

WHY PRICE OF MIDEAST OIL IS LIKELY TO GO UP AND UP

Interview With Ardeshir Zahedi, Iran's Ambassador to the U.S.

The eye-catching increase in the price of oil, which has caused a great anxiety these days, has also been one of the past decades. In 1976 when OPEC increased the price of oil and caused a great deal of concern that it would slow the worldwide economic growth, the US News and World Report magazine invited a number of important diplomats of the member of OPEC to a Round Table discussion of the subject. One of the invited members was Mr. Ardeshir Zahedi, the then Iranian Ambassador to the United States who had some very interesting points of view, which are relative even today. Therefore we are reprinting these views here again.

The oil cartel keeps raising its prices despite warnings that high-cost fuel is slowing recover around the world. Why? The magazine invited to its conference room a top envoy of one of the Mideast's most important producers to give his country's views.

Ambassador Zahedi, 47, is a key spokesman to the Western world for the Shah of Iran, who is regarded as leading force in Petroleum Exporting Countries. The Ambassador took part in the revolution that returned the Shah to power in 1953. American-educated, he has held many high positions in Iran and has been Ambassador to the United States since 1973.

Q: Mr. Ambassador, is there to be no end to these oil-price increase? Do Iran and other producers intend to push the cost higher and higher?

A: That depends on a number of things, but most important of all is the problem of worldwide inflation. If that continues at the present rate, then Iran and other in OPEC [Organization of Petroleum Exporting Countries] must demand higher prices for their oil. How else can we afford to buy things we need?

Here is Great Britain with an inflation rate of around 26 percent. In Israel, it is 39 percent. In West Germany - from whom Iran buys many things - it is about 6 percent. Here in the United States of America, you have between 17 and 18 percent.

Q: Sir, the U.S. inflation rate peaked at 12.2 percent in December 1974 and at latest report was 7.3 percent.

A: Be that as it may, we know in Iran what we have had to pay for many commodities that we buy from you and others to whom we sell our oil.

I have figures on raw sugar. In 1966 it was at \$55 a ton. It is now around \$935 to \$1000 a ton, and three month ago we had to pay \$1650. Here is paper - in 1966 at 234.64 a ton, and 1974 up to \$499. And here you have vegetable oil, increasing from \$275 a ton to \$732.

Here is Du Pont, a very famous company in the United States. Thirteen month ago we made an agreement with them involving 250 million dollars. Now they are asking us 450 million dollars-an increase of 200 million.

The Japanese, 11 month ago, made a contract with us involving 1 billion dollars. Today, they are asking 1.9 billion.

Q: You are selecting individual items or contracts, but according to a recent report from the U.S. Treasury, the increase in prices charged for oil by the OPEC cartel, of which Iran is a member, is far greater than justified by the average increase in commodities or in manufactured goods. Do you find that report in error?

A: I don't agree with that at all.

Q: The report shows that a barrel of oil sold by OPEC now buys nearly three times as much in terms of commodities and more than four times in manufactured goods than in the base year of 1955. That is quite an advantage-

A: You do not have to buy the oil. Neither do the Europeans or Japanese. If you do not like the price, why do you not use other resources of energy? The answer, of course, is that other sources such as coal and nuclear power are going to cost far more than the price of oil.

You are a free country. Your people should go out and invest their money in developing these other sources if you believe the price of our oil is too high. None of these other energy sources, we think, is going to cost less than a comparable price of \$12 to \$14 a barrel for oil.

Once our oil resources are exhausted, how much will you charge us for your oil or liquefied coal? Will you ask us what we think is a fair price?

Q: Is Iran prepared to reduce its oil production if that becomes necessary to maintain the current price of around \$11.50 a barrel at the Persian Gulf?

A: There has been a drop in OPEC production, but that does not worry us too much. We would be happy to see the United States become self-sufficient in oil and other energy fuels. Iran is a leader among those who say that we must not continue to use up the world's oil at such a rapid rate.

In the United States, you thought you had about 75 to 80 years of reserves. Now I have been told by geologists in your country that there is not more than 20 to 50 years of supply left. It is the same elsewhere. In Iran, we are producing nearly 5 million barrel a day, and our reserves are 65 to 70 billion barrels. At that rate we have 30 years supply left. Even in Saudi Arabia, if production is increased to 10 million barrels a day, reserves would run out in 45 to 50 years.

We in Iran think that oil is too valuable to be burned up only as fuel. Here is a product from which you can make 70,000 different products—from which even greater revenues than current price of oil can be derived. Iran would like to see conserved for these uses through petrochemical production.

Q: Does it worry you that the high cost of oil, a factor in present worldwide inflation, could possibly bankrupt some industrialized nations, which are your best customer?

A: I am grateful for that question. I will explain the realities of your inflation, which your politicians have led the public to believe is the fault of oil prices.

About one half of 1 percent of the inflation in the United States is caused by the increase in cost of petroleum. That is the figure that your economists have published. In the world, only 1.5 to 2 percent of inflation has been caused by higher oil prices, according to the figures published by some of your own leading economists as well as OPEC and international organizations.

Yet you Americans and the Europeans and Japanese want to blame it all on us. We are blamed because inflation has got out of hand. But look, you in the United States have devalued the dollar twice. Do you realize what that has done to our investments in your bank? In England, wage increases to the labor unions are enormous. These are some of the reasons why your economies are threatened.

Actually, you get our oil at reasonable prices, but you charge your people more than they should pay based on the cost of crude petroleum. Let's say you pay 50 cents a gallon for gasoline just to take a round figure, though it is more. There are 42 gallons in a barrel of oil. Multiply that by 50 cents and you find American consumers are paying at least \$21 per barrel, while we are charging your oil companies only \$11.5 a barrel.

Q: What about the impact of higher oil prices on the developing countries, the so-called "third world"? A recent report by the International Monetary Fund

states that these poor nations had a trade deficit of 28 billion in 1974 and would rise to 35 billion in 1975. The major cause is given as higher oil prices.

A: My answer is that Iran and other oil-producing countries are doing more to help the developing countries than is the U.S. and Western Europe.

Economic aid from the United States to other countries over the past 15 to 20 years has been well below aid figures suggested by the United Nations, and amounted to 0.33 percent of your GNP [Gross National Product] in 1974 and was expected to decline to 0.23 percent in 1975. And I noticed the other day that countries like Sweden in Western Europe were being urged to give 1 percent of their GNP in aid to the underdeveloped nations.

Compare that to what we have done in Iran. Here is a country that is itself still developing, which in 1950 was 100 percent dependent on aid from the United States. I was a witness to that and saw your Point Four program at work to assist our country, and for this we are grateful.

Today, Iran is helping others. We have committed ourselves to 11.9 billion dollars in economic aid, grant and loans over a two-year period. That is 7 percent of our GNP. Of this total, over 5.6 billion dollars has already been spent, and the amount of aid to underdeveloped countries, international organizations and industrialized nations is rising.

We have extended loans and financial assistance to Turkey in a recent agreement during my sovereign's visit to over 1 billion dollars. Pakistan has received nearly a billion dollars.

Our money has gone not only to our neighbors, but goes as well to many African countries.

We have also given 5 billion dollars in credits to France and 2 billion to England, Italy and Denmark. We have signed an agreement with your country for an Iran-United States joint commission providing 15 billion dollars that will come to America.

Q: Mr. Ambassador, there are reports that Iran has a serious cash-flow problem, with its imports running ahead of its oil exports. Just what is the situation?

A: Today we are a borrower. We have been spending so much that, with the cut in oil production, we have to eliminate some of the many things we were hoping to build for Iran. We have set up a committee that will determine which projects are to have priority.

Q: In a recent interview in this magazine, members of the OPEC were referred to as "blackmailers" who are holding up the American public with the high cost of oil. What is your answer to that?

A: You Americans should remember that in the Arab-Israeli war in 1967 and again in 1973, Iran, which is not Arab, was the only country in the Middle East that did not embargo shipment of oil to Europe and the United States.

But we have always said that oil in today's world is like bread and water: You cannot deprive people of its use. Iran, as a major supplier of oil, does not believe in using this commodity as a political weapon. As soon as our oil is pumped into tankers, where it goes is no longer our concern. We are simply interested in the economics of oil, and not its politics.

Not only we not blackmailing, but we are spending billions for the security of the Persian Gulf. If the outlet from the Persian Gulf through the Strait of Hormuz, which is only 12 to 14 miles across, were closed, what would happen to those tankers that pass through there, one every five or six minutes carrying oil to Japan, Western Europe and the United States?

Q: Can you give some details of Iran's plan to assure the security of the Persian Gulf?

A: We have taken many initiatives in that area. Iraq, the Arab country that is our neighbor, quarreled with us over the waters of the Shatt al Arab, where the Euphrates and the Tigris flow into the Persian Gulf, and also was involved in a civil war with the Kurds of Iraq.

On the initiative of His Majesty, the Shah, we now have a lasting agreement between Iran and Iraq, which provides Iraq with an opening to the west rather than continued dependence on the Soviet Union. His Majesty has also brought an end to the war between the Kurds and the Government of Iraq.

We promised to respect the choice of the people of Bahrain in a referendum though that island was Iranian for more than 3000 years. Their choice was independence, and we now respect this.

We recognized the danger to whole Persian Gulf in the Communist-inspired rebellion in southern Oman, where the rebels have the Soviet-made SAM-7 missiles, and responded to the Government of Oman's request for our military aid there.

Also, we must be militarily strong to help the security of Pakistan, which is of vital importance to Iran.

"WE DO NOT SEEK TO DOMINATE"

Q: You are painting a picture of Iran as the fulcrum in military and political terms for a large part of Western and Southern Asia. Do you think you will succeed in that role?

A: I certainly hope so. If one considers all nations from Japan to Portugal, from east to west, one will not find any one nation, which enjoys such political, social and economic stability as exists in Iran. We do not seek to dominate any areas. We do not want even inches more of land for ourselves; we have enough to do to build our own country.

So we have formed a grouping, Regional Co-Operation for Development with its headquarters in Tehran. Now the members are Iran, Pakistan and Turkey, but we are open to many others, the Arab countries of the Persian Gulf, Afghanistan, Malaysia, Singapore, Indonesia and Thailand. We must develop together to preserve peace. In this regard, His Majesty has pronounced Iran's desire to co-operate with the littoral states of the Persian Gulf to insure the security and stability of the region.

Q: Does Iran plan to develop nuclear weapons?

A: We think it is foolish and unrealistic for countries the size of Iran to acquire nuclear devices. Whom are we going to frighten - the Soviet Union? Of course not. They would be able to hit us many times for every time we hit them, and theirs is a much larger country.

Iran was one of the first to sign the nuclear nonproliferation treaty. Not only that, we have joined with other nations in the Middle East to declare the area a non-nuclear zone. This was passed at the United Nations in 1974. Iran has also given its support and endorsement to the concept of establishing the Indian Ocean as zone of peace.

Q: Does Iran plan to use nuclear power for generation of electricity?

A: We hope by 1985 to generate 90 percent of our electricity from atomic power plants. This is part of our plan to conserve oil for petrochemical and thousands of products that can be made from it, rather than burning it up this finite resource as a fuel.

We expect to have a total of 20 atomic power plants operating by 1985. We have made contracts with France and Germany to supply some of these, and are in negotiations with companies in the United States for contracts to provide several. There is some difficulty in this regard, as your Government is insisting on certain guarantees that Iran cannot accept as a sovereign state.

Q: To return to the matter of oil prices: Iran has been urging a producer-consumer conference at which underdeveloped nations would also be presented. What could such a meeting accomplish?

A: Iran has been the leader in this movement because we think there should be some link between the price of oil and other vital commodities in world trade, what some call "indexing". If intermediary and capital goods as well as other commodities, such as wheat and sugar, go up in price, then the cost of oil would go up. If they go down, oil would go down. You see, then we would all be riding the same boat.

We live in an interdependent world. Iran has vested interest in well-being and continuing economic prosperity of the West, since it is America's, Europe's and Japan's demand for oil which determines the size of oil revenues to be made available for Iran's industrialization drive. By the same token, the West has a direct stake in the security, well-being and expansion of Iran's economy and society.

Now you have come around to our way of thinking, and there was such a meeting held in Paris in mid-December. The basis was laid for future conferences to discuss our mutual problem. I hope that this time you have learned from your mistakes. I talked to some of your officials about this two years ago and told them we wanted consultation, not confrontation, but they would not listen, so time has been lost.

WHEN AMERICANS DO BUSINESS IN IRAN –

Q: Mr. Ambassador, what advice do you have for Americans who want to do business in Iran or make investments there?

A: I would say to them that they should deal directly with our officials and not try to use a middleman, or be corrupt in any way. I have told your officials that if we find a foreign businessman paying a bribe or commission to those who should not get the money, then we will deduct that amount from the money that is specified in the contract.

Q: Have Americans paid bribes to get business in Iran?

A: Unfortunately, many of them have in the past. The corruption is from both sides, the man who gives and the man who takes. We are going to fight against this very strongly, and I hope this message gets to your businessmen because it will make for more healthy relationship between our two countries.

Any person who wants to do business with Iran can come first to our Embassy. We will be at his service 24 hours a day. Under the joint commission agreement between our two countries, there is 15 billion dollars to be spent by Iran. And if an American comes to us openly instead of trying to buy off Mr. X or Mr. Y in our country, then I can vouch for him as an honest person and will see that he gets the information and contacts that he needs.

We think that there is a great future in co-operation between Iran and the United States if we can sit down and iron out these differences over oil prices and cost of your commodities and products.