egypt has been supported financially by the United States, while we are under embargo by most countries of the world. We have growth although we do not have many of the basic needs for the people. Despite all that, the people do not go into an uprising. So it is not only about the needs and not only about the reform. It is about the ideology, the beliefs and the cause that you have. There is a difference between having a cause and having a vacuum."

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\* A Saudi columnist with *al-Hayat*, published 26 April, MEES translation.

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More than three months separate President Assad's comments and the bloody events that Syria is witnessing today. Were the reports presented to the president misguided to the extent that Assad ruled out the occurrence of what is happening in Syrian cities, or was he neglectful about the freedom and the physical and moral needs of the people – in the belief that the latter's satisfaction with the status quo and the stability of Syria stem from "the harmony between policies and the beliefs of the people"? The reports that the president is reading may be misleading, but what is hard to understand is that the Syrian leadership is convinced that slogans like "cause and vacuum" serve as an answer to justify violations of the law and repression, and the lack of the freedom of the individual, of social development and justice, and the concept of the state.

There can be no doubt that the train of change in Syria is on the move in an unexpected way. It is sad that the Syrian regime watched the experiences of three Arab states, Tunisia, Egypt and Libya, but did not learn from the mistakes that the regimes there made. It was possible for the Damascus government to have substituted a political solution for the security one, easing the painful birth of change and avoiding violence and bloodshed. But it appears that the political regime is determined to repeat what happened with the uprising in the city of Hama in the 1980s. The president said in his interview with the Wall Street Journal: "When you do not talk, and suddenly you talk, you happen not to talk in the proper way or productive way. We are learning, but we are learning from ourselves."

To be sure, President Bashar was sincere in what he said. The Syrian regime is certainly learning from itself – which is why it is repeating the same mistakes.



# SUSTAINABLE ENERGY

The twin elements of sustainable energy are energy efficiency and renewable energy. Meeting the growing needs for energy now without jeopardizing future supplies has become a major concern of nations. Harnessing energy generated from natural resources which are renewable goes well back in the history of mankind.

There is ample evidence of the rising importance of sustainable energy. The utilization of alternative energy has spread from the industrial to the developing countries over the past decade. Related regulations, budget allocations and environmental stipulations are being carefully formulated worldwide as concerns over the deterioration of the earth's ecosystem are intensifying.

The question is whether these gradual changes in attitudes as well as breakthroughs in new technologies can help to control our future reliance on fossil fuels.

The story of the supremacy of the oil and gas over other fossil sources may be summarized by a single term, namely technology.

An official once said:

***“The Stone Age came to an end but many stones still exist in the world”***

It is important to remember that technological innovation and the associated capacity for future energy development are limited only by the restrictions of the human mind. The petroleum industry itself may be the best model to confirm this state of affairs. The latter part of the 19th century saw the rise of the petroleum industry and witnessed its supremacy over coal by the beginning of the second quarter of the 20th century. Nevertheless, as a finite source of energy it may very well be replaced by renewable and cleaner sources, depending on the ingenuity of the human mind in commercializing technological innovations.

The Journal of Sustainable Energy is produced bi-monthly. As with all other MEES products, a specialized team of world renowned experts will lead this publication, and supply professionals, investors and students with an in-depth analysis of the trends in this vital industry, with particular emphasis on the Middle East Region.

# AMERICA AND BIN LADEN: MOVING ON TO SEPTEMBER 12\*

Emile Amin\*\*



Does the operation to kill the leader, symbol and icon of al-Qa'ida, Usama bin Laden; mean that Americans can move on from September 11 to September 12?

Discovering the answer involves, perhaps, examining two files. The first involves a key question: does the death of bin Laden mean the end of al-Qa'ida? Secondly, is Washington prepared to pay again the price of the state of fear that it endured over the past decade, especially if it goes on into the future?

One can say for sure that the absence of bin Laden will, at first glance, represent an emotional blow for all his followers and disciples. But specialists in the affairs of al-Qa'ida are well aware that the shape of the organization before September 11, with its pyramid-like decision-making structure, was radically different from the one after that date. Thereafter, al-Qa'ida became a symbol, a model for others.

This analysis is supported by statements made that day by Rob Mueller who served as Director of the Federal Bureau of Investigation: "We are witnessing the rise of a number of groups of self-instructed radicals that get inspiration from the Internet, rather than being organized from abroad." Michael Chertoff, former US Homeland Security Secretary, and former CIA Director Michael Hayden said in a joint statement that "al-Qa'ida has not been defeated or driven away. Rather it is becoming more flexible, more expansive and more powerful."

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\* *Al-Hayat*, 5 May 2011, abridged translation by MEES

\*\* *Egyptian writer.*



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There can be no doubt that aside from the symbolic significance of al-Qa'ida today, its main body, which once was focused on the caves of Tora Bora and Kandahar, has regrouped and changed into small units with good administrative skills – a move that has avoided a lot of losses. Big units create administrative difficulties as they occupy large areas. This makes it hard to hide their presence from the enemy and to keep it out of the range of aerial bombardment.

Al-Qa'ida no longer operates the way its Hamburg cell in Germany once did. It was headed by Muhammad 'Ata who coordinated with bin al-Shaibah in Pakistan. The cell was directed from Afghanistan by Khalid Shaikh Muhammad, under the direct supervision of bin Laden.

So al-Qa'ida has not died, even if it has been affected. Its survival begs a question: why has Washington failed in its war on terrorism? In the view of the dean of Princeton University: "We have lost the war on terrorism because we were dealing with the effects rather than the root causes that spread the disease. Our insistence on Islam taking the place of communism as the West's number one enemy fueled al-Qa'ida's vision of the world, thereby increasing its support and, at the same time, pushing many people towards extremism. Washington failed because of its failure in the battle of ideas in the long run, especially as it was not facing a single enemy represented in one country or even an alliance. Rather, it is a global movement that does not belong to a state. If Washington does not wage an effective war of ideas, then others will take the place of those enemies whenever they are killed by American fire."

In this context, it is stating the obvious to say that the killing of bin Laden will not provide comfort for the Americans. Indeed, it might even increase fears of an angry Arab and Islamic backlash.

"Memo: Does this mean that America will remain a captive of bin Laden-phobia forever? In her book *To The President-Elect*", former Secretary of State Madeleine Albright has a line saying: "Fear is the main enemy of America. We have been subjected to blackmail by the White House, so that we embrace a culture of fear that has driven and narrowed the scope of our foreign policy, and at the same time has poisoned our ability to communicate effectively with others."

After dumping bin Laden in the sea, is there any comfort for Americans – can Obama dismiss all fear?

It is difficult to say that the bird of worry will depart from the Empire skies because of its failure to respond in a creative way in the face of September 11, with a response that went beyond the firing of Tomahawk and Cruise missiles to encompass human ideas connecting with faith, and with notions of peace, coexistence within a framework of universal justice.

# HALF A CENTURY OF OIL PRICES\*

Ramzi Salman\*\*



## Introduction:

There has been a lot of talk recently about energy and the price of oil, especially after the recent changes in the political climate in North Africa and the Middle East – home to most of the global reserves of crude oil and natural gas. Then there was the earthquake in Japan and its aftermath, and the problems ensuing in nuclear power plants. These led to an increase in demand for oil and natural gas to generate electricity in place of nuclear power – which states had been vying with each other to use on the pretext of conserving the environment from pollution caused by plants using traditional sources of energy.

The international media, on a daily basis, carried statements by officials in producing and consuming states relating to the price of oil, using various expressions, such as the nominal price, the future price, the just price, the real price, and others. Then, oil markets were exposed to shocks in reaction to breaking news, most of the time exaggerated, about natural, military or political developments in oil-producing regions – and the Middle East in particular.

After more than half a century since the establishment of the Organization of Petroleum Exporting Countries (OPEC), the first decade of the 21st century has witnessed a rise in the nominal prices of crude oil and an increase – in numerical terms – of the revenues of member states. This has made them a target for blackmail of various kinds. So I thought it would be useful to review briefly the history and the facts that might help the reader understand and follow what is published on one day to the next on oil market developments, in order to distinguish what is true from what has been concocted for some reason or other.

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*\*Published in the Qatari Daily, AshSharq, 5 May, 2011, MEES Translation*

*\*\* Dr. Salman was head of SOMO for around two decades.*

## Historical Brief:

Most of the oil concessions that the international oil companies (IOCs) of the victorious states in the First World War signed took the form of war spoils. The formation of OPEC marked the historical turning point, putting an end to the exploitation, without justice, of depleting riches, provided by the Almighty to people who had suffered greatly for a number of centuries from their natural resources being exploited.

The founding members of OPEC that met in Baghdad in September 1960 were Saudi Arabia, Kuwait, Iraq, Iran and Venezuela. Qatar was present as an observer, later joining as the first non-founder member in early 1961.

The founding members were keen to define the aims of the organization in a way that would avoid challenge and confrontation, promising to continue hydrocarbon deliveries to the consuming states at fair prices, using up the depleting wealth and ensuring a decent living for their inhabitants, while securing a fair but rewarding return for investors in oil operations.

During the first decade of its existence, OPEC was busy establishing its structure and developing its mechanism. But there were light skirmishes from time to time with IOCs as the latter attempted to increase the control of their operations and raise the returns from exports.

Law No. 80 that Iraq issued in 1961, limiting the concession acreage to oil producing areas only – just half a per cent of the total territory included in the original concessions – was the really important turning point, representing a sovereign decision that, in principle, was accepted internationally. This motivated IOCs to intensify their exploration operations in the producing states and not leave areas unexploited, as they had done in Iraq.

While we might consider the first decade of OPEC's life as one of building trust, there were others who saw it as a period of gathering arms and digging trenches ready for the coming confrontations. And indeed that is what happened in the second decade.

The concession holders were the ones who had fixed and posted the prices for exported oil. The figures were calculated according to what the host states – owners of the depleting wealth – received so that the IOCs made the biggest profits from transportation, refining and distribution carried out by their subsidiaries. The big reductions that the companies made to the posted prices in the late-1950s represented the straw that broke the camel's back and precipitated the establishment of OPEC.

After reaching the age of 10, OPEC demanded that the posted prices be linked to those in the free market. After that it took over the task of fixing the prices, choosing Arab Light oil exported from Ras Tanura on the Arabian Gulf as the reference oil, or oil benchmark, for the pricing of OPEC crudes as a whole. The aim was to balance its competitiveness in consuming markets by adding or subtracting what are called relative discounts or premiums, reflecting differences in transportation costs, and the quality distinction for sulfur quantity and density between Arab Light and other crudes.

The moment when OPEC became the source of oil price setting coincided with Iraq's nationalization of IOCs in the country in 1972 and the Arab boycott of states supporting Israel in the 1973 war, and it marked the end of the era of the companies' domination. This prompted the IOCs concerned to compete for and conclude new deals, and to intensify investment outside OPEC, which was one of the main aims of the International Energy Agency (IEA), set up by industrialized nations in 1974 to be a match for OPEC.

As time passed, the major IOCs returned to their old pastures to cooperate with the young national oil companies (NOCs), providing the latter with technology, investment and markets. At government level, the International Energy Forum (IEF) provides an opportunity for dialogue between producers and consumers, with the aim of strengthening cooperation, transparency and market stability. It also consolidates cooperation between OPEC, the IEA and the Forum's Secretariat in research and data gathering.

Each party has its own plans and systems of operation, and we can do no more than sit back and watch what will happen during this period of cooperation – never forgetting the saying that old habits die hard.

## Oil Prices:

When we talk of oil prices what we normally mean is the price of a barrel of crude oil in US dollars at the port of loading and export. There are also reference prices for oil with certain qualities or in a particular area.



These prices reflect the market situation in a particular area, in terms of the size of the quantities of crudes traded, as well as price transparency. Other crudes are priced in reference to them. The reference prices include West Texas Intermediate (WTI), the reference price for the US market, Brent Crude for the European market, and Dubai and Oman Crudes for crude oil exported to the Asia. There is also a crude oil futures paper price, called 'paper' because it involves trade according to contracts for the delivery of contracted barrels in a month agreed upon in the future. In the main, these contracts are completed in the due month by financial transactions, rather than the actual receipt of barrels of oil.

The financial settlement is based on the difference between the contracted price and the actual price on the day of delivery to the benefiting party. These contracts are used mostly for speculation, and also to hedge against losses on the part of refinery owners, who might buy crude oil at a future price and sell oil products at a parallel future price. In this way, the refinery owner averts the risk of loss in the event of a market collapse. He also loses the chance of making a big profit if prices recover. But he is ensured a return on the operation of the refinery without being open to the risks at times of unstable market conditions.

The concession companies used to set prices, and in turn the revenue of the producing states. After OPEC took over the pricing of its crude, based on the Arab Light benchmark, as mentioned above, Saudi Arabia was given the responsibility of maintaining the reference price at the required levels by reducing production and exports at times of market surplus. After the price collapse in the mid-1980s, Saudi Arabia refused to allow the continued use of Arab Light as the benchmark crude, thus forcing OPEC to rely on what is called the OPEC Crude Basket, comprising crudes of different qualities to create an average price in global markets – serving as a reference price – with OPEC members lowering or raising their joint production with the aim of maintaining the basket price at the agreed level.

The basket price target was set at \$18/B, and then raised to \$21/B. After this, a price band was set, rather than a single price, to allow more flexibility in changing production ceilings and quotas of the member states.

The final price range was \$22-\$28/B, with agreement to raise or lower production if the basket price exceeded \$28/B or dropped below \$22/B.

Since the price hikes this century no one has paid attention to the subject of a price band, and OPEC today relies on its crudes basket price simply as an indicator of the market strength and nothing more.

Despite this, it is very common to hear the term 'just price' without anyone asking: a just price to whom? Mostly when OPEC ministers talk of prices that they consider just they are referring to a figure that ranges between \$65/B and \$85/B, without mentioning the measures that they would have to take to achieve the desired justice. And the matter will remain like this as long as prices exceed the just level without affecting the growing level of demand.

Before we get into the subject of prices from historical and numerical perspectives we should mention what is called the nominal price, representing the price on a date or in a particular year – valued against the US dollar at that time. When we speak of the real price, which is used to compare prices at different times, what is meant is the price in dollar, as amended, bearing in mind the change in the value of the dollar and its purchasing power – plus the inflation factor that leads to a rise in the cost of goods and services.

So when we compare oil prices in two different years the difference between the nominal prices is at variance with the difference between the real prices. What is needed is a comparison between dollar prices that are equal in purchasing power, because the basic aim is to compare the purchasing power of a barrel of oil. This, in principle, is what OPEC states are seeking to maintain.

To clarify further this point about the purchasing power of any currency, a recently published study shows that the purchasing power of the British pound sterling has fallen since 1960 by 94%. In other words, an individual needs 1,800 pounds to buy something that cost only 100 pounds 50 years ago.

## **Oil Price Developments:**

The average cost of oil in 1970 was \$1.67/B. After OPEC took over the role of price setting, the cost rose gradually to exceed \$3/B in 1973, leaping to an average of \$12.70/B in 1978. After the Iranian revolution in early 1979 and the outbreak of the Iraq-Iran war, the price rose to an average of \$32.38/B in 1982.

The price rises from the early 1970s to 1983 were the result of a number of factors, the most important of which were:

- OPEC taking over the task of setting the price for its oil.
- Iraq nationalizing the operations of IOCs in early June 1972.
- The Arab boycott of hostile states in 1973.
- The establishment of the IEA in 1974 and its decision to secure a strategic reserve, leading to a rise in demand for OPEC crudes.
- The global economic recovery.
- The breaking of the link between the US dollar and gold, which weakened the dollar against other currencies.
- The Islamic Revolution in Iran in early 1979.
- The start of the Iraq-Iran war in the second half of 1980.

OPEC accepted that the rise in prices was a natural occurrence because of the increase in the global demand for oil and supply disruptions caused by political changes in Iran and the Iraq-Iran war. For this reason it increased its investments in additional production capacity, raising output to an average of around 31mn b/d in 1977 and bringing its share of global production to 52.8%.

Meanwhile, the major consuming states, members of the IEA and others, were stepping up their investments in developing oil reserves in the North Sea, Alaska, deep offshore waters and elsewhere. These developments had not been economically viable in the era of low prices and cheap oil that the IOCs had ensured from their concessions in the Middle East.

There was also the issue of major consumers buying oil for strategic reserves that boosted the demand for crude oil – a factor to which OPEC did not give the necessary attention.

Accordingly, after the start of new non-OPEC production and its swift increase from the North Sea, Alaska and elsewhere, coinciding with strategic reserve volume targets being met, the demand for OPEC crudes fell fast.

With the decline in demand for OPEC crudes, a period of price collapse began, something that took the organization by surprise and confused it. For despite the fact that most of the member states reduced output – Saudi Arabia in particular – to support the price of the reference crude (Arab Light), these efforts were in vain. OPEC production reached its lowest levels in 1985, averaging 14.9mn b/d, half of what it had been in 1977. This was because OPEC's share of global production had fallen to 28.4%, down from 52.8% in 1977.

At this point OPEC states were competing with one another in offering discounts for substantial volumes of their output. After the outbreak of what was known as OPEC's battle for market share in 1985-86 and the introduction of the production ceiling and quotas mechanism, and other ineffective measures, global prices plummeted, causing the collapse of a number of US banks that were financing costly oil production operations. Non-OPEC producers were also suffering huge losses, precipitating political moves that led to the declaration of a truce which calmed matters and put a stop to the crash that oil markets and the oil industry in general had experienced.

OPEC took steps in 1987 to introduce new regulations for its operations, adopting a basket of OPEC crudes and setting \$18/B as its price target. This was achieved only briefly in 1990 after the invasion of Kuwait, when both Iraqi and Kuwait exports were halted. Prices then continued to move within a small range somewhere above \$20/B until the end of the last century.

With the start of the current century and the recovery of demand due to global economic growth, especially in East Asian states, prices continued to rise to reach a peak in July 2008 of \$131.22/B, before crashing to \$38.60/B at end-2008 because of the global financial and banking problems. The price then rose again to an average of \$118.09/B in April this year.

Thus far we have reviewed briefly the nominal price changes as an average for the OPEC crudes basket, plus some of the related events and measures relating to the US dollar and its value at a particular time.

### Real Prices:

We mentioned earlier that what is meant by real prices is how they reflect the purchasing power for the value of a barrel of oil. To simplify the issue we will adopt the value of the dollar in 2000 as the basis for comparing prices from that year onwards.

Year	Nominal \$ Price Year Of Export	2000 \$ Purchasing Power, Adjusted For A Fall In \$ Value And Inflation Factor
2000	<u>27.60</u>	27.60
2001	23.12	23.56
2002	24.36	23.78
2003	28.10	24.02
2004	36.05	28.20
2005	50.64	38.49
2006	61.08	46.23
2007	69.08	48.89
2008	94.45	61.71
2009	56.60	38.32
2010	77.45	49.69



It can be seen from the above table that the rise in nominal prices is greater than that of the purchasing power. The increase in the nominal price from 2000 to 2009 is more than 100%, while the rise in the purchasing power, or real value, is only 39%.

### The Economy Of OPEC States

One of the most important conditions for OPEC membership is for the state's economy to be supported mainly by oil and natural gas. Also the standard of living and the pace of economic growth and development must be shown to be closely associated with oil production and oil prices, and the level of energy demand, which in turn is linked to the health and growth of the global economy.

The economic circumstances, and to some extent the political ones, of OPEC states have fluctuated with the fluctuations up and down related to the oil market.

in the 1970s, OPEC states enjoyed a period of budget surpluses, but this was followed by years of deficits until the beginning of the current century when member states once again experienced growing surpluses, despite the weakness of the dollar and inflation that affected commodity prices in general.

## Information On OPEC States:

Oil Reserves: 1,100bn barrels = 80% of global reserves

Gas Reserves: 91 trillion cu ms= 48% of global reserves

Refining Capacity: 9mn b/d = 10% of global capacity

Population: 100mn at end-1960, 400mn at end-2009

Oil Exports: \$107bn in 1975  
\$1,002bn in 2008  
\$575bn in 2009

Total Exports: \$112bn in 1975  
\$1,274bn in 2008  
\$771bn in 2009

Total National Income: \$260bn in 1975  
\$2,370bn in 2008  
\$2,079bn in 2009

Imports: \$51bn in 1975  
\$656bn in 2008  
\$547bn in 2009

Balance Of Payments: \$32bn surplus in 1975  
\$61bn deficit in 1991  
\$452bn surplus in 2008  
\$97bn surplus in 2009

## Conclusion:

It might be useful to learn some lessons from the review of the history of prices and the extent to which the future of OPEC states and the standard of living of their populations and future generations are linked to diminishing resources. At the same time, most consumers are planning to develop alternative source of energy after exploiting much of the oil for next-to-nothing prices to reach their present level of development, prosperity and power:

1. A financial strategic reserve should be set up to help producing countries cope with periods of demand contraction or price collapse, resulting in shrinking oil revenues.
2. There should be investment in developing human resources, furnishing them with knowledge that would be built on and developed over time, the way that other countries have exploited their human wealth without the natural blessings enjoyed by OPEC member states.
3. There should be investment in non-oil sources of revenue, including manufacturing, agriculture and knowledge, and the exploitation of natural resources for the period after oil and gas.
4. Moderation must be established in all walks of life, keeping back a few pennies for a rainy day.

It might be appropriate here to quote Ernest Hemingway who said that the person who swims to the lifeboat stands a better chance than the one who waits for the boat to reach him.

*Source: The statistics are taken from OPEC publications.*



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# NATIONAL FOOD SECURITY: The Right To Access Adequate Supplies\*

Hassan al-Janabi\*\*



Food security and the right of access to adequate food are synonymous concepts when it comes to meeting mankind's need for food. The first concept is technical and is realised when "all people, at all times, have physical, social and economic access to adequate, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life." The concept of food security, based on this definition adopted by the [UN] Food and Agriculture Organization (FAO) and endorsed by international summits that the latter has organized on food security – the latest held in Rome in November 2009 – is based on four pillars:

- Availability of food in the market at all times.
- Stability of supply.
- Accessibility.
- Utilization.

A prerequisite for food, in addition to the four pillars above, is that it should be nutritious, for nutrition is an element in food security.

## Food Security: Guaranteed By Human Rights Declarations

The right of access to food, for its part, is a legal concept, with respect to its being one of the human rights guaranteed by international conventions – starting with the Universal Declaration of Human Rights, and ending with repeated declarations by international summits on such issues as food security, combating poverty, and efforts to meet the Third Millennium Development Goals.

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\* (MEES Translation)

\*\* Dr. Janabi is Iraq's Ambassador to the Food and Agricultural Organization in Rome.

The General Assembly of the United Nations on 10 December 1948 ratified the Universal Declaration of Human Rights. This represented a qualitative shift in human consciousness, in the wake of the Second World War, towards a commitment to universal principles to safeguard human dignity and prevent wars, exploitation and subjugation, and to achieve basic human freedoms, binding inseparably, of course, civil, political, economic, social and cultural rights.

Article 25 of the Universal Declaration of Human Rights was devoted to the issue of the right to access adequate food, stating: "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control."

## **Access To Food: An Integral Part Of Human Security**

Because of the inherently universal character of basic rights – with no reference to race, colour or geographic location – the right to freedom from hunger cannot be detached from the rights to freedom of expression, assembly and association, security of the person, or freedom from physical abuse and torture.

In all honesty, without the right of access to adequate food, the other rights cannot be enjoyed. One cannot exercise those rights on behalf of a person who, at core, is hungry. The package of basic rights is inseparable, and cannot be dealt with in an arbitrary, opportunistic or random way. Nor is it valid for just one occasion – or for a year or two years – before expiring. Rather, it exists throughout the life of a citizen of a society, to be enjoyed with respect to what is evidently inherent in human life, guaranteed by constitutions and laws, with states monitoring its implementation for their citizens as a whole, without discrimination.

It is worth pointing out that the international order does not force governments to implement commitments contained in all the conventions, accords and treaties that they have ratified – except in specific cases, as, for example, in Security Council resolutions subject to Chapter 7 [of the UN Charter relating to breaches of the peace and acts of aggression]. Indeed, the voluntary element of states' commitments is seen as an expression of 'democracy' in international relations, and has nothing to do with coercion or exclusion. At the same time, the impossibility of coming up with a military way, or any other, of enforcing commitments means there is no automatic method to resort to in the event, say, of an article of an agreement being breached or human rights being infringed.

At the same time, governments' 'voluntary commitments', resulting from their ratification of international agreements, do not constitute a political joke. It is not permissible for any government that respects itself and its citizens, and belongs to the international community, to be indifferent towards those commitments. Nor can they disparage international means of monitoring their implementation by whatever method – no matter how much the international order may be afflicted by injustice or the monopolization of power or anything else. For states do not exist in a vacuum and they cannot drift into isolation from the world around them if they are to succeed in achieving prosperity and justice – especially in the light of the huge leaps made by mankind in communication and the internet, enabling the unprecedented distribution of knowledge.

## **Food Security: Obligation Of States**

It should be stressed, too, that governments' commitments in the sphere of protecting public rights, including the right to adequate food, are not acts of charity on their part towards their own citizens, but a right that must be protected for all citizens. A government will lose its legitimacy if it does not strive to implement this right by various ways and means, or if it deprives its citizens from accessing adequate food – by, for example, introducing measures to prevent them developing agriculture or by doing away with their sources of subsistence by destroying the natural environment on which their way of life depends and which enables them to secure their food supplies. For example, there was the draining of the Iraqi marshes and the displacement by force of Kurds from self-sustaining villages to areas far away from their fields and farms.

The right of access to food is recognized as one of the rights most open to abuse and disdain, and least successfully respected. It has not been possible to convict a state or government for violating this right – with the exception, perhaps, of North Korea for possessing deadly and costly nuclear weapons, while being incapable of ensuring food security for its citizens to internationally recognized standards.

There is no ready-made prescription for all states to achieve national food security and ensure the right of access for all citizens to food because political, social, economic and environmental circumstances differ from one state to another and from one continent to another. Nevertheless, member states of FAO agreed on an international guide for

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the implementation of commitments relating to accessing adequate food. It is entitled: “Voluntary guidelines to support the realization of the right to adequate food in the context of national food security.” It is a document of the utmost importance, providing a general framework for member states on how to implement the right to access adequate food for their citizens at the national level.

This document contains twenty guidelines that help to create general conditions that are appropriate for implementing the laws. Some deal with good governance, political democracy, market stimulation and achieving economic development. Others cover the institutional capacity of member states, and legal frameworks for food production and trade. The guide advises on securing natural resources like land and water, as well as on the infrastructure necessary for production, and the provision of financial assistance. Then it tackles issues of food safety, consumer protection and the setting up of networks to protect the poor and vulnerable groups – and much more that narrows the scope for sidestepping the various issues. But at the end of the day it is definitely the responsibility of governments to follow these guidelines.

Another section of the document is concerned with international cooperation and financial assistance, debt, trade and partnership, as well as the explanation of measures that governments can take in respect of their commitments to implement the right of access to adequate food for their citizens.

Achieving food security for society and respecting the right of all citizens to have access to food that is adequate for them is one of the items at the top of the list of national priorities. We believe that Iraq, with its available resources, can achieve this goal.

# RUMAILA OIL FIELD PRODUCTION PROGRAM, IRAQ MINISTRY OF OIL

*The following is the response of the Iraqi Ministry of Oil concerning the production profile of the giant Rumaila oil field, in response to an article published by Mr. Jiyad in MEES: Energy & Geopolitical Risk- April, and the original article by Mr. Jiyad on the subject. Editor.*

Dear Mr Ahmed Mousa Jiyad

In line with our policy of open communication and our interest in ideas and suggestions concerned with the development of the Iraqi oil sector, and in light of your article published on 7 March entitled "Comment On Rumaila Oilfield Production" (MEES: Energy & Geopolitical Risk –April)) and the points raised in it, we sought explanations. The South Oil Company has sent the following clarifications:

1. The commitment of the Rumaila production plan for 2011 is for an average stable output of 1.250-1.300mn b/d.
2. The plan for the first two quarters of 2011 is to carry out maintenance on all production equipment (production plants, storage tanks and pipes connecting to oil wells), with a schedule being drawn up for periodic maintenance for all this equipment.
3. Completion of the 2010 program, involving the drilling of 46 new wells in the main reservoir in the first two quarters of 2011. The increase achieved during the 4Q2010 was the result of bringing on-stream 10 new wells in the main reservoir, leading to a rise of up to 140,000 b/d in output.
4. Completion of the plan to lower into position submersible electrical pumps for the 2010 program, and thus bring on-stream 50 capped wells.

Based on the above, the production plan for 1Q2011 agreed at the last Joint Management Committee (JMC) meeting is:

- January 2011
  - o Expected production: 1.3mn b/d.
  - o Available production: 1.26mn b/d.
  - o Actual production: 1.239mn b/d.
  - o Monthly production shortfall: 21,300 b/d.
- February 2011
  - o Expected production: 1.28mn b/d.
  - o Available production: 1.215mn b/d.
  - o Actual production: 1.144mn b/d.
  - o Monthly production shortfall: 70,900 b/d.

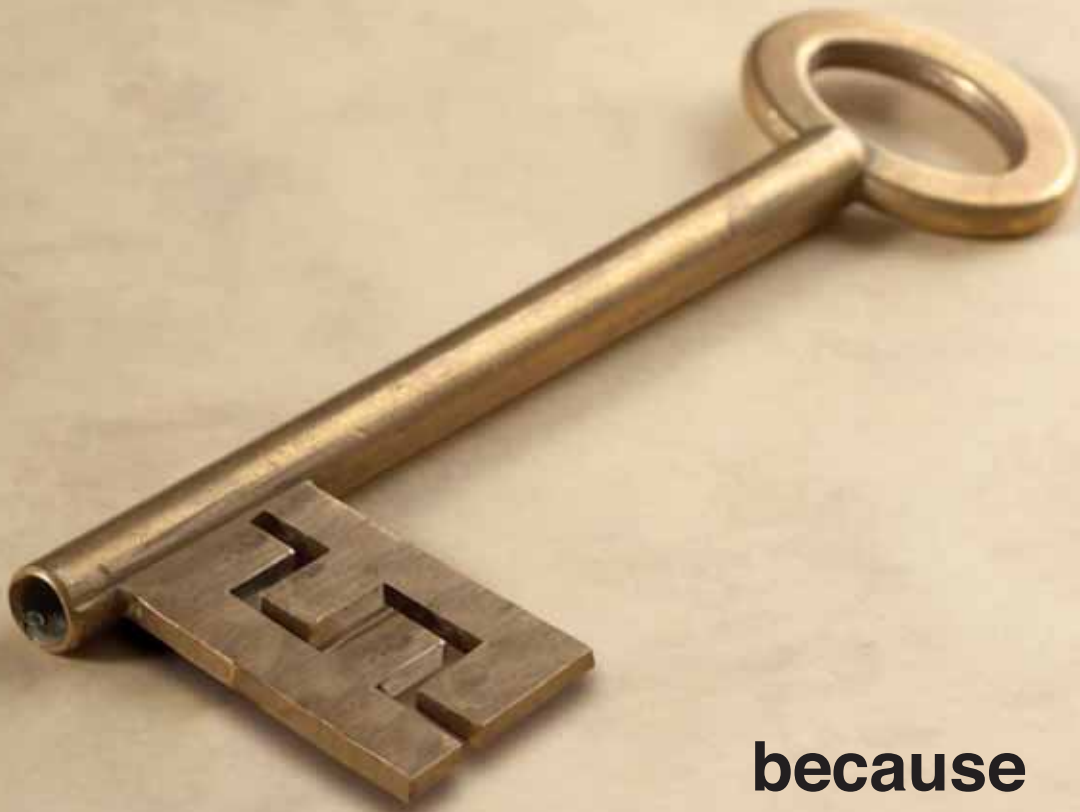
The reasons for the production shortfalls in January and February:

1. Bad weather restricted the volumes of oil produced (January's shortfall averaged 8,735 b/d, February's 24,126 b/d).
2. Daily production losses averaged 511 b/d in January and 2,332 b/d in February as a result of damage to the pipes connecting to the producing wells.



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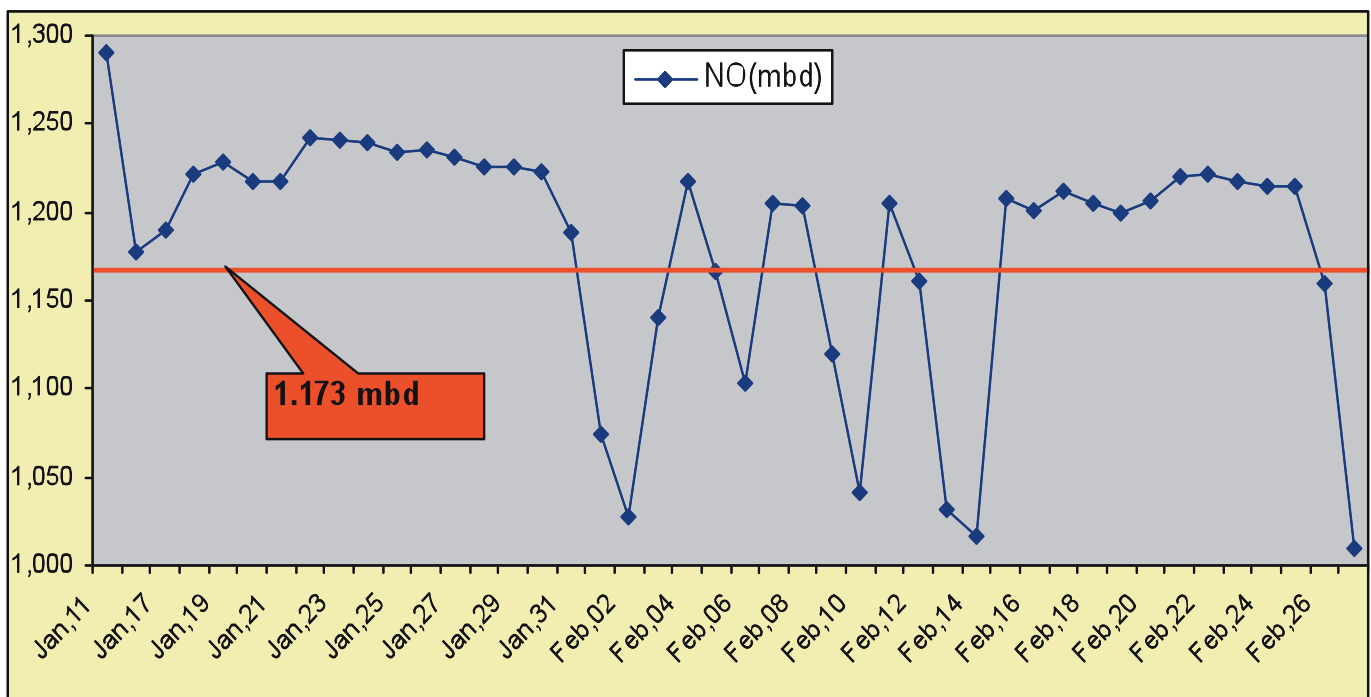
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3. Routine and non-routine maintenance of production facilities led to losses of 9,603 b/d in January and 36,718 b/d in February.
4. Production losses in January averaged 2,503 b/d and in February 5,633 b/d due to the malfunction of submersible pumps or their associated electricity generators.
5. The shutting off of wells for field measurements and the insertion of inspection probes caused losses in January of 2,011 b/d and in February of 2,133 b/d.

The above is a presentation of planned operations in January and February, in accordance with the 2011 program.

## Comment on Rumaila Oilfield Production

Recent data on Rumaila production for the period 26 December 2010 to 27 February 2011 indicates that after achieving the 10% threshold over the baseline production, daily production dropped sharply to the extent that in few days, production levels were lower even than the baseline production.



The purpose of this intervention is to provide few comments on the issue taking into consideration the related provisions of the contract.

1. The contract provides that the contactors (BP/CNPC +SOMO) are entitled to begin recovering cost and remuneration fee once they achieved 10% over the contracted baseline production for 30 consecutive days.
2. For Rumaila the contracted baseline production is 1,066 million barrels per day (mbd), and hence the threshold for commencement of cost and remuneration fee is 1,172,600 barrels (the red line in the following chart).
3. The actual payment to the contractor is limited to 50% of the “deemed revenues” for petroleum cost and remuneration fee, and 10% of the “deemed revenues” for the supplementary cost.
4. Daily production data from Rumaila seems to satisfy the condition of 10% over the contracted baseline production for 30 consecutive days until 31st January 2011, as shown by NO (daily production rate) curve in the chart. Hence the contractor is entitled to apply the cost recovery modality.



# ENERGY & GEOPOLITICAL RISK



Since the later part of the 19th century oil and gas have dominated the lifestyle and welfare of the human species. The pursuit of oil and gas has brought about technological innovations that have produced both beneficial and harmful consequences for the development of human welfare. On one hand they have helped to improve the quality of human life and contributed to the reduction of disease, illiteracy, poverty and insecurity. On the other hand no other source of energy has created such devastating and unabated political instability among nations. The ensuing geopolitical risk identification, management and mitigation with respect to energy sources constitutes a central factor in the modern international relations. Their ramifications cross all boundaries among the mutually dependent economic, political, social and environmental factors that shape the plans and aspirations of nations.

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Cross-border behavior is to varying degrees attributable to the uneven distribution of energy resources, which is a significant factor in assessing the ensuing risk profiles of sovereign nations. The security of global supply and demand of energy significantly determines the flow of energy resources and their derivatives to their intended destinations within a stable price régime. This position is further enhanced as the world is increasingly interconnected and characterized by irreversible dynamic interdependence.

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Average price for Basra crude during January was \$93.37 (assumed to be the FOB price), which gives a total of \$151.7 million as cap for payment to the contractor from the deemed revenues of the incremental production for the period 11 to 31 January (which the daily production data are officially available). If one assumes average daily production for the first 10 days in January is equal to the daily average of the remaining days of January, then the contractor share for the whole of January would be ca. \$224 million for remuneration fees and cost recovery. Total incremental production (over the baseline production) during January is estimated to be 3997524 barrels, giving BP/CNPC a maximum remuneration fee of \$3897586 (after deducting SOMO's share and the income taxes). The remaining amount of ca. \$223 million represents 14.9% or 13.1% of the budget for 2010 work programme, which was reported to be \$1.5 or \$1.7 billion.

5. During February, daily production fluctuated with 12 days below 1,172,600 barrels threshold including 4 days with daily production even lower than the baseline production itself, while the remaining 15 days are above this threshold. However, since the downward production was deep the average daily production in February was 1155593 barrels, which is only 8.4% over the baseline production. Even if we apply the contracted annual decline of 5% per annum, this would not make for the difference of 1.6% for February underperformance. This implies that the IOCs have failed to sustain the 10% over the contracted baseline production, and this disqualifies IOCs from recovering their cost and remuneration.
6. It appears, as anticipated by many including myself, that IOCs would attain the 10% threshold over baseline production to invoke cost and fees recovery without insuring sustainability of the increase by applying short terms mechanical or technical modalities instead of the advanced enhance recovery methods. BP/CNPC uses contract for the supply and servicing of Electrical Submersible Pumps (ESP), which was split between two companies, Baker Hughes gets 60% of the work while Saudi Al-Khorayef Petroleum Co., has the remaining 40%. ENI, last year done some debottlenecking (at Zubair oilfield), reducing pressure here, re-perforating there; it is not really sustainable – they have some work to do (as Thamir Ghadhban said to IOR on 9 December 2010)
7. The Ministry of oil, SOC and Iraqi oil technical/professionals are expected to address this issue openly, accurately and professionally as the problems of the concluded contracts began to surface loud and clear, and remedial prompt and effective actions are required. It is vital that an annual report on Rumaila, and for that matter on all other contracted fields, is published and posted on the websites of MoO and SOC (and other ROCs) to outline what has happened to the Work Program and its Budget. Oil and Energy Committee in the Parliament should also have its say on such matters.

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