CHAPTER IV

IRANIAN REVOLUTION AND ITS IMPACT ON OIL RELATIONS OF SAUDI ARABIA AND US

4.1 Iranian Revolution
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Iranian revolution was a major upheaval in the Middle Eastern region in the post Second World War period. It brought an end to 2,500 years of monarchy. Like any other revolution it was the product of a wide variety of forces united only in their determination to overthrow a hated regime.1

The revolution enjoyed the support of many disparate groups, classes and individuals. Modern factory workers, traditional shopkeeper, urban and rural street cleaners, snow removers (barfi), kerosene peddlers (nafti) number of various guilds and artisans, dentists, Iawyers, teachers, civil servants and shortly before the actual seizure of power by the revolutionary forces, even air force technicians and thousands of deserting soldiers all joined hands in common opposition to the Shah's regime.

The economic development programme launched by the Shah contained within it the seeds of his own destruction, even though it was consciously designed as the inflated rhetoric of the "white Revolution".2 and the Shah - People Revolution' indicated to strengthen the monarchical system and the capitalist character of Iran. The key to this programme was 'oil'.


2. Socio economic reforms based on American pattern. Between 1960 and 1962 a series of mass upsurge took place in Iran against the tyranny of the Shah. Just to calm down the people's anger the Shah declared a six-point programme in January 1963 which is known as White Revolution. After sometime three more points were added to the earlier six. The aims and objectives of White Revolution were:-

1. Land distribution
2. Nationalization of forests
3. Sale of shares of government owned factories
4. Worker's share in profit of factories
5. Electoral reforms and franchise to woman
6. Establishment of health corps
7. Establishment of training corps
8. Establishment of development corps and

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The massive and arbitrary infusion of spectacular new oil revenues into the economy after the explosion of oil prices in 1973-74, coupled with large-scale corruption and rapidly rising rates of inflation fuelled the fires of widespread dissatisfaction. The investment strategy followed by the Shah, which led to 42 percent growth rate in 1974, produced a serious inflation. Shah and his entourage squandered Iran's precious oil income which could be used to transform Iran in one generation - on useless weapons and luxury consumer items.

The fall of the Shah was extremely sudden. No one neither the Shah nor the opposition expected matters to move so quickly. The crisis had shown how fragile the Shah's whole system of government was, and the unsteady social and political foundations on which it rested. At a state dinner in Tehran on New Year Eve 1977, little more than a year before the Shah was to depart his country forever, President Carter described Iran as an island of stability in a turbulent corner of the world

**IMPACT IRANIAN REVOLUTION ON OIL SITUATION IN SAUDI ARABIA**

Before the revolution, Iran was producing an average of just over 5.5 million barrels a day (m.b.d.). The peak was reached in September 1978 when production rose to 6 m.b.d. It must be recalled that Iran's optimum capacity was estimated to be as high as 6.5 m.b.d. during that period. During the revolution, the country's oil workers virtually paralysed its oil industry by a near total strike with the aim of bringing down the Shah's regime. Thus Iran's oil production came down 5.5 m.b.d. in October 1978, 3.4 m.b.d. in November and 2.4 m.b.d. in December. By March 1979

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4. Ibid.

Iran's oil production came to an all time low.\textsuperscript{6}

The shortage of nearly 5 m.b.d. oil to the world oil market created world-wide crisis and spot prices\textsuperscript{7} skyrocketed. OPEC prices which stood at $12.81 a barrel at the end of 1978 went up to $18.73 a barrel by the end of 1979.\textsuperscript{8}

The enormous shortfall in oil production during and after the revolution was made up by increased oil production in Saudi Arabia. Being the largest OPEC producer with proven reserves of around 165 billion barrels, Saudi Arabia was in a comfortable position to increase its oil production from 6 m.b.d. to more than 10.5 m.b.d. The Saudis flooded the world oil market with their relatively cheap oil and this put enormous pressure on the oil producers.

Though the revolutionary Iranian government resumed its oil production fairly quickly and set 4 m.b.d. as its new production targets (which translated into an export target of roughly 3.5 m.b.d.), it was not interested in restoring the pre-revolution level of oil production of more than 5 m.b.d. The target fixed was itself never reached and production averaged only 3.2 m.b.d. in 1979. Tehran's argument was that Iran did not have to produce such high quantity of oil for its developmental needs.

Moreover, due to the bad experience of seeing its assets frozen in the West (in November 1979 Iran's foreign exchange reserves totalled nearly $15 billion of which more than $11 billion were held in U.S. controlled accounts), the U.S. freeze on $11 billion severely affected Iran. The


\textsuperscript{7} Spot prices are non contract prices determined by the demand for and supply of oil in the non contract market. They are an indicator of general conditions in the oil market. When contract prices and spot prices are about the same the oil market is in balance.

US released less than $3 billion and the balance was placed in special accounts to settle outstanding claims against Iran. Hence the new regime was extremely reluctant to deposit its surplus money in the Western banks where even otherwise it was likely to depreciate. The west being on the whole hostile to the Islamic regime Iran was all the more wary to benefit the west by depositing its money there and helping it financially. Moreover, according to some estimates Iranian oil reserves will run out by the end of the century. Iran, therefore, felt it necessary to produce only as much as it could absorb. It was against this backdrop Iran had scrapped the ambitious and wasteful projects launched by the Shah.

The new regime needed much less revenues and hence needed to produce less oil. At the same time Iran demanded higher oil prices in the OPEC meetings. All in all, Iran's new policy was to produce less oil but to seek a higher price for this limited output.

The Saudis strongly opposed the Iranian demand for higher oil prices. They instead favoured controlled oil prices and higher oil production. From the very start of the Iranian revolution to the end Saudi Arabia pegged its crude price at $32 per barrel, even though the international prices fluctuated between $36 to $45 per barrel. Even when the majority demanded at two successive OPEC meetings, a price increase, the Saudis resisted it and saw to it that there was no shortage of supply in the international market.9

The Saudi contention for controlled oil prices and higher oil production was that unless OPEC keeps its oil prices reasonably moderate, consumers would be forced to shift to alternative sources of energy before the Kingdom's oil fields run dry. Saudi Arabia's oil minister Sheikh Zaki

Yamani clearly spelt out his country's oil strategy. He said:

We do not want to shorten the life Span of oil as a source of energy before we complete the elements of our industrial and economic development and before we build our country to be able to depend on sources of income other than oil. In this respect the Kingdom's interests might differ from those of its OPEC colleagues. In OPEC there are countries that will stop exporting oil toward the end of the eighties, for such countries the life Span of oil should not extend beyond that time. But if the life Span of oil as a source of energy ends at the close of the present decade, this will spell disaster for Saudi Arabia. The line that separates the two situations is a matter of judgment. Our behaviour should be guided by what we perceive of future. What we ought to do now is stop this depletion as soon as possible and go step by step in order to prolong the life Span of oil for a period sufficient to put our economic and developmental house in order. As the coming century arrives, we will have diversified our sources of income, and we will still have enough oil, which we and the coming generations will utilize as a source of energy and as feedstock for the various industries we intend to establish.

Yamani further added:

If we force western countries to invest heavily in finding alternative sources of energy, they will. This would take no more than seven to ten years and would result in reducing dependence on oil as a source of energy to a point that would jeopardize Saudi Arabia's interests. Saudi Arabia would then be unable to find markets to sell enough oil to meet its financial requirements.10

The Saudis had other compelling reasons to press for higher production at moderate prices. The Saudis had always worried about internal stability and external security. These worries had been greatly accentuated by the Iranian revolution. In these circumstances, the Saudis came to rely

more than ever before on American support and goodwill for their survival. By standing for higher production and lower prices the Saudis could greatly benefit the US in particular and West in general. This they did with the fond hope and expectation that the US would come to its rescue should the regime be imperilled by internal disorder or external threat. This is clear from the reported view expressed by crown Prince Fahd and quoted by a western diplomat in News week:

Fahd says plainly that it is in Saudi Arabia's interest to keep the Western World afloat. It is a compelling argument. But when the Saudis were selling us oil for $18 a barrel while the average price was $30, they were losing $125 million a day.

Elsewhere Prince Fahd said his country was opposed to any increase in the price of oil. He said we do not want any increase in the price of oil because it would create a number of economic problems for Europe, Asia and Africa. Of course, this is a matter that concern OPEC but Saudi Arabia's position is not to raise prices.

The United States appreciated the Saudi gesture. This was reflected in the statement made by the Secretary of

11. For the United States as consumer, an assured supply of oil is the primary consideration. As the Defence Minister pointed out, selling weapons to Saudi Arabia would also ensure a "flow of oil from the world's largest producer to the world's largest consumer at reasonable rates. Besides, "the US seems to be encouraging the simplistic barter arrangement of arms for oil. For example within one week of the Saudi government announced in July 1979, that oil production was to be increased the US State Department recommended an additional $ 1.2 billion programme for the modernization of the Saudi National Guard. Sreedhar, n.9, pp.14-15. See also Raman Knauerhase, "Saudi Arabia: Our conservative Muslim Ally", Current History, Vol. 78, no. 453, January 1980, pp. 16-21, pp. 35-37.

Defence, Casper Weinberger to Senate Armed Service Committee. He Said:

"Saudi Arabia has increased its oil production in order to make up the shortfall while continuing to maintain price lower than those of its OPEC colleagues. This is another example, one of many of the aid Saudi Arabia provides for our national interests".13

More important was President Carter's observation the same month that the US would not allow Saudi Arabia to become another Iran. As long as the OPEC member-states, led by Saudi Arabia, continued to supply the bulk of the energy required to turn the wheels of world industry, he said "we will not be able to stand aside and watch how this is taken over by some one who will turn off that oil".14

In pursuing this policy the Saudis achieved the additional object of reducing the oil revenues of its potential adversary: revolutionary Iran. They realized that since Iran was so vastly dependent on oil revenues that the best and most effective way to contain it was to squeeze its oil revenues. This Saudi attitude brought Riyadh in open conflict with Iran. The question of oil prices became a major irritant since Saudi decision to flood the world oil market with its relatively cheap oil had an adverse impact on Iran's oil revenues.

In a statement on 4 December 1979, the Iranian oil Minister strongly criticised Saudi Arabia for not supporting Iran in its fight against the US. He said it is astonishing that Yamani can claim that there is no connection between politics and economics.

He was referring to a statement that the Saudi oil minister Yamani had made in Kuwait just before he stormed out of the conference of Arab oil Ministers in protest after

Libya and Syria tabled a resolution supporting Iran in its confrontation with the US. The Iranian minister also said that his country was "annoyed" at Saudi decision to increase oil production after Iran had announced a cutback. He went on to point out: 'They (the Saudis) should support us in our clash with world imperialism. We Muslim people have the best weapon (oil) and we can help each other'. As for Yamani's remarks he said that 'by this reasoning may be he (Yamani) considers oil exports to Israel an economic issue. The deposed Shah who also claimed to have no political relations with Israel, was pumping oil to Israel.  

As the Saudis ignored Iranian pleas to reduce production in Tehran hardened, its position. In an interview with Tehran radio correspondent the speaker of the Majlis, Hajjat al-Islam Rafsanjani, described the OPEC quota system as unjust in that countries such as Saudi Arabia, with a much smaller population than Iran had a quota several times larger.

He added, "Saudi Arabia resorts to bullying tactics in OPEC and one day we shall stop that bullying policy". On another occasion Rafsanjani vowed that Iran would defeat Saudi Arabia's plot in OPEC if its aimed at countering Iranian measures in the organization to the benefit of the super powers. He further added: "the House of Saud was commissioned by the US who is the only party gaining form this turmoil, to try and perpetuate an oil glut and increase its output to meet the demands of the world powers".

IMPACT OF IRANIAN REVOLUTION ON OIL SITUATION IN THE US

The Iranian revolution posed new threats and challenges to American policy makers. Prior to revolution, Iran had

15. Arab world (Beirut) 6, December 1977. Quoted in Defileh, n.9, p.108.
supplied 5 percent of US petroleum consumption.\textsuperscript{18} In January 1979 Iranian crude oil sales came to a complete stand still. The paralysis of its production had heavy consequences for the world petroleum balance. James Schlesinger, the then US Energy Secretary indicated that protracted disruption of Iran's oil production could lead to an oil crisis similar to that of 1973.\textsuperscript{19} The region has been shaken in turn by the abrupt collapse of what the United States had declared to be a pillar.\textsuperscript{20}

\textbf{NATIONAL ENERGY PLAN}

The constructive and sensible Carter energy programme of April 1977 was introduced as the "moral equivalent of war".\textsuperscript{21} But it did not capture the imagination of public or experts. After the revolutionary upsurge in Iran, President Carter sought again to focus the attention of the American people on the energy problem. Now more than before, he pointed out to the central problem America's over dependence on imported oil. He said, our national interest is dangerously dependent on a thin line of oil tankers stretching half way around the earth, originating in the Middle East and around the Persian Gulf, one of the most

\textsuperscript{18} Theodore H. Moran, "Still Well Oiled"?, in Richard Cottam's, "The United States and Iran's Revolution" \textit{Foreign Policy} (Washington, Number 34, Spring 1979), p.25.


\textsuperscript{20} This refers to Two Pillar policy. The Two pillar policy looked to Iran and Saudi Arabia as the two regional powers and allies of US in the region. Iran, with roughly ten times the population of Saudi Arabia, logically came to be seen as the stronger pillar. The two pillar policy was successful at least in the context of Gulf security until the fall of Shah in 1979.

Taking a decisive step he announced that he would initiate a phased decontrol of domestic oil prices so that they would reach world levels by September 1981. At the same time he urged a windfall tax on decontrolled oil which would be used to finance conservation and alternative energy sources. But the actual measures to restrain immediate demand were relatively weak.

The US Congress in October 1978 passed the energy legislation which at best was a small fraction of a true energy programme. There was modest provision seeking to stimulate coal production and to further the incentives to energy conservation and early development of solar energy technology and sources. But the main source of difficulty oil-remained subject to a complicated and unwieldy system of price controls that did little to encourage reduced oil consumption.

The national energy plan suggested to develop four conventional sources of domestic energy i.e. oil, gas, coal and nuclear power. It also suggested to develop solar energy and synthetic fuels.

Domestic oil was the only one that could substitute for imported oil in all end uses. Unfortunately, domestic oil production in 1979 dropped slightly from 1978 levels, remaining about 10 million barrels per day. This drop represented a return to the long term production downtrend that had started in 1970 and had been interrupted briefly by the upward blip of Alaskan oil in 1978.

Overall the outlook for domestic oil became even more bleak during 1979. Even though drilling activity remained quite high about the same 80 percent over 1973 proven reserves of domestic oil continued their long term decline. New additions during the year equaled only a little over one-third of the oil produced. And whereas earlier in the year there had been some hope of reversing the decline and

22. Ibid., p.570.
holding domestic oil output level through 1990, by the year's end these hopes were rapidly evaporating. Even with price decontrol, the CIA estimated that US output in 1982 would fall to 9.2 m.b.d., the congressional Budget office estimated a 7.8 m.b.d. level in 1985, and within the industry Exxon projected as little as 7 million barrels per day.

For domestic natural gas a fuel that could substitute imported oil in almost every use except transportation - 1979 was the first year under a new regime. The Natural Gas Policy act of 1978 allowed higher prices and moved to correct a major regulatory irregularity the distinction between inter state and intra-state natural gas markets.

The immediate effect of this act was the creation of a temporary surplus of natural gas commonly called the "gas bubble". The reason for the bubble was that natural gas supplies held for the intra-state market were released to the inter-state market in response to the anticipated price increases.

Another factor helping to create the bubble had been a shift away from natural gas use in the industrial and utility markets especially in response to gas shortages during the winters of 1976-77 and 1977-78. In response to the higher prices (up 42 percent between July 1978 and July 1979) and even higher prices anticipated in the future, exploration and drilling increased, 13 percent more gas wells were completed during the fast nine months of 1979 than during the same period in the previous year.

Coal was the one domestic energy source for which the Carter administration projected substantial growth - a doubling of production between 1977 and 1985. And coal production (for the first eight months of 1979) was up 26 percent over the year earlier strike ridden period and 10 percent over the more normal period of two years. Coal consumption also was up substantially, running 11.5 percent over the prior year. During 1979, oil usage in the utilities market dropped from 1.5 m.b.d. to 1.3 m.b.d. Coal's share of the utilities market rose from 44 to 47 percent,
where as oil's dropped from 17 percent to 14 percent.23

Yet there was disappointed within the coal industry itself. The industrial market for coal actually declined. So the overall projected growth for coal did not materialize. About 12 percent of the coal industry's productive capacity stood idle, stockpiles grew and spot prices of coal dropped. Marginal firms went out of business and thousands of miners were idle.

The Iranian interruption focussed renewed attention on expediting the development of nuclear power as an alternative to imported oil. Much the same had happened after the 1973 embargo, although in early 1979 the enthusiasm was much more muted. In early March 1979 as the full effects of the Iranian interruption were being felt the Nuclear Regulatory Commission ordered five operating reactors to be temporarily shut down because of worry that they had been poorly designed to withstand earthquake stress. There was considerable criticism of the Nuclear Regulatory Commission for taking this step just when oil supplies were so tight.

In November, the Nuclear Regulatory Commission put a freeze on issuing operating permits for all new nuclear plants because new regulations could affect same located near population centers or because some might run out of storage for disposing of nuclear waste pending an overall solution to the waste problem. The expansion of nuclear reactors created serious environmental problems. In the early morning hours of 28 March 1979, a break down occurred in the cooling system of a reactor at three Mile Island power station near Harrisburg, Pennsylvania. It resulted in the spilling of radioactive water and the development of a

23. Most of the "Substitution of coal for oil represented general increase in the amount of electricity generated by coal and a decrease in that generated by oil, rather than a direct substitution of coal for oil in a given boiler. Also, part of this drop in oil was due to direct substitution of natural gas under a policy of expediency adopted in early 1979. The natural gas share of the utility market increased from 14 to 15 percent. Nuclear's declined from 12.5 to 11.3 percent."
hydrogen bubble within the containment vessel. This refers to a far more limited role for nuclear power under any conceivable scenario.

During 1979, Solar energy consolidated its position as a serious energy alternative. The administration produced a domestic policy review on Solar energy in March that included a high Scenario in which Solar would be supplying between 25 and 33 percent of the nation's energy by the year 2000. At a ceremony in June dedicating the White House Solar panels, President Carter adopted a 20 percent solar goal for 2000, which set an important framework for all energy policy. The total contribution of Solar energy in its broadest sense-covering all renewable energy sources-was still relatively small in the American energy balance.

The plan with which the President finally emerged was built around a cash programme for synthetic fuels-primarily liquids and gas from coal and from shale. The programme's roots lay in a campaign mounted in Washington in the spring. Particularly influential was a memo circulated by three prominent Washington figures, Paul Ignatius, Eugene Zuckert and Lloyd cutler. Citing the experience with synthetic rubber aluminum and other materials during world war II and the Korean war, the three argued that:

1. the United States could produce five million barrels a day of synthetic fuel more than a quarter of current US oil consumption within five to ten years.  
2. that the technologies in question were "proven" and  
3. that the capital cost would be $ 20 billion to 40 billion for each million barrels a day. The three advocates added that the programme would give "all the psychological lift of 'doing something' instead of just doing without."24

Yet the American policy response to these clear realities continued to be adequate during 1979. Certainly it fell far short of the urgency of the problem, and many of

the most prominent "solutions" put forward failed to take account the telescoping of time-offering some limited relief many years.

Apart from these solutions put forward General Rogers, the chief of the US General Staff, announced that the Pentagon was setting up a Special force of 100,000 men, the so-called 'rapid deployment force' which would be capable of intervening in the gulf in order to protect the oil routes should the need arise. 25

The American papers published a flood of letters demanding that these Arab oil fields be invaded once and for all to 'save western civilization' from their threats. Serious Professors from Harvard and elsewhere issued full blooded war cries in equally serious newspapers such as the Washington Post, the New York Times and the Wall street Journal.

HOSTAGE CRISIS

On October 22, the Shah was admitted to the United States for medical treatment and on November 4 a group of students seized the American Embassy in Tehran taking about 63 American hostages. Unlike the earlier take over of the Embassy in February 26 this one received the blessing of Ayatollah Khomeini, whose bitter attacks on the United States and on the Embassy as a 'nest of spies' had provided the green light for the militants. Both they and Khomeini insisted that the hostages would be released only if the Shah were returned to Iran to stand trial for crimes committed under his rule.


The Seizure of the Embassy was, by any standard, a total breach of the norms of diplomatic practice, and the US position that the hostages must be released before there could be any question of judging, the Shah had virtually unanimous support both in American public opinion and in the international community. At the United Nations, resolutions were passed calling for the release of the hostage, but to no avail.

President Carter initially opted for a policy of restraint, clearly fearing that more aggressive action could jeopardize the lines of the American held prisoner. Despite a belligerent tone in the US public opinion, Carter received high marks for his handling of the crisis. But as time went by and 50 of the hostages remained in captivity the President's options seemed to be dwindling. He had mobilized broad international backing. And at about the same time, in response to an Iranian threat to withdraw funds from United States, President Carter ordered a freeze on eight to nine billion dollars assets held by US bank both at home and abroad.

Although Washington tried to make clear that this action was dictated only by extraordinary circumstances that were unlikely to be repeated, it was bound to trigger further doubts among OPEC nations about their dollar investments.

President Carter also called on American Companies to stop buying Iranian oil for the US market and brought pressure to bear on the Japanese and other allies not to increase their purchases from Iran. An impressive naval build up took place in the Arabian sea, complete with two carrier task forces. And in December the United States announced its intention to seek collective economic sanctions against Iran under the United Nations charter, an action that was vetoed by the Soviet Union in January.

During all of this Iranian Spokesmen gave off mixed signals hinting of flexibility, then drawing back. The Shah's departure from the United States to Panama in December had little effect. The one man whose voice seemed to
carry authority, Ayatollah Khomeini remained adamant in calling for the Shah's return to Iran as the price for the release of the hostages, and carefully orchestrated American pressures seemed to have little impact on his thinking. Nor did the domestic turmoil in his own country, with separatist movements active in Azerbaijan, Kurdistan, Khuzestan and Baluchistan, convince the Ayatollah to turn his attention to internal problems. Instead in the image of a true revolutionary, Khomeini remained obsessed with the evils of the Shah and with the great 'Satan the United States'.

By the end of 1979, Washington and New York were on tenterhooks, what was going on in Gulf affected the Americans deeply, both because of the hostages in the Tehran Embassy and because of the worrying fragility of the Saudi regime. US politicians, oilmen and military officers were permanently concentrating on the latest developments. What was to be done? The issue was on the agenda at every meeting, every discussion. The 'experts' those who already had some experience of previous Gulf crisis, were mostly in demand.

On 24 April, 1980, a rescue operation was initiated. It involved several difficult stages involving a flight by helicopters into the Central Iranian desert culminating in a drive by trucks from the outskirts of Tehran to the embassy walls. But the pain stakingly trained and superbly equipped American force was defeated by weather, mechanical failures and human error.

In any event after several months of little activity by the American government concerning Iran following the failed rescue attempt, Khomeini made a basic policy statement. On 12 September, 1980 Khomeini effectively indicated that the hostage crisis was no longer his concern and that his government could settle it according to guidelines that he understood could be basis for serious negotiations.27

27. Ibid, p.222.
IRAN SAUDI ARABIA AND OPEC

In the OPEC meetings, Iran and Saudi Arabia frequently clashed over prices and production ceilings. Both held diametrically opposing views on these two issues. Iran was supported by Libya, Nigeria, Venezuela and Algeria whereas Saudi Arabia was backed by the oil rich Arab Gulf States.

The shortfall in world oil supply coupled with "panic" buying by consumers caused oil prices to shoot up in the wake of Iranian revolution. Every producer tried to maximize his oil revenues. Several OPEC ministerial meetings were held to unify the oil prices. In the June, 1979 meeting Saudi Arabia was holding up against too great an increase demanded by such OPEC radicals as Libya and Iran. Libya's oil Minister Mabruk said: "There was no agreement". He said a majority wanted a benchmark price of $18.50 a barrel with a ceiling of $23.50 including premiums. Saudi oil minister Yamani said that any price above $20 a barrel would be abnormal.28

After much haggling OPEC ministers agreed on a two-tier price structure in June, 1979, Sheikh Yamani the Saudi Oil minister explained the basis of the new deal. He said:

The Kingdom conceded ground by bringing up the price for its Arabian Light "market" crude the traditional reference for all others, to $18 per barrel from $14.55, rather than the $17 that it earlier considered to be the maximum desirable for the world's economic health....29

The price war between Iran and Saudi Arabia again surfaced in December, 1979. Iran's oil Minister Ali Akbar Moinfar said on 22 December, 1979 that Saudi Arabia had offered to boost the price of its oil by two dollars in an attempt to reach a compromise. The talks bogged down over the issue of how much members could charge over the Saudi

price the traditional benchmark for OPEC.  

Both Iran and Saudi Arabia again clashed at a two day OPEC meeting of the long term strategy committee. The OPEC meeting was chaired by Saudi oil Minister Yamani. The Saudis again came into clash with Iran on the question of altering the dollar based price structure. Riyadh opposed it because of its own massive investment in America. The question of prices remained unresolved in the meeting of the long term strategy committee. It was to be the subject of 'tri ministerial meeting' to be held before the 4 November Summit.

The Tri-Ministerial Meeting of the Ministers of Foreign Affairs, Petroleum and Finance of OPEC was held in Vienna, Austria from 15th to 17th September, 1980. The meeting discussed the Report of the Long Term Strategy Committee in the light of the outcome of the fifty sixth (Extraordinary) Meeting of conference of Petroleum Ministers which was convened in Taif, Saudi Arabia on 7th and 8th May, 1980.

The Tri Ministerial Meeting considered the report on a Draft Plan of Action on OPEC's Long Term strategy, presented by Yamani as its Chairman on aspects of implementing that strategy and it expressed its appreciation for the work that had been done. Exactly five days after the end of tri ministerial meeting in Vienna on 22 September, 1980 the Iran-Iraq war broke out.

CONCLUSION:

The Iranian revolution led to a cut back of five million barrels of oil a day from the world oil market. No one could have predicted how a shortage of this magnitude would affect the economies of the various consumer states or what measures these countries would take to overcome it. This posed serious threats and challenges to American policy

makers who thought of developing alternative sources of energy but they failed to take account of time. Under these circumstances, a Saudi minimal risk strategy called for a policy which would moderate the effects of the Iranian crisis on the world market. The Saudis whose production had dropped to 6.9 million barrels a day in 1976 and rose to nine million barrels a day in 1977 immediately upped their output until it reached a peak of over ten million barrels a day in December, 1978. In January, 1979, due to revolutionary fervour and oil workers on strike, no one took conscious decision on oil. The issue of oil price between Saudi Arabia and Iran remained unresolved till Tri-Ministerial meeting. Immediately after five days of the meeting Iran-Iraq war broke out.