13 Oct 1977

The Political Economy of OPEC

Loring Allen

THE POLITICAL ECONOMY OF OPEC

Loring Allen
University of Missouri-St. Louis
St. Louis, Missouri

Abstract

The Organization of Petroleum Exporting Countries (OPEC) is a part of the hard reality of the present and future energy position of the U. S. It burst upon the world scene in 1973 in response to long years of shabby treatment by the oil companies and oil-importing countries. Through cooperation in the exercise of their sovereignty over oil deposits, OPEC members have extracted increasing revenues through restricting production and raising price. Although serving its own interests, OPEC benefits also the rest of the world, even though its presence portends a shift in the world balance of power.

1. INTRODUCTION

When Dr. Juan Pablo Perez Alfonzo and Sheikh Abdullah Tariki concocted the idea of OPEC in the summer of 1960, neither dreamed that in only 13 years it would control world crude oil production and prices. The Venezuelan and Saudi Arabian oil ministers were merely seeking to pressure Exxon, Shell, and other large companies to maintain the posted price. The companies had cut that price in 1959 and 1960, shifting revenues based on the posted price from the producing countries to the companies. These two men, with their counterparts from Iran, Iraq, and Kuwait, began a movement in September, 1960, that split the weakened private cartel, established a new market arrangement, more than sextupled the market price of crude oil, and redistributed world income. And that was only the beginning.

2. BEFORE OPEC

2.1 ACHNACARRY AGREEMENT

When Exxon President Walter Teagle and Sir John Cadman of British Petroleum just happened to drop by Sir Henri Deterding's country house, Achnacarry Castle, for a bit of grouse shooting in 1928, they created a cartel. The agreement was an imperfect yet flexible instrument. Even though it did not halt gluts and shortages, it helped to stabilize the market. And it served the Seven Sisters, as Enrico Mattei later dubbed them, with great profits and power for nearly three decades. Even in 1973 the cartel retained effectiveness.

2.2 COMPANY OVERSEAS OPERATIONS

The oil companies displayed a common pattern in their overseas operations. Shell and others operated in several countries. Mexico and other producers hosted American, British, and Dutch interests. The companies protected themselves with several sources of supply and confronted exporting countries with awesome power. A company could punish or reward countries according to their compliance with its wishes. The 1938 Mexican expropriation jolted the companies a bit. But the successful American and European boycott and enforced compensation taught the other countries a lesson: don't monkey with the oil companies.

2.3 EXPORTERS' POLICIES

Restive exporting countries nonetheless began to flex their muscles. In 1943 Venezuela introduced the income tax. It didn't hurt the companies any; indeed, it benefitted them. They could appear as great benefactors, but in fact, what the companies paid Venezuela was money that they would have paid in U. S. taxes. The companies even absorbed the 50-50 profit split of 1948 with only modest protest, since it cost them nothing. Later they graciously let it apply to their Saudi Arabian and other Middle Eastern producers. But the punishment meted out to Iran when it nationalized British Petroleum in 1951 demonstrated that the companies could still stick together and dominate both the market and exporting countries.

2.4 RISE OF THE INDEPENDENTS

But upstart enterprises soon began to sap the strength of the cartel. J. Paul Getty, H. L. Hunt, Armand Hammer, and other independent oil companies moved into the chinks and cracks between the Seven Sisters. Enrico Mattei assaulted the cartel by wooing exporting countries with more than 50 percent of profits. The new companies, with an assist from surplus Soviet crude, threatened to undermine the profits of the big companies in the late 1950s by flooding the market with oil.

2.5 MARKET RESPONSE

Crude went at discounts, product prices declined, and filling stations enticed customers with giveaway gimmickry. The companies tried to maintain the posted price. But in 1959 as pressure on the companies mounted, they cut it. Exporting countries complained bitterly of lost revenues, since the companies used the posted price to figure taxes and royalties. Venezuela responded by changing the profit split to 67-33. Other countries made threats. But in August, 1960, Monroe Rathbone, the new Exxon president, convinced his board that competition required a further shift of income from producing countries to his company. Exxon cut the price. Others followed suit. Within a month, OPEC was born.

3. DEVELOPMENT OF OPEC

3.1 OPEC GOALS

OPEC members wanted the pre-1959 posted price restored. The companies did not oblige for a decade and even then only under the threat of revolutionary rifles. In the early 1960s, as it became obvious that the companies would not back down on prices, OPEC cast about for other means to increase their incomes. They bargained to have royalties treated as a cost, rather than equivalent to taxes, to reduce marketing allowances, and to cut out discounts. OPEC's economic success was modest, but sufficient to convince its members that cooperation had a payoff.

3.2 LEARNING YEARS

But the 1960s were critical years, the learning years, for OPEC. Other than Venezuela, almost no OPEC member knew anything about the oil industry and hadn't the slightest idea about how to control it. They taught one another in OPEC and the oil companies, inadvertently perhaps, proved the best teacher of all. Bit by bit, through discussions, negotiations, travels, and through debates and resolutions at the semi-annual OPEC meetings, each country developed a cadre of professionals who knew the industry, at home and abroad, and knew exactly what they wanted.

3.3 POLICY STATEMENT

Sheikh Ahmed Zaki Yamani, the Harvard and NYU educated Saudi Arabian oil minister, wrote a document in the spring of 1968 embodying the state of OPEC policy thinking. In June in Vienna the OPEC members subscribed to this remarkable Declaratory Statement of Petroleum Policy. Its two principal points were cash and control. The producing countries must control the price and production of crude oil, displacing the oil companies, and reap the rewards.

3.4 LIBYA'S INITIATIVE

The first testing came in an unlikely place: Libya. Revolutionary hotheads first picked on a single company, Occidental, owned by Armand Hammer. The choice was not accidental. Occidental was an independent with no source of crude other than Libya. Colonel Maumer Qadaffi in 1970 demanded a higher posted price. When the company dallied he ordered a cutback of one-third in production and prepared to move troops into the oil fields to close them down.

3.5 LIBYAN VICTORY AND AFTERMATH

The moment was propitious. Libya was supplying a quarter of Europe's oil needs. The Suez Canal was still closed. Tapline, which could bring more Gulf oil to the Mediterranean, met with a bulldozer accident just as Libya made its move. Syria refused permission to repair it. The Biafran rebellion had halted Nigeria's production. The other oil companies would not come to the rescue of Occidental as they had British Petroleum in Iran. Occidental knuckled under. Soon all the companies posted a higher price. The Persian Gulf countries now readied demands for an even larger increase in price.

3.6 CARACAS MEETING AND TEHERAN AGREEMENT

During the OPEC meeting in Caracas in December, 1970, the Venezuelan Congress gave President Caldera the power to set the tax-reference price unilaterally. The OPEC price and tax strategy coalesced at that meeting. In the following months producing countries, consuming countries, and oil companies played a high-stakes poker game. The companies tried to marshal their combined power as well as that of their home governments to beat back the OPEC demands. But dissension developed and in the showdown in Teheran in February, 1971, OPEC won a higher price for Gulf oil. Then Libya demanded and got another hike for Mediterannean oil. Price was now the business of both the oil companies and OPEC members.

3.7 PARTICIPATION AND NATIONALIZATION

With cash assured through partial control of price, OPEC than turned to control. Venezuela passed legislation paved the way for the reversion of its oil industry to the state. Sheikh Yamani, who had been a nominal Aramco director since 1962, now demanded real Saudi Arabian participation; part ownership and a voice in management, starting with 20 percent and going to 51 percent in a few years. Kuwait and other Arab OPEC members pressed similar demands. Meantime, Algeria nationalized 51 percent of French holdings and Libya nationalized British Petroleum.

3.8 PRICE REVISIONS

Cash was not forgotten. The Teheran five-year agreement was only months old when OPEC insisted on revising it because of the U. S. devaluation, and again later for the second devaluation. And in the participation negotiations price was central. The price the companies paid to buy back the government's oil had to be settled. In September, 1973, Sheikh Yamani had his way and got the participation and buy-back price he wanted. Other Arab states made similar deals. OPEC was now getting both cash and control.

3.9 GLUT TO SHORTAGE

Until 1970 the oil companies worried about the oil glut. But the conversion of American, West European, and Japanese industry from coal to oil, the economic growth of the industrial countries, and their voracious transportation appetites gobbled up the oil. The industrial countries had increasing deficits and the market price inched up, in 1973 even exceeding the posted price. Lines in front of the pumps replaced filling station giveaways. OPEC bargaining power mounted.

4. OPEC CAPTURES THE CRUDE PRICE

4.1 OPEC SETS THE PRICE

The event that delivered the world petroleum industry into OPEC hands was the Yom Kippur war. Sheikh Yamani had called the companies to meet in October, 1973, to negotiate on prices. The companies offered 25 percent; OPEC demanded 100 percent. The meeting broke down. As he boarded his plane for a special OPEC meeting in Kuwait, Sheikh Yamani advised company spokesmen to stay tuned to their radios. A few days later they heard from Kuwait that OPEC had unilaterally increased the price 70 percent. The following day the companies learned of the Arab production cutbacks and embargo. But even without the war OPEC would have wrested control of the industry from the companies.

4.2 EMBARGO, CUTBACKS, AND PRICE

A buyer's competitive scramble pushed the price up and up. OPEC countries vied with one another in proclaiming higher buy-back and posted prices. Supplies of oil to the United States, Western Europe, and Japan declined. Mile-long lines appeared at filling stations. A frantic crisis atmosphere prevailed. The Arab cutbacks and embargo in fact caused only a modest shortage but fear and the psychological impact fortified the price increase and OPEC control. In January, 1974, OPEC pushed the price up again, to $11.65, compared to $3.01 a barrel before the October meeting.

4.3 OPEC PRICES SINCE 1974

Since early 1974 OPEC has consolidated its dominance of world oil. After royalty and tax adjustments in 1974 and a 10 percent increase in 1975, OPEC froze the price in October, 1975. Then in December, 1976, at Doha, all OPEC members except Saudi Arabia and the United Arab Emirates increased the price 10 percent, with 5 percent more scheduled for 1977. The two hold-outs upped the price only 5 percent. The two-tier pricing made no economic sense and at Stockholm in July OPEC unified the price at a 10 percent increase for this year. In December another price hike is probable. More nationalizations have occurred and Gulf countries have increased to 60 percent their participation in oil companies.

5. HOW OPEC FUNCTIONS

5.1 OPEC AS A CARTEL

OPEC is called a cartel. If it is, it is a peculiar one. OPEC's market system operates only for crude oil and influences product prices and availability only indirectly. OPEC does not have a monopoly; about 80 percent of exports is under its control. OPEC in fact is a nonbinding and unenforceable agreement among nations with respect to price and other oil policies, but not production. OPEC is hardly secret; newspapers everywhere chronicle its every move. In a sense, OPEC is only part of a cartel, handling upstream operations, while the private cartel, truncated and weakened, but still highly profitable, operates downstream.

5.2 OPEC ORGANIZATION

Bear in mind that OPEC itself is a shell, not a full-bodied executive authority. OPEC does not negotiate, lay down edicts, or make policy. OPEC's Board of Governors and secretariat are a small staff of specialists who spend their time preparing studies for the next meeting of OPEC oil ministers. The real guts of OPEC are the semi-annual meetings, during which member countries pass unanimous resolutions that become the basis of oil policy for individual countries. But members guard jealously their decision-making authority and they are the ones that execute policy and set the price, not OPEC. OPEC is no monolith. It consists of a baker's dozen independent countries with diverse economic and political systems and policy goals. The only things they really agree on are that the price of crude oil should be high and that they should control it.

5.3 PRODUCTION CONTROLS

OPEC has no production controls. Most students of cartels argue that production controls are necessary. If not, increased production will force prices down and break the cartel. Dr. Perez Alfonzo envisaged OPEC as an international Texas Railroad Commission but he never convinced other members. From time to time Venezuela and others have plumped for quotas and many OPEC meetings have discussed a control method, but without agreement. In Stockholm this year OPEC members wrestled with production control again but did nothing.

5.4 VOLUNTARY RESTRAINT

Individual countries do control their own production. And OPEC relies on voluntary restraint by its members. Saudi Arabia produces now at about two-thirds of its capacity. Venezuela's production could also expand by one-half. No OPEC country operates at its full potential. This leads to the common observation that oil is plentiful. True and not true. It would be true if all that oil were on the market. But it isn't. And it isn't because the companies will not buy it at the price established by OPEC. At the option of the exporter, the oil stays in the ground, where it becomes more valuable each year, so long as OPEC controls and keeps increasing the price.

5.5 PRICE SETTING

OPEC sets the price and lets the market determine how much it will take. Countries market some of their oil independently, but mainly the companies that formerly owned the oil now buy what they think they can sell in product form after adding costs of transportation, storage, refining, and distribution, as well as their profits. They do make mistakes and some upstream as well as downstream competition exists. So market prices vary. But so long as OPEC holds its price and downstream costs and profits stay the same, no price trend emerges. Cartel or not, it works.

5.6 CARTEL BREAK-UP

The solution is stable so long as the 13 countries accept the market's output decision and the companies' buying decisions. Should some country, say Iran, decide that its income is insufficient, it can try to expand by moving closer to capacity. If it sells at the same price, it increases its income. If it shaves the price--easy credit, hidden discounts, barter deals--it may still increase income. But another country, say Indonesia, observes the same opportunity to raise its revenue and does the same thing. The new production burdens the market which responds with lower prices. Competition reemerges, the cartel disintegrates, and price falls. Most economists believe that this is the inevitable scenario for OPEC.

5.7 OPEC'S RICH AND POOR

They fortify their argument by pointing to the deep division within OPEC between the rich and poor countries. The poor OPEC countries--Algeria, Ecuador, Indonesia, Iran, Iraq, and Nigeria--have large populations. Their per capita oil incomes average no more than $150 a year. Some are anxious to expand production, at the present price, of course. The rich OPEC nations--Kuwait, Libya, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela--have an average per capita oil income of $2,000 or more. They display no enthusiasm for expanding production.

5.8 POTENTIAL SPLIT

But before expecting that this split threatens OPEC, consider the effect of expanded production and price reductions on each group. The poor have limited excess oil capacity, about 3 million barrels a day, about 20 percent of their present production. If Iran and Indonesia expanded to full production, the market could absorb their new supplies without a price change if each other OPEC country cut back its production by only 8 percent. If the rich OPEC countries cut production by 20 percent, all of the poor OPEC countries could expand to full capacity without disturbing the price.

5.9 COUNTRY AND COMPANY REACTION

But who will take the decision to substitute Iranian and Indonesian oil for other OPEC oil? The companies mainly. But why should they? They might if Iran and Indonesia cut the price enough. But the other OPEC countries could restrict production enough to keep the price up. So Iran and Indonesia would increase their revenues at the expense of Saudi Arabian and Kuwaiti revenues with the companies acting as intermediary. But the companies have ties with individual countries and would not want to jeopardize their preferred positions as crude buyers by shifting from certain to uncertain supplies. The company that stops buying Saudi oil to buy Iranian oil may forfeit its Saudi crude. And one can imagine the incredible pressure by other members on Iran and Indonesia in OPEC's closed meetings.

5.10 STABILITY OF OPEC

Minor cheating and chiseling on OPEC, yes, but enough to break the arrangement, no.

Every country has too much at stake to try to increase its revenues at the expense of the revenues of other countries. And every company has too much at stake to imperil its crude supplies for momentary advantage. In any fight the poor countries, who depend critically on the high price, would lose more than the rich, who have more oil as well as financial reserves. And indeed, increasingly, even the oil-importing countries have a stake in the stability of the oil market at present prices.

5.11 PROFIT MAXIMIZING

The traditional demise of cartels depends on the economist's profit maximizing assumption. It may well be that private enterprises in their greed inevitably destroy an artful cartel. But it does not necessarily follow that sovereign nations, with many goals and constraints, political and economic, are unthinking short-term profit maximizers.

5.12 OPEC DEVELOPMENT NEEDS

OPEC members need the petroleum income to develop their economies. All have underdeveloped economies, but with limits on the amount of capital they can absorb. For most, income since 1973 has been in excess of what their economies can use. The overflow has found its way into international capital markets and foreign investment. Foreign reserves of OPEC countries jumped from $11 billion to over $63 billion in 1976 and are still climbing. Walter Levy estimates that importing countries will pay $300 billion for OPEC oil by 1985. Even though some OPEC countries have borrowed and would like more money, they still have many golden eggs, the promise of more if they stick together, and would unlikely kill the goose that lays the eggs.

5.13 OPEC POLITICAL GOALS

OPEC members have political goals that require the success of the present arrangement. All feel that the international economy works against their interests and those of all less-developed countries. They want to force changes in the system so that they benefit more. In addition, the Arabs want a settlement with Israel. Saudi Arabia is moving into the leadership of the Arab states. Iran wants to restore its lost grandeur. Venezuela aspires to leadership in Latin America. All dream dreams and none will sacrifice its dreams for paltry pennies per barrel.

5.14 ECONOMICS AND POLITICS

Since Venezuela, Saudi Arabia, Nigeria, and the others make the real OPEC decisions, the organization necessarily functions both as an economic and a political entity. In deciding to raise the price of crude, for example, Saudi Arabia must consider not only its revenues, monetary reserves, oil reserves, oil facilities, and relations with the companies, but also its relations with other OPEC members and the integrity of OPEC cooperation. It must also weigh the effect on oil-importing countries whom Saudi Arabia wishes to influence with its foreign policy, on Arab countries with whom it is allied, and on poor countries with whom it identifies.

5.15 TWO-TIER PRICING

The recent split in crude pricing illustrates the political and economic nature of decision-making by OPEC members. At the beginning of 1977 the majority of OPEC announced a 15 percent crude price increase. Saudi Arabia, however, had an overriding interest in pressuring the U. S. to seek a solution in the Middle East urgently. It raised the price 5 percent. In July in Stockholm those preferring 15 percent backed down to 10 percent for the year and Saudi Arabia came up to 10 percent. No economic analysis could have predicted that configuration of price changes.

6. RESPONSES TO OPEC

6.1 OPEC RECOGNITION

The oil companies and the world ignored OPEC at first. Later the companies negotiated with OPEC but gave up little. Oil experts in the late 1960s remarked on how ineffective OPEC was and predicted continued low prices. When the companies took OPEC seriously in 1970 to 1973, governments of oil-importing countries did not support them. Only when OPEC had won all the chips on the table did the world recognize OPEC. This lends support to the view that the only way to get the man's attention is to knock him down and kick him.

6.2 OIL COMPANIES

The oil companies will certainly not charge the OPEC fortress now. They had their chance to retain control of oil and muffed it. Now, like parasitic birds, they are content to perch astride their hosts, picking away at the insects and getting fat. They still have their downstream operations, now vastly more profitable because of the higher crude price. The Seven Sisters wince when moralists accuse them of bedding down with sheikhs and bedoins. But they know how to survive. John Blair is right; the oil industry is now a symbiotic bilateral oligopoly. I would add, with political as well as economic goals and constraints that help to assure its stability.

6.3 ATTITUDE OF OIL IMPORTERS

Oil-importing countries at first looked on the metamorphosis of OPEC into a cartel with undisguised dismay and fear. They saw their economic growth going down the drain, their lifestyle dissipating, and economic power slipping through their fingers. Decisions made by blacks and browns from such ridiculous capitals as Riyadh, Doha, Libreville, Lagos, and Quito were influencing their prices, production, incomes, and payments balances. To countries accustomed to making decisions that influence others, it was a shocking affront.

6.4 EARLY POLICIES

The initial response was to fight back. After some silly saber rattling that served to unite OPEC even more and some financial hand-wringing over possible world monetary collapse, consuming countries first thought they would reduce consumption, pressuring OPEC into bowing to its betters. But this was painful and was quickly abandoned. Then followed a period in which they decided to wish OPEC into failure, since all cartels fail. Revealing investigations and congressional hearings showed the gravity of the debacle and the responsibility of industrial countries. Ideas on restricting the oil industry, countervailing power and economic warfare, novel ways to conserve oil, imaginative substitutes, and the use of diplomacy and propaganda all enjoyed a season and still float in the air.

6.5 SUBSTITUTES

Consuming countries turned to substitutes. Nuclear energy seemed promising for many uses but for its environmental and safety hazards. Thermal heat from the earth, collecting rays from the sun, and harnessing the wind and water headlined hundreds of articles. Coal has made a comeback. All had two features in common:

they were costly and development took a long time. Consuming countries soon discovered that any successful substitute required protection, a guarantee that the price of oil would not fall and jeopardize the new energy source. Oil importers now became advocates of the higher oil price.

6.6 OPEC'S SIGNAL

OPEC in creating an artificial shortage has also convinced the world of the growing real scarcity of petroleum. Oil exists in a fixed amount. How much longer it will last, nobody knows. Known reserves used at prevailing consumption rates will last a bit into the next century. More reserves will be found and technological advances will improve the recovery rate. But the present flood will become a river, the river a stream, the stream a trickle. And the price of oil will advance until oil's use for heat, power, and locomotion becomes unthinkable. High-cost substitutes, but by that time not so high cost as oil, will do petroleum's chores.

6.7 OPEC BENEFITS

What OPEC is doing is to provide a breathing space of a few decades during which the world can develop substitutes and adjust its life conditions to the absence of oil. By holding a price umbrella over oil, OPEC discourages wasteful consumption, stretches and develops new supplies, and buys time while encouraging the gradual development of substitutes. Eventually, of course, even OPEC oil, and OPEC itself along with it, will disappear. In the interim OPEC will serve the interests of consuming countries by permitting an orderly and expeditious adjustment.

7. IMPACT ON LESS-DEVELOPED COUNTRIES

7.1 COSTS AND DEBT

The burden imposed on non-OPEC developing countries far exceeds difficulties encountered in the last four years by industrial countries. The widely ignored 55-mile-an-hour speed limit is small potatoes compared to having no fuel to run the machines to harvest the crop that keeps people alive. Even with stringent cutbacks in imports, payments deficits attributable to the high oil price strikes at the economic and political stability of a hundred poor countries. The debt of less-developed countries today is staggering.

7.2 SUPPORT FOR OPEC

All the rules of logic say that the oil-poor developing countries should have formed a solid phalanx with the industrial countries to assault the OPEC citadel. They didn't. Through their pain, they applauded OPEC and hailed the OPEC victory as an achievement for the downtrodden everywhere. The OPEC Robin Hood steals from poor and rich alike. And to the poor, the sacrifice is worth it if Robin Hood succeeds in making off with goodies from the rich man's heretofore impenetrable caravan.

7.3 OPEC ASSISTANCE

OPEC endeavors to ameliorate some of the crushing consequences of the high price for less-developed countries. Saudi Arabia spreads its largess around the Middle East, in Yemen, Egypt, and Syria. Venezuela lends to Central America, Peru, and Argentina. Many OPEC members lend to the International Bank and the International Monetary Fund where oil-poor countries may seek aid. OPEC itself has a fund and makes loans to many countries. The foreign aid programs of OPEC members on a per capita income basis are many times those of the U. S. and Europe.

7.4 LEADER AND MODEL

But even more, OPEC identifies with the less-developed countries. It says in effect: "We've discovered a way to get a bigger slice of the pie and despite your momentary suffering OPEC will lead you into a new international economic order in which all poor countries share more bountifully." And now OPEC is proceeding to do just that.

7.5 NORTH-SOUTH DIALOGUE

When the industrialized consuming countries called a conference in Paris to talk about energy, OPEC members refused to talk only about oil. The conference, they said, must cover all aspects of development. The conference broke down. But OPEC and other less-developed countries presented a solid front. The consuming countries backed down. The Paris North-South dialogue began and made progress in convincing the industrial countries that a new order is mandatory. The chairman for the poor countries was Dr. Manuel Perez Guerrero of OPEC's Venezuela. The forum now shifts to the United Nations where the voice of the poor is loud and insistent.

7.6 SPIRIT OF LESS-DEVELOPED COUNTRIES

From all the less-developed countries a new spirit emanates. They believe that the world is wrong and OPEC is right and expect OPEC to champion their drive to a better deal. And OPEC is not letting them down. Although the North-South talks, statements by leaders of OPEC and other less-developed countries, and United Nations resolutions may claim small attention from the American press, the world is rushing to a messy confrontation in which everyone loses or to a change in the way the world economy operates. The potential long-run benefits to less-developed countries are immense. And the poor countries must thank OPEC if they pull it off.

8. CONCLUSIONS

8.1 SHIFT IN POWER BALANCE.

Because of OPEC the world is witnessing one of those great sea changes in which economic and political power seeks a new equilibrium. This time it is not the surge of a new nation, such as Spain, England, the United States, or Russia. Rather it is a raw material and its scattered but cooperating owners that unsettle the power balance. And the beneficiaries will not be a nation, but rather the world's poor countries. It may take a long time, and frustration and conflict may mar the process. But it's coming.

8.2 A NEW WORLD

Dr. Perez Alfonzo on the veranda of his home outside Caracas and Sheikh Tariki in his Beirut home must smile as they muse over the past and present. Their brainchild is shattering a world and building a new one. A new world in which the prospects for the rich are not as bright and for the poor not as dim.