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Oil, Gas & Energy Law Intelligence

In Memoriam Yamani. A Symbol of the Oil Age... Who Predicted its Demise... Has Passed Away by A.A. Konoplyanik

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In Memoriam Yamani.

A Symbol of the Oil Age... Who Predicted its Demise... Has Passed Away

(A subjective attempt at critical reflection on some of the key moments of his biography and oil market developments).

*Andrey Konoplyanik**

“The stone age did not end because the world ran out of stones, and the oil age will not end because we run out of oil.” (Ahmed Zaki Yamani)



*Sheikh Ahmed Zaki Yamani
photo from OPEC twitter with
the condolences of OPEC SG
Mohammad Samusi Barkindo -
twitter.com/OPECSecretariat/
status/1364256185428414464*

On 23 February 2021, Saudi Arabian television reported the death of Sheikh Ahmed Zaki Yamani, the former Saudi Arabian Minister of Petroleum and Mineral Resources, and no doubt one of the most prominent figures of the world oil market in the second half of the 20th century. He passed away in London and was later buried in Islam’s holiest city of Mecca where he was born. He was 90.

He was “the leading light in OPEC during his eventful years as oil minister,” OPEC Secretary-General Mohammad Barkindo said to Bloomberg. “...once he spoke, every one paid attention with pin-drop silence.”¹ As Noe van Hulst, the then Secretary General of the International Energy Forum (IEF, an organization created by the International Energy Agency (IEA) and OPEC), said back in 2011: “When Saudi Arabia speaks, the [world oil] market listens.”² For a quarter century, Yamani was the voice of the Kingdom of Saudi Arabia (KSA) and OPEC on the world oil market and in the world politics.

Jeffrey Robinson, the author of the splendid “Yamani: The Inside Story”³ opens his book with the following words: “Ahmed Zaki Yamani was for a time one of the most powerful men on earth. For over two decades ... Yamani was the star player in the world’s biggest business, the supreme negotiator in the most volatile market, the ultimate diplomat in the shifting sands of Saudi politics”. Dan Yergin has dedicated to Yamani the whole single paragraph of the same name in his fundamental best-seller “The Prize”⁴ in which he says that “Yamani became the

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¹ Anthony Di Paola. Ahmed Zaki Yamani, Who Helped Lead 1973 Oil Embargo, Dies. // Bloomberg, 23.02.2021 (<https://finance.yahoo.com/news/former-saudi-oil-minister-ahmed-053207162.html?guccounter=1>)

² Personal observation

³ Jeffrey Robinson. Yamani: The Inside Story. Simon & Schuster Ltd, Great Britain, 1988, 302 pp.

⁴ “Yamani” (pp. 639-642) – in: Daniel Yergin. The Prize: The Epic Quest for Oil, Money & Power. Simon & Schuster, New York, NY, USA, 1991, 870+xxxii pp.

representative, and indeed the symbol, of the new age of oil. His visage ... became familiar the planet over.”

I consider it impossible to silence his passing away since, inter alia, the figure of Yamani has been always in the zone of my professional interests, this were evolution of international energy markets, through my whole professional career in international energy, since my latest student and then post-graduate years in mid-1970s and further on. Yamani figure could have been either in the center or in the periphery of the international energy events, but he always illuminated such events, even after his escape from active oil policy and politics, by his activities while being a Minister and “the voice and face” of OPEC in the 1970s-1980s. This is why I would allow myself to add some well-known (and/or not too much known) facts of his biography by my own personal recollections and reflections on correlations between the fate of the oil markets and the fate of Yamani.

Yamani’s Time

Yamani was born in Mecca in 1930 to a family of religious teachers and Islamic lawyers. Yamani earned a bachelor’s degree in law at Cairo University in 1951 and a master’s degree in law at New York University in 1955 and at Harvard Law School in 1956. Then he returned to the KSA, established one of the first private law offices in his country, and took the job as a legal adviser to the government on the issues of tax, oil and mineral resources.

In 1958, Yamani became an adviser to Crown Prince Faisal, which marked the start of his rapid climb up the career ladder. One year later, he was appointed Minister of State Without Portfolio. In 1962, the suave, elegant and fluent in English lawyer Yamani was appointed by Crown Prince Faisal to head the Ministry of Petroleum and Mineral Resources. He was only 32 years old at the time, a rare appointment of someone from outside the royal family to such an influential position. The following year he (with ARAMCO) founded the University of Petroleum and Mineral Resources in Dhahran, a city in the east of the country, to educate and prepare domestic oil specialists on the basis of Western knowledge and techniques.

I can surmise that his appointment — a lawyer with two American master’s degrees from prestigious universities — was predetermined by the initiation of efforts by oil producing countries (the KSA among them) aimed at redistributing revenues from the development of national oil resources (natural resources rent) in their favor, and acquiring a full sovereignty over their natural resources. The situation dictated the need for a manager with the knowledge of legal intricacies of the concession agreements between the host countries and foreign oil companies that were in effect at that time in the oil world.

Yamani subsequently became the embodiment of the growing movement by oil producing countries aimed at gaining national sovereignty, which reached its peak in the mid-1970s. That was the heyday of OPEC. In many ways, the changes that brought OPEC to its peak were associated with the name of Yamani as the “voice of OPEC” and the oil minister of the largest oil producing country, which was *de facto* the regulator of the world oil market. Or, as the KSA was dubbed later, “the world’s central bank on the oil market.”

However, it so often happens in history that some begin, and the fame (and deserved glory) is gained by others who come in their place... (break-through battalions begin the attack and for the most part remain, having laid down their heads on the battlefield and often soon forgotten,

and then the battle is finished and the victory is won by fresh forces whose leaders are usually associated with the victory).

Yamani, later becoming in many ways the “face and voice of OPEC,” did not start from scratch. The movement of oil producing countries aimed at gaining sovereignty over their natural resources began much earlier, before Yamani’s appointment to OPEC and to the minister’s post. Initially, the driving force behind this struggle was Venezuela. Yamani played an important role in the evolution of OPEC, however, after the organization’s inception and creation. OPEC’s key founders in 1960 were Venezuelan Oil Minister Juan Pablo Perez Alfonso and Yamani’s predecessor, the first Minister of Petroleum and Mineral Resources of the KSA, Abdullah Tariki.

By that time, in addition to traditional concessions (known since 1901, from the time of the D’Arcy Concession in Persia), modernized concessions were already in use (such concessions appeared in 1948, when Venezuela introduced the foreign company profit tax in traditional concession agreements). Production-sharing agreements came into being one year after Yamani got his ministerial appointment (in 1963, in Indonesia)⁵. In December 1962 (the year, when Yamani became minister), UN General Assembly’s fundamental Resolution No. 1803, on “Permanent sovereignty over natural resources”⁶, was adopted. This resolution became the legal basis for the battle of oil producing countries for control over the use of their natural resources, i.e. for revenues from national oil production, for redistribution of the natural resources rent between the host state and the foreign company (concessionaire, investor, subsoil user). Since this battle was waged primarily in the legal plane, Yamani’s legal expertise became in demand: he turned up in the right place at the right time to enter the world oil politics. And the world oil elite...

Yamani held his ministerial post for almost a quarter of a century, until 1986. He was an iconic figure in all key events of that period. He nationalized (by increasing state participation) the KSA’s oil industry and created state-owned ARAMCO, now the largest oil company in the world in terms of capitalization.

It was during Yamani’s tenure as oil minister that OPEC countries managed to change the pricing mechanism on the world oil market, which had previously been dominated by the economic policy of the Western countries pursued through the International Oil Cartel (IOC, well-known also as “Seven Sisters”, consisting of five American companies, such as Exxon, Mobil, Gulf, Texaco, SOCAL, BP from UK and Royal/Dutch-Shell from UK/Netherlands, later joined by the eight company Company Français du Pétrole) since its formation in 1928 under so-called “Achnacarry Agreement” (see Figure 1). The IOC’s vertically-integrated oil companies (VIOC), using first “one-base pricing,” and since 1947, “two-base pricing”, harvested supernormal profits at the oil production and transportation stages having tied the Cost, Insurance, and Freight (CIF) price of oil in the importing countries, on the cost-plus basis, to the then world’s highest US oil production costs — Freight/Free on Board (FOB) the Gulf

⁵ Elucidation on Law No. 14/1963, Regarding Enactment of "Working Contract" between P.N. Pertamina and P.T. Calasiatic, TOPCO, Permina, Stanvac, Permiga, Shell Indonesia, <https://www.ogel.org/legal-and-regulatory-detail.asp?key=2241>; Contract of Work Between P. N. Pertambangan Minyak Nasional (Permina) and P.T. Stanvac Indonesia. <https://www.ogel.org/legal-and-regulatory-detail.asp?key=2264>

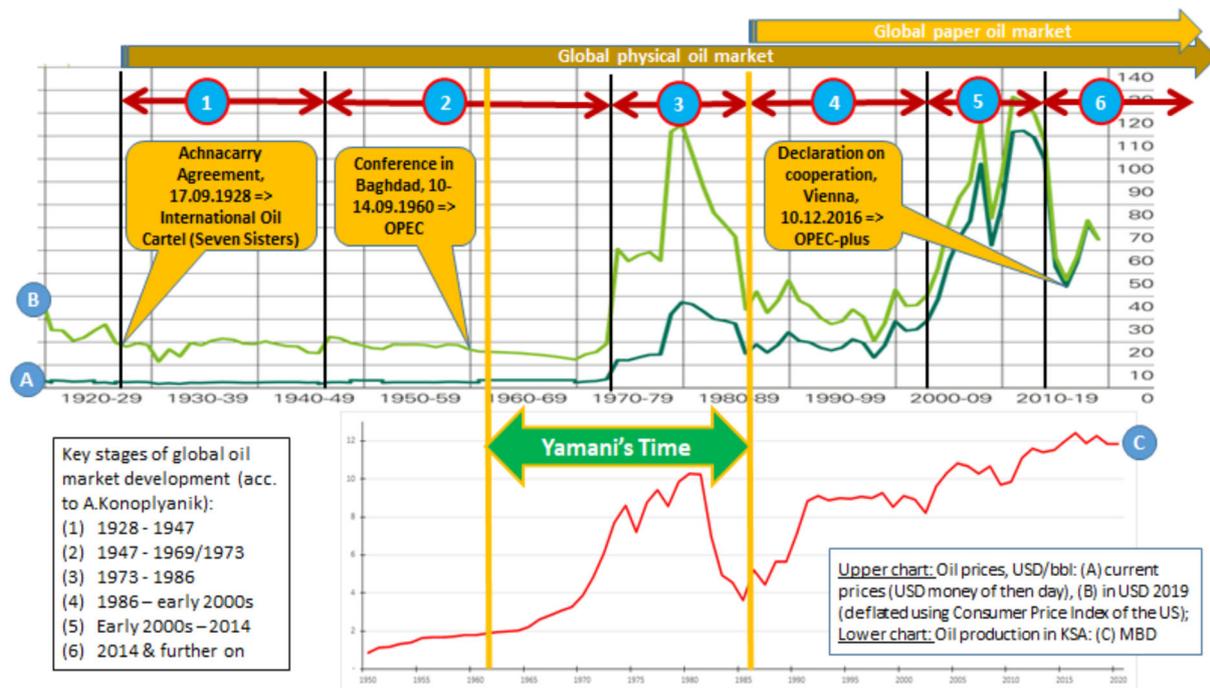
⁶ <https://www.ohchr.org/EN/ProfessionalInterest/pages/NaturalResources.aspx>

of Mexico. At the same time, the IOC companies purchased oil from OPEC countries using intra-company transfer pricing — from their own production units at understated “posted” prices. The latter prices were used as the basis of taxation in favor of host countries. “Posted prices” were tied to the world’s lowest OPEC oil production costs. As a result, the revenue component that brought windfall gains from the business of developing the Middle East oil resources went straight to the profit centers of the IOC’s vertically integrated oil companies in their parent countries.

In the late 1960s, the monopoly pricing of oil by the IOCs was replaced by pricing based on the results of the IOC-OPEC negotiations, and beginning from 1973 came fully under the control of OPEC member countries and remained under their control until 1986 when Yamani left his post. In 1986, the formation of export prices for oil on the cost-plus basis (or more precisely, on the spot-plus basis, between 1973 and 1986) was first transformed into the netback pricing based on exchange quotations of oil products on the U.S. market at the New York Mercantile Exchange (NYMEX) and eventually evolved into the current pricing mechanism, where FOB price at the export terminals of oil producing countries is determined as netback from exchange quotations of marker crude grades at primary world oil exchanges —NYMEX and London’s International Petroleum Exchange (IPE, now Intercontinental Exchange - ICE).

But this happened already after Yamani left his ministerial post. Therefore, Yamani’s time was the time when control of oil pricing on the cost-plus basis, being held since 1928 in the hands of IOC, shifted from the IOC to OPEC in the end -1960s, and since early 1970s that mechanism remained in effect and under OPEC’s control throughout the term of his tenure as the minister (Figure 1). This model led OPEC first to a rise and flourish, and then to a gradual demise (“when the moon is full, it begins to wane...”). Therefore, Yamani’s time was the period of OPEC evolvment, its prime, and the first signs of its demise.

Figure 1. Key stages of global oil market development (acc. to A.Konoplyanik)⁷ - and Yamani's time



Source: A. Konoplyanik based on BP Statistical Review of World Energy 2020, 69th edition, (www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2020-full-report.pdf) - international crude oil price development and oil production in KSA. () preparation of this Figure was partly inspired by Dr. Anas F. Alhajji, moderator of OGELFORUM, by his chart used in: Julianne Geiger. Saudi Arabia's Longest-Serving Oil Minister Dies At 90. // Oilprice.com, 23.02.2021 (<https://oilprice.com/Latest-Energy-News/World-News/Saudi-Arabias-Longest-Serving-Oil-Minister-Dies-At-90.html>)*

OPEC: Peer Opinion

Yamani was known for his calm negotiating style, which Saudi ministers tried to emulate after him. Yamani had successively represented four KSA Kings in OPEC, which made him into the most powerful representative of his nation from among those of non-royal blood.

Peer opinion is always important — both during one's lifetime and afterwards. Immediately after Yamani's death, the OPEC Secretariat announced that "the entire OPEC community, led by OPEC Secretary General Mohammed Sanusi Barkindo, is expressing its deepest and most sincere condolences on the death of one of the oil industry's most respected and recognized leaders. Yamani played a central role in elevating OPEC's perspectives to the global stage during a critical period in its history. He was the President of the OPEC's 4th, 5th, 14th, 27th, 28th, 29th & 30th Conferences. Ahmed Zaki Yamani was an outstanding icon of the world of

⁷ See, inter alia: (1) A.Konoplyanik. Global Oil Market Developments and Their Consequences for Russia. – "The World Financial Review", November-December 2013, p.49-53 (www.worldfinancialreview.com); (2) A.Konoplyanik. Chapter 28: Global Oil market developments and Their Consequences for Russia (pp. 477-500) – in: "The Handbook of Global Energy policy", ed. by Andreas Goldthau. - Handbooks of Global Policy Series. Wiley-Blackwell - A John Wiley & Sons, Ltd., Publication, 2013, 542 pp.; (3) A.Konoplyanik. Chapter 2: Evolution of contractual structure at the global oil market (pp. 80-194). Chapter 4: The limits of fluctuations of oil prices (pp.230-273) – in: V.V.Bushuev, A.A.Konoplyanik, Ya.M.Mirkin et al. Oil prices: analysis, tendencies, forecast. – Moscow, Energia Publishing House, 2013, 344 p. (in Russian), etc. (www.konoplyanik.ru)

oil and the leading light in OPEC during his eventful years as the Minister of Petroleum and Mineral Resources of the Kingdom of Saudi Arabia.”⁸

However, yet during Yamani’s lifetime, Alirio Parra (now, alas, also deceased) (Venezuelan Oil Minister in 1992-1994, assistant to Juan Pablo Perez Alfonzo in 1960, participant of the historic meeting in Baghdad where OPEC was formed, and Yamani’s close cohort from the latter’s coming to OPEC and until Parra’s death in 2018)⁹, whom I deeply respected and was lucky to be personally acquainted with, once said: “The 1970s were the years of real progress. That was the period when OPEC and the producing countries gained control over the industry. We have to give credit, where credit is due, to one man — Ahmed Zaki Yamani.”¹⁰



*Photo:
Ahmed Zaki Yamani & Alirio Parra*

*“2 Icons from the oil world, both gone but not forgotten” -
photo and comment from Tony Parra at the OPEC twitter
in respond to OPEC SG condolences to Yamani passing
away - twitter.com/alirioparrajr/status/
1364624408657076227*

I would like to note some important, in my opinion, dates of Yamani’s professional career with some personal reflections on them inspired by his passing.

The 1967 Embargo and Creation of OAPEC

During the 1967 Arab-Israeli War, Arab countries had for the first time imposed an embargo on oil supplies to countries that supported Israel. For various reasons the embargo proved ineffective and was quickly cancelled. Yamani opposed the embargo. But the experience proved useful to discuss the political benefits of creating an exclusively Arab oil organization. Yamani played a key role in the development of this idea. The Organization of Arab Petroleum Exporting Countries (OAPEC) was established in 1968, first to include the KSA, Kuwait and Libya, and then expanded in the early 1970s. Since then, the expression “usage of oil as a political weapon” has come into use, for it has been believed that OAPEC was created as a forum for (discussing) specifically such use of oil.

The next oil embargo turned out to be much more effective. And Yamani was already an iconic figure in it.

⁸ <https://twitter.com/OPECSecretariat/status/1364256185428414464>

⁹ Alirio Parra: a true OPEC icon, 09 Mar 2018, https://www.opec.org/opec_web/en/press_room/4874.htm

¹⁰ Anthony Di Paola. Ahmed Zaki Yamani, Who Helped Lead 1973 Oil Embargo, Dies. // Bloomberg, 23.02.2021 (<https://finance.yahoo.com/news/former-saudi-oil-minister-ahmed-053207162.html?guccounter=1>)

The 1973 Oil Embargo: “Welcomed Outside, Enemy Within”

October 1973. The Yom-Kippur Arab-Israeli War. The then-president of the U.S. Richard Nixon and other heads of Western nations decided to support Israel. In response, the Arab OPEC member countries (OAPEC) imposed an embargo on oil supplies (subsequently their actions will be called the “use of oil weapon”) to the U.S. and some Western European countries, where the Netherlands — the “oil gateway” of Northwestern Europe — was particularly impacted (the Netherlands accommodates two “vertexes” of the famous “ARA triangle” — the largest oil ports of Amsterdam, Rotterdam, and Antwerp). Oil importing countries suffered from liquid fuel shortages, with motor cars lined up at filling stations. In the wake of the crunch, the OPEC countries quadrupled their official oil prices (following the jump in spot prices). This laid the basis for a surge in OPEC welfare and formed a mechanism for setting the OPEC official selling prices (OSP), which were pulled up following the growth, and fixed at the level of spot quotations (that is what I call the “cost-plus” to “spot-plus” pricing transformation).

Yamani was the initiator and key person behind the oil embargo, as he proposed an initial reduction of supplies by 10%, followed by further reductions by 5% every month. On 16 October 1973, six Arab countries of the Persian Gulf convened a meeting in Kuwait and decided to raise the oil price from \$3 to \$5.12/barrel. For the first time in history, oil producing countries had set their own oil prices! The next day, 10 OAPEC countries agreed with the Yamani’s proposal to proceed with moderate production cuts. Prices were then raised to \$11.65/barrel, four times the pre-embargo price level (the embargo was formally lifted on 17 March 1974).

While being the initiator of the oil embargo, which led to a drastic increase in oil prices, Yamani was not a supporter of their too rapid growth. He advocated for a less radical price increase than other OPEC members proposed, and subsequently even insisted on lowering oil prices from that level, being in opposition to all other OPEC members. He was heavily criticized for that and even accused of promoting pro-American policies. Yamani justified his position as a gentler scenario for the world economy (it is worth recalling here that after the oil embargo of 1973-1974, the Western world plunged into a deep economic crisis of 1974-1975).

Nationalization of the KSA Oil Sector

By the time Yamani was appointed to the post of oil minister, the KSA was a middling oil producer with an output of slightly above 1.5 million barrels per day (mbpd), while the United States was the largest oil producer and supplier of oil to the world market. During Yamani tenure, the KSA became a giant of oil production. Its oil output peaked at 10 mbpd in 1980 (Figure 1). One of Yamani’s unquestionable achievements was the increase of the KSA share in both ownership of its oil reserves, and revenues from oil production, which had for a long time been under the control of a consortium of four American companies that formed the today’s ARAMCO. Yamani supervised the nationalization of the Arabian American Oil Co, now known as the Saudi Arabian Oil Co or ARAMCO (Saudi Aramco), by the Saudi government successively increased participation. Today Saudi Aramco is the KSA main supplier of jobs and main source of revenues.

American companies had produced oil in the KSA since SOCAL (Standard Oil of California), now Chevron, signed its first concession in May 1933. Exxon and Chevron controlled most of the KSA oil production at the time when Yamani became oil minister. In 1972, the Saudi government bought 25% of the concessionaire company, increased its share to 60% the following year, and acquired full control of Saudi Aramco in 1980. In 1988 operational control was transferred to local managers, most of them were graduates from Dahrhan University. Yamani deserves credit for all these developments.

1979: A New Price Hike and First Steps Away from Oil

In 1979, the situation followed the same economic logic as in 1973. Only the supply of oil to the world market fell not because of an embargo, but because of the Iranian revolution. Rush demand had again pushed up spot quotations, followed by a rise of the OPEC's official selling price. It was then, during the Yamani's tenure, when oil prices had reached their historical peak in the 20th century at \$41/barrel in the third quarter of 1981.

However, the skyrocketing price (twentyfold during the decade) stimulated a series of reactions of Western world. First reaction was "departure from OPEC oil" or the search for alternatives from the OPEC oil and its replacement with supplies from other sources as it became economic to develop fields outside OPEC, primarily in the North Sea. Since it did not bring down the oil prices it was followed by more general "departure from oil" stipulated by the growing importance of alternatives from oil and its replacement with other energy resources, such as natural gas, coal, and renewables, which stayed cheaper than oil. That caused a disbalance as the supply was growing, while the growth of demand was held back, spot prices went down (followed by the official selling price), and the quota discipline within OPEC started degrading. Yamani tried to keep prices stable. The KSA took up the role of a "balancing (swing) supplier" adjusting and regulating the supply/demand balance. Up until 1986, under Yamani's leadership, the KSA had performed this role, while losing (giving up) its market share (voluntarily refraining from monetizing a part of its oil revenue potential) to those OPEC member countries, which violated quota discipline. The latter were, first of all, the densely populated, in contrast to sparsely populated KSA, OPEC member countries with ambitious economic development programs.

Containment of Price Appetites

In the 1970s, with Yamani in power and thanks to his efforts, the KSA tried to curb the desire of other OPEC member countries to allow unrestrained growth of oil prices. Yamani understood that this could lead to oil replacement with other energy resources. Therefore, he sought to pursue a more restrained pricing policy, balancing between the need to ensure a steady flow of revenues to the KSA and the need to resist the pressure of countries, such as Libya and Venezuela (with more ambitious government spending programs), which wished to push oil price up seeking to return the revenues which were sucked out of oil producing countries earlier by IOC companies. This led to harsh criticism of Yamani and the KSA for pursuing pro-Western policies even by some fellow OPEC ministers.

This stance of Yamani can be explained in terms of economics, essentially as his famous saying about the Stone Age and the Oil Age. Apparently, he was familiar with the economic theory

of Harold Hotelling (or understood the mechanism of energy resource substitution in consumption – that the oil price can go up until it reach the competitive price level of backstop technology), although all his higher education (Cairo, New York, Harvard) was in the field of law. Therefore, he advocated for restraining price growth so as not to cross prematurely the profitability thresholds of substitute (backstop) technologies. It is clear that the KSA had more opportunities for that. Other OPEC member countries were guided more by current budgetary and fiscal objectives (see **Box 1**).

Box 1. “...the Oil Age will end long before the world runs out of oil.”

In the 1970s, Yamani’s critics maintained that advocating for restraining the growth of oil prices the KSA was only promoting its national interests and pursuing its long-term policy in the field of natural resources because a lower level of oil prices enabled the KSA to retain a bigger share of the oil market and to hold back the development of alternative energy sources, which would detrimentally impact the global demand for oil. Already after the first oil crunch, international vertically integrated oil companies began to diversify their R&D, inter alia, into renewable energy.

Yamani, however, was not the first to explain when the oil era would end and how some energy resources would be replaced by others. Harold Hotelling had done it before him (back in 1931¹¹). But Yamani was an iconic figure during the time of turbulent oil market, when his word weighed and meant far more than economic theories and reasoned explanations of his predecessors, the academic economists. The latter were known to a relatively narrow circle of colleagues in their academic community, outside the oil business and global public opinion, while Yamani was de facto the spokesman for OPEC, i.e., the mouthpiece of the part of the oil business represented by the countries owning the natural resources and by the fast-growing oil players (gradually turning into the category of majors) represented by their state oil companies. Yamani’s name was familiar to everybody in the oil business and in the world (given the role of oil in the world economy and politics). Therefore, any word spoken by him had multiplicative effects, both in terms of its weight and the attention it attracted.

According to some sources, his famous saying: “*The stone age did not end because the world ran out of stones, and the oil age will not end because we run out of oil*” dates back to mid- or late 1970s, while others say it appeared later. However, as I recall, he first uttered it in connection with the famous alarmist report of 1972 to the Club of Rome “*The Limits to Growth*,”¹² which argued that humanity might face a physical shortage of oil (based though only on then-proven recoverable reserves in the period of long-stable low oil prices) due to population growth and continued, if not increased, GDP energy intensities. It was then, as I remember, when, in the early 1970s, he uttered the saying for the first time.

Subsequently, the journalists who interviewed him repeatedly returned to this saying of his, which became famous and began to live its own life.

¹¹ Hotelling, Harold (April 1931). "The economics of exhaustible resources". *Journal of Political Economy*. 39 (2): 137–175. doi:10.1086/254195. JSTOR 1822328. S2CID 222432341.

¹² Meadows, Donella H; Meadows, Dennis L; Randers, Jørgen; Behrens III, William W (1972). *The Limits to Growth; A Report for the Club of Rome's Project on the Predicament of Mankind*. New York: Universe Books. ISBN 0876631650. Retrieved 26 November 2017.

Speaking about his relations with other OPEC member countries in a televised interview to Al Jazeera, Yamani remarked: “I was against increasing the price of oil, and they attacked me for that. When you raise the price of oil, you enable the oil companies to use the extra money to explore for oil, and this is what happened in the North Sea, in Mexico and elsewhere. So the level of production outside OPEC took place, competing with the price of OPEC.”¹³

In the 1970s-1980s Yamani, in my opinion, tried to use the unique position of the KSA in the open oil market under the existing one-segment model of the oil market (only the physical oil market – see Figure 1) and the heavy dependence of the key liquid fuel consumers in the Western world (USA, Western Europe, Japan) on exporting countries, mainly on OPEC. Since, despite the growth in oil production outside the Organization (which made it possible to somewhat reduce dependence on the OPEC supplies), capital-intensive long-term measures to transfer the Western economy from the energy-wasteful to energy-efficient development model have not yet borne fruit. Trying to restrain more zealous OPEC fellow countries from even sharper increases in oil prices in the 1970s (which grew 20 times over a decade), and fighting against violations of the OPEC quota discipline in the 1980s, in order to maintain the achieved level of global prices by reducing the KSA’s own production below the established one for its quota, Yamani actually sacrificed part of his country’s national interests in favor of the “Arab brothers” in the OPEC and other OPEC states. This de facto encouraged them to continue violating the OPEC quota policies in an effort to maximize immediate benefits (see **Box 2**).

However, in my opinion, Yamani’s policy of preserving the integrity of OPEC by deliberately sacrificing a part of the KSA resource rent did not infringe on the interests of the Kingdom’s ordinary citizens but only reduced the excessive wasteful consumption of the country’s political leaders. Since for a long time the ARAMCO company actually performed the functions of the personal treasury of the large royal family consisting of, according to J.Robinson, 4000-5000 royals¹⁴. I interpret this as Yamani de facto monetary conflict with the KSA elites which ended with the removal of Yamani from office.

Box 2. Similarities: KSA/OPEC – USSR/CMEA

This suggests a similarity with the behavior of the USSR within the Council for Mutual Economic Assistance (CMEA)¹⁵ framework in the same period of 1970s/1980s, when my country redistributed part of its petroleum resource rent in favor of the states of Eastern Europe. The Soviet Union sold its oil to them at preferential prices (weighted average for 3-5 years) during the period of a sharp rise in international oil prices and in volumes higher than the level of their domestic consumption. At the same time, the USSR helped to build modern refineries in the European CMEA countries with a refining depth (yield of light petroleum products) higher than then in the USSR itself. And the USSR observed that these

¹³ Anthony Di Paola. Ahmed Zaki Yamani, Who Helped Lead 1973 Oil Embargo, Dies. // Bloomberg, 23.02.2021 (<https://finance.yahoo.com/news/former-saudi-oil-minister-ahmed-053207162.html?guccounter=1>)

¹⁴ Jeffrey Robinson. Yamani: The Inside Story. Simon & Schuster Ltd, Great Britain, 1988, p.13

¹⁵ CMEA existed since 18.01.1949 till 28.06.1991. Members of CMEA: Albania (withdrew in 1961), Bulgaria, Czechoslovakia, Cuba, East Germany (ceased to exist in 1990), Hungary, Mongolia, Poland, Romania, Soviet Union, Vietnam; Yugoslavia (associate since 1964); observers: Angola (since 1976), Afganistan (since 1986), Iraq (since 1975), Yemen (since 1986), Korea, North (since 1956), Laos (since 1986), Mexico (since 1975), Mozambique (since 1985), Nicaragua (since 1984), Finland (since 1973), Ethiopia (since 1986), China (former observer till 1961) .

European CMEA countries had sold light petroleum products in excess of their domestic consumption volumes to Western Europe at the world prices. That was the resource rent in exchange for political loyalty and one of the facets of socialist economic integration. This worked during the price increase phase in the 1970s, but ceased to work during the price decline phase in the 1980s, which ended in “velvet revolutions” in Eastern Europe at the end of the decade.

Something similar – redistribution of the KSA’s petroleum resource rent in favor of other OPEC states – took place, in my opinion, in OPEC states under Yamani in the first half of the 1980s. However, just as the USSR failed to preserve the political loyalty of the CMEA member countries at the stage of the oil price decline, so the KSA failed to maintain the economic loyalty of the OPEC countries (to keep them within the framework of the Organization's quota discipline) during the same period.

The USSR eventually collapsed. Yamani was eventually removed from office.

1986: Removal from Office

On 29 October 1986, King Fahd dismissed Yamani from his post as oil minister with a brief statement released by the state-owned Saudi News Agency. Yamani learned of his dismissal from the Agency reports.

It is believed that at the OPEC conference in October 1986, Yamani received a telegram from King Fahd demanding to raise the KSA quota and set the cartel’s oil price at \$18/barrel (below which they were by that time throughout the year, consistently declining from peak values of 1981 and falling to minimum values below \$10/barrel in July). The King wanted production increased and price raised in an overflow market. Yamani refused to comply with this request of the King and was dismissed.

I do not share the opinion of some specialists (though there are highly reputable people) that in 1986, prices collapsed as a result of a deliberate conspiracy between the US and the KSA (specifically, Kissinger and Yamani, who were well acquainted with each other) in order to undermine the economic power of the USSR, which at that time was supported by the oil export. I believe the KSA was defending its national interests, which it had consistently compromised since the early 1980s, step by step yielding its market share, to those OPEC countries that did not comply with the quota discipline.



SYND 6-12-73 SHEIKH YAMANI AND KISSINGER MEET ON OIL, YAMANI TALKS TO PRESS CONFERENCE

Still from Youtube.com (AP): Sheikh Ahmed Zaki Yamani, left, speaks to US Secretary of State Henry Kissinger in Paris in 1975.
www.youtube.com/watch?v=jZ2uhaGKAtE

Having increased production at the end of 1985 to the level of its official OPEC quota and having tied the export FOB price of oil on a basis of netback to market quotations of oil products in the US market – the then main KSA export market (oil products – residual fuel oil - began to be traded on the NYMEX exchange in 1978), the KSA, having the lowest production costs in OPEC, ensured the demand for its oil within its quota, i.e., was fully able to protect its market share. But at the same time it was impossible to keep prices at the level of \$18/barrel, as King Fahd demanded from Yamani at the end of 1986 (nobody can simultaneously run in two opposite directions: keep both the quota and the prices). So it looks like Yamani was dismissed for his intention to return to defending the long-term national interests of the KSA by starting to defend its market share and denial to continue redistribution of KSA resource rent to other OPEC member states. Or, for his intention not to go against the laws of economics... despite political will of his overlord...

Yamani's dismissal from the post of the KSA Oil Minister occurred at the turn of the century when the physical oil age was replaced by a two-sector model of organizing the world oil market – the coexistence of physical and paper oil markets (see Figure 1). More precisely, the first step towards formation of the modern two-segment (physical and paper oil) global oil market was made owing to his actions – rejection of the OPEC OSP on the cost-plus basis and establishment of the KSA FOB export price on the basis of netback to exchange quotations of oil products on the NYMEX.

Twice Looked Death in the Eye

However, 1986 was not the year of the strongest shocks for him, but definitely 1975. That year a real threat to his life emerged twice. In March and December 1975, he literally looked death in the eye.

In March, Yamani was next to King Faisal (who had appointed him to the post of Minister and was, according to J. Robinson, not only Yamani's King and employer, but almost a friend) when one of the crown princes shot and killed Faisal. The investigation revealed that the shooter intended to shoot down Yamani as well.

In December of that year, Yamani was among 11 OPEC oil ministers taken hostage in an attack (in which three people were killed) on the Organization's headquarters in Vienna by a terrorist group led by Venezuelan-born Ilyich Ramirez Sanchez, known as Carlos or Carlos the Jackal. In total 63 hostages were taken. Yamani subsequently described Carlos the Jackal as a "ruthless terrorist who operates with cold-blooded, surgical precision."¹⁶ The terrorists forced the Austrian government to provide a plane for them, in which they flew with 42 of the 63 hostages to Algeria, then to Libya, then again to Algeria, releasing groups of hostages along the way, and having freed everyone except Yamani and the Iranian oil minister Jamshid Amouzegar. Carlos planned to eventually fly with them to Baghdad, then to Yemen and to publicly execute

¹⁶ Long-serving Saudi oil minister Ahmed Zaki Yamani dies at 90. // Al-Jazeera, 23.02.2021, (<https://www.aljazeera.com/news/2021/2/23/long-serving-saudi-oil-minister-ahmed-zaki-yamani-dies-at-90>)

both of them there. But in the end he agreed to release them after a series of negotiations in Algeria. Since then, Yamani always moved around surrounded by bodyguards.

In 2013, Yamani told Al Jazeera television: “Carlos and me, we were talking, joking and so on. I mean, he was very kind to me, but he told me he was going to kill me.”¹⁷ (see **Box 3**)

Box 3. So what was the logic of the terrorists?

I confess that for me, there are still ambiguities in the logic of the terrorists’ behavior in this story. Their communique demanded a role “for the Arab people and other peoples of the third world” in dealing with their oil resources. But that was exactly what was happening in the world at that time. And the initiators of this process were OPEC and OAPEC. OPEC, where Yamani was a significant figure at that time, and especially OAPEC, where he was the direct organizer, consistently carried out the transfer of control over natural (oil) resources in their countries from international oil companies to state-owned companies (created on the basis of upstream production assets of the IOC’s VIOCs in the OPEC countries) of oil-producing states.

So what was the logic of the terrorists? And the intention declared by Carlos the Jackal to kill the man who not only carried out, but also personified the changes that the terrorists demanded...?

Looking Back

Looking back at the crisis, Yamani told CNN in 2010 that “the Arab oil embargo was meant, and I was behind it, not to hurt the economy, just to attract the international public opinion that [there] is a problem between the Palestinians and the Israelis.” Yamani’s stated goal at the time of the embargo was to force Israel to withdraw from the occupied Palestinian territory. But the rapid rise in oil prices played a low-down trick and was an enormous windfall for OPEC members. And easy money, as you know, corrupts. “Unfortunately, money is very attractive, members in OPEC, they love money and revenue. And this is why they push the price up as quickly as possible and they paid the price for what they did,” Yamani said.

He said that he didn’t regret the embargo. But he did have misgivings about OPEC’s subsequent efforts to dictate prices. “I regret what OPEC did. You cannot really manage the price. It was a mismanagement of price, a mismanagement of power,” he said in that CNN interview.¹⁸

¹⁷ Anthony Di Paola. Ahmed Zaki Yamani, Who Helped Lead 1973 Oil Embargo, Dies. // Bloomberg, 23.02.2021 (<https://finance.yahoo.com/news/former-saudi-oil-minister-ahmed-053207162.html?guccounter=1>)

¹⁸ Tim Lister. 'I was behind it.' The man responsible for the 1973 oil shock has died. //CNN Business, 23.02.2021 (<https://edition.cnn.com/2021/02/23/business/ahmed-zaki-yamani-saudi-oil/index.html>)

Centre for Global Energy Studies

In 1990, Yamani founded the Center for Global Energy Studies (CGES) in London, which lasted until 2015, i.e., a quarter of a century, the same number of years as Yamani was the Minister of Petroleum and Mineral Resources of the KSA. The Center provided analytical research on the oil market and consulting services. As Yamani stated, he did not represent anyone's interests in the Center, he provided an objective (neutral) analysis.

The CGES Council included such high-ranking politicians as Edward Heath, Valerie Giscard D'Estaing, and a number of other retired figures of the same stature. They all were his friends. From the Soviet Union, the CGES Council invited Professor Alexander Arbatov, the Deputy Chairman of the Commission for the Study of Natural Productive Forces of Russia (CNPF) of the USSR Academy of Sciences. According to my knowledge, Yamani did so on advice of the then CGES Executive Director Tony Scanlan (former BP executive) whom both Arbatov and me knew well.

I visited Yamani's CGES in Knightsbridge, London, several times, where sometimes I talked with him and sometimes with his colleagues or employees. I also knew some of them. I remember that it was precisely there in his Center, when the conversations with his employees (and then the presentation of one of them, Julian Lee, at one of the conferences in 2010) led me to the conclusion that after the crisis of 2008-2009, the high world oil price aligned with the oil price of the deficit-free budget of Saudi Arabia.

In my opinion, it was the conversations with Yamani colleagues in his Center, which helped me to get a better idea and understanding of the organization of the two-sector model of the modern oil market – the market of physical and paper oil.

I had similar views with Yamani on many issues, and especially on the role of speculators in the oil pricing. During one of our meetings in the mid-2000s, when the prices were rising steadily, Yamani made a point, and I share his opinion, that speculators (non-commercials) run the show on the market and thus determine the oil prices. He spoke about traders in oil futures, and I would add derivative financial instruments, including in the over-the-counter trading. This thesis, which is not shared by many in the world today, was all the more unclear for many at that time. Yamani spoke about this in his video interview in June 2008, which is presented on the front page of the CGES website.¹⁹

Within the framework of the two-sector model of the oil market (see Figure 1), the high price of the KSA deficit-free budget turned out to be profitable for the KSA itself as a producing country (and other producing countries, which thus enjoyed the “free rider effect”), and for the United States (as the largest player in the world capital market and thus at the paper oil market). On the one hand, being an importing country (the shale revolution that turned the US again into an exporting country, was only preparing to shoot at the end of the 2000s), the United States were losing from high prices in the physical oil market. On the other hand, the US (represented by the largest investment banks that controlled the global market of financial derivatives) earned many times more on the paper oil market – on financial transactions in oil

¹⁹

CGES

website

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<https://www.facebook.com/oilanalysis/videos/vb.141942829166994/105681529488758/?type=2&theater>

futures and oil financial derivatives. The final balance (within the framework of this new, compared to the 1970s, petrodollar recycling model) turned out to be positive for the US (which was later proved by the calculations of colleagues from the Center of Energy Studies, Institute of World Economy and International Relations, Russian Academy of Sciences/IMEMO, RAS).

In the mentioned interview in June 2008, Yamani said that the main beneficiaries of the rising oil prices were the governments of oil-producing states, which received high budget revenues from the taxation of oil companies' revenues. He noted that many of these governments "do not know that the price of this high revenue will be disastrous on them because it's encouraging the alternative sources of energy which is coming sometime in the future." "How soon I don't know, but when it comes, the age of oil will come to an end." And he added: "But the day they use **hydrogen** (! – highlighted by me, A.K.) for transportation, this is the day that oil disappears." In the sense that its consumption will end.

When asked what he would do if it depended on him in the current conditions, he made two points. "Well, I will definitely change the pricing system prevailing right now and number two, I will do my best to reduce the price of oil to expand the life span of oil at least for two decades or three decades."²⁰

Let me remind you that it was June 2008. Seven years before the Paris Agreement on Climate.²¹ And eleven years before the European Green Deal²² (based on renewable energy sources and hydrogen).

Some Personal Impressions

As I mentioned, I had the pleasure to interact with Yamani several times (though less than I would have liked), fully aware that I was dealing with a legendary man. The aftertaste of these few meetings – on the sidelines of conferences and/or in his Center in London – was very pleasant ... and will be remembered for long. He was a nice, intelligent person ... with soft, unhurried, courteous manners.

I was introduced to Yamani by the first CGES Executive Director Tony Scanlan and the late Alexander Arbatov who was included into the CGES Council based on Yamani's interest in the contemporary Russian oil industry. After the beginning of perestroika, when the international oil business associated its high expectations with the Russian oil industry and opening of the country for foreign investment (which turned out to be a rather short period), the CGES released a series of works on Russia under the leadership of Arbatov, providing more information about the real state of the industry and its prospects in the world. My last communication with Yamani was related to Arbatov. And this communication additionally raised Yamani in my eyes as a person and personality.

After the death of Alexander Arbatov, I decided to publish a book dedicated to his memory, where I collected the memories of his colleagues and friends. They say, that a friend in need is a friend indeed. One of the big Russian oil bosses could not (did not want to?) find his own

²⁰

CGES

website

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<https://www.facebook.com/oilanalysis/videos/vb.141942829166994/105681529488758/?type=2&theater>

²¹ <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

²² https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

words (or the time needed to find the words) in memory of Arbatov, although he owed him much. When I turned to Yamani with a similar request (whose world status and availability, even after his retirement back in 1986, remained at an unattainable height for the above-mentioned boss), I received a page of kind human words from him literally a few days later²³. And by the way, it was the eve of Ramadan and he was quite busy preparing for it...

Dan Yergin about Yamani for this Essay

Once, my good old friend Daniel Yergin, a Pulitzer Prize Winner for the world-famous book “The Prize”, wrote in this book that “To the global oil industry, to politicians and senior civil servants, to journalists and to the world at large, Yamani became the representative, and indeed the symbol, of the new age of oil. His visage... became familiar the planet over.” Fully sharing this opinion of Dan, I asked him to write in memory of Yamani in addition to my essay. He responded immediately, although a couple of days later he was starting his flagship annual event, CERAWEEK. And he could not refuse to respond – the figure of the former Saudi minister is too significant for our professional sphere. Dan proposed that the best solution would be if I condense and include his extract devoted to Yamani from “The Prize” into my essay.

Moreover (Dan did not know about this then when I spoke with him on his participation in this *In Memoriam for Yamani*) in connection with the OPEC Secretary General’s condolences on the passing of Yamani, at OPEC Secretariat’s Twitter one comment noted: “Such a legend .. such a legacy .. time to reread The Prize and other great works that talk about this fascinating man.”²⁴

Here is an abstract from the Dan Yergin’ chapter on Yamani from his “The Prize”, specially offered by the author of the book to be reproduced in (kindly permitted to me to shorten it for) this essay (see **Box 4**).

Box 4. Dan Yergin about Akhmet Zaki Yamani (the essay based on Yamani’s portrait in “The Prize”)

“... the spotlight fell on one man – Ahmed Zaki Yamani. To the global oil industry, to politicians and senior civil servants, to journalists, and to the world at large, Yamani became the representative, and indeed the symbol, of the new age of oil. His visage ... became familiar the planet over. But... the world sometime confused his role and ascribed greater power to him than he had. He was, in the final analysis, the representative of Saudi Arabia, albeit an enormously important one. He could not dictate or solely determine Saudi policy, but he could shape it. His style in diplomacy, his mastery of analysis and negotiation, and

²³ Sheikh Ahmed Zaki Yamani: «I am delighted to be honoured to personally knew Professor Alexander Arbatov...» – in: “Not to wait until somebody gets hurt with hard times... To the memory of Alexander Arkadievich Arbatov”, Moscow, Institute for Energy & Finance, 2013, p.246.

²⁴

https://twitter.com/OPECSecretariat/status/1364256185428414464?ref_src=twsrc%5Etfw%7Ctwcamp%5Etwetembed%7Ctwterm%5E1364256185428414464%7Ctwgr%5E%7Ctwcon%5Es1_&ref_url=https%3A%2F%2Fwww.arabnews.com%2Fnode%2F1814611%2Fsaudi-arabia

his skill with the press all gave him decisive influence. His power was augmented by simple longevity, the fact that he ended up being “there” longer than anyone else.

While Yamani was widely known as “Sheikh”, the title was in his case an honorific, assumed by prominent commoners, which he was. ...

By the time of the 1973 embargo, Yamani had already been oil minister for eleven years and had developed considerable experience and skill, and superb negotiating talents. His voice was soft, forcing adversaries to strain and to be silent to hear what he said. He almost never lost his temper; the angrier he got, the more quiet he became. Flamboyant rhetoric was not his style. He went logically from point to point, dwelling on each long enough to draw out the essence, the connections, the imperatives, and the consequences. It was all so simple and persuasive and so overwhelmingly obvious and irrefutable that only a maniac or a simpleton could disagree. It was a manner of presentation that was mesmerizingly irresistible to many, and absolutely infuriating to others.

Yamani carefully crafted his mystique; he was the master of patience and of the unblinking stare. When required, he would just look at his interlocutor, without saying a word, fingering his ever-present worry beads, until the subject was changed. ... Though an adept tactician, expert at maneuvering as required by short-term needs inside Saudi Arabia and out, he also tried always to think long-term, as befitted the representative of a country with a small population and one-third of the world’s oil resources. “In my public life, in my personal life, in everything I do I think long-term”, he once said. “Once you start thinking short-term, you are in trouble because short-term thinking is only a tactic for immediate benefit.” The western world, he believed, was afflicted by the curse of short-term thinking, the inevitable result of democracy. ...

Yamani generated strong reactions. Many thought him brilliant, a diplomat of high order, with a broad, superb grasp of oil, economics, and politics. ... In the West, he became the embodiment of the OPEC Imperium and the ascendancy of oil power. To many Western leaders, he was the one reasonable and influential interlocutor, and the most knowledgeable. To many in the public, he was the most visible and, therefore, the most criticized and derided of the exporters’ representatives. Some in OPEC itself and in the Arab world hated him, either resenting his prominence, or regarding him as too close to the West, or simply thinking he was given too much credit. Jealous rivals and sceptics said that he was “overrated”. ... To such rhetoric, the unflappable Yamani reacted with his enigmatic smile and unblinking stare.”

Condensed from (with the kind permission of the author): Daniel Yergin. *The Prize: The Epic Quest for Oil, Money, and Power*. Simon & Schuster, New York, NY, USA, 1991, chapter 31 “OPEC Imperium”, paragraph “Yamani”, pp.639-642.

Conclusion

The life twists and turns of the hero of “Yamani’s time” are described in a wonderful, in my opinion, book for anyone interested in the history of the world oil industry, both on and off the world stage. This is Jeffrey Robinson’s book “Yamani: The Inside Story” (Simon & Schuster, 1988). And, of course, in Dan Yergin’s “The Prize”.

“The biggest players and market makers are leaving, but their ideas and visions remain”, was tweeted in another comment on the OPEC Secretariat Twitter. Probably, the most famous Yamani’s worldview concept is, of course, the one included in the subtitle of this essay, which has long been torn away from its author and gone around the world on an independent voyage: *“The stone age did not end because the world ran out of stones, and the oil age will not end because we run out of oil.”*

Yamani experienced the heyday and decline of OPEC, the organization that for a long time was associated with his name and the symbol of which he was a representative to the outside world. He lived up to the time when the beginning of the oil era end dawned on the horizon, the decline of which he predicted half a century ago... and to which he himself contributed a lot, nevertheless trying to delay this beginning in every possible way...

Last year BP said that perhaps the oil demand had already peaked. Well, it means that the man, whose name for a long time personified the “oil age”, passed into another world when his prediction about the beginning of the end of this age, perhaps, began to come true...

Though Yamani passed away, the oil age is definitely not over. But the era of Yamani is over... For a quarter of a century he himself was the personification of the “oil age” ... And people will remember him like this.

Rest in peace, Sheikh Yamani...