

Behind-the-Scenes Oil Maneuvering

By Jack Anderson

Locked in the files of Aramco, intended for the eyes of its top executives only, is evidence that the giant U.S. oil combine encouraged Saudi Arabia to increase oil prices.

According to the secret paperwork, Aramco calculated that a price increase would boost its "rate of return." So the company, fearing nationalization of its Saudi oil works "well before 1980" and wishing to squeeze out more profits before the takeover, quietly pressed for higher prices.

The cost of crude has shot up 470 per cent over the past year. This has caused economic shock waves throughout the industrial world and could precipitate a worldwide depression.

The Aramco documents show that the corporate controllers were uneasy over the size of the increase and, belatedly, began to worry about the world reaction.

Likely, too, the Persian Gulf countries would have raised prices without any behind-the-scenes encouragement from Aramco. Still, the company deserves a measure of blame for the Great Price Squeeze.

Aramco, known more formally as the Arabian-American Oil Co., is a consortium of four U.S. corporations—Exxon, Mobil, Standard of California and Texaco. Together, they work the

fabulously rich oil fields in Saudi Arabia.

As surely as oil is the lifeblood of the West, the Saudi development is the jugular vein.

We have now been given a peek behind the corporate curtain, which for years has concealed the Saudi oil story. We happen to believe that the truth about the oil crisis is a journalistic challenge every bit as important as Watergate. Not only the press but the government itself has had to depend upon the oil companies for information about the dimensions of the crisis.

Now, we have developed our own sources inside Aramco who have access to its most secret files. Admittedly, they have been able to give us only a limited view into the back rooms of the great oil consortium. Many of the documents are also highly technical and, therefore, difficult for laymen to understand.

To protect our sources, we have agreed not to quote directly from the documents. We read carefully selected excerpts to an Aramco spokesman, who disputed the contents. "A lot of people within the company write memos," he said. "This doesn't mean everything they write is correct."

Nevertheless, the confidential memos, supported by tables giving the "rate of return" at various price levels, show that the company early last year was

quietly agitating for higher prices.

The documents also show that the company later became alarmed over the greed of the oil producers. In fairness, the press for extortionary prices came more from Saudi Arabia's neighbors than from the Saudis.

Aramco sent a delegation, headed by George Piercey, a senior Exxon vice president, to urge Saudi Oil Minister Zaki Yamani last fall to hold down the price demands. "We were trying," an Aramco spokesman told us, quite accurately, to keep prices from going crazy."

But Aramco's only concern, judging from the documents, was to prevent political repercussions in the West. Earlier, the company had helped to stimulate a price increase.

The production costs for a 42-gallon barrel of Saudi oil average only a trifling 12 cents. In contrast, the posted price finally hit \$11.65 a barrel on Jan. 1. This is a fictitious price, which oil nations use to calculate taxes and royalties. The actual price for a barrel of crude, upon arrival in America, is closer to \$9.

Aramco's confidential price-and-profit tables are based on complex calculations. But they can be reduced to this simplicity: the company winds up with a percentage of the price rise. Therefore, the higher the prices, the higher are Aramco's profits.

One reason for this is that the company can charge off the royalties and taxes it pays to Saudi Arabia, dollar for dollar, against its U.S. taxes. This lovely loophole leaves the four members of the consortium with a U.S. tax debt next to nothing.

In 1972, Exxon, with a 6.5 per cent tax rate, paid the most. Mobil paid only 1.3 per cent; Standard of California, 2.05, and Texaco, 1.7. Other U.S. corporations pay around 50 per cent.

Now, Saudi Arabia has increased Aramco's tax benefits by raising the royalties from about \$3 to \$7 per barrel.

The confidential tables also indicate that Aramco gets a payback from Saudi Arabia for its technical help in developing new industries, such as salt production. The tables aren't clear, but it appears that the proportion of the payback increases as the price of oil goes up.

In short, the secret documents reveal that the four Aramco partners are making a profit off the price increase. Only their customers are hurting.

Footnote: The documents show that Aramco is changing its economic base. Because the Saudis are expected to take over the oil at the wellhead, the company is preparing to take its profits from refining and marketing. In the past, it has been the other way around.

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