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Economic Necessities and Iranian-Saudi Cooperation within OPEC

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Abstract: Since Iran's Islamic revolution in 1979, Iran and Saudi Arabia have faced different challenges within the Organization of Petroleum Exporting Countries (OPEC) concerning oil price and quota. However, in the late 1990s the two countries reached an agreement on the related issues for the first time after the revolution. This paper, from the perspective of the functionalism theory, attempts to examine the factors that played a significant role in Tehran-Riyadh cooperation within OPEC in 1999. The paper reveals that the Iranian-Saudi cooperation was derived from two factors: internal and external. The internal factor involved Iran's and Saudi Arabia's domestic economic problems during the decade of 1990 and the external factor was the decline of the world oil price in the late years of the decade. In other words, internal economic pressures coincided with the external factor and contributed to cooperation of the two countries.

Key words: Iran, Saudi Arabia, OPEC, cooperation

INTRODUCTION

One of the perpetual issues connecting Iran and Saudi Arabia together is that of oil and the interaction of these two countries within the Organization of Petroleum Exporting Countries (OPEC). OPEC was established on 14 September 1960 and Iran, Iraq, Kuwait, Saudi Arabia and Venezuela were the initial members of the organization "…which was formed in reaction to the oil majors deciding to reduce prices and with them producer countries' revenues" (Cleaver, 2002, p. 184). By 1973, eight other nations: Qatar, Indonesia, Libya, the United Arab Emirate, Algeria, Nigeria, Ecuador and Gabon joined the OPEC. In principle, OPEC "aims to unify and co-ordinate members' petroleum policies and to safeguard their interests generally" (Taylor & Francis Group, 2010, p. 317).

After the establishment of OPEC, the most influential countries within the organization were Iran and Saudi Arabia, which has always competed for leadership of the organization. According to Ghanem (1986), Iran by having "the most qualified national petroleum cadre" in the Middle East as well as "long experience in oil affairs" could enjoy leadership of OPEC during the 1960s. The writer continues that, except for a short time when Libya was at the helm, Iran became leader of the organization on the basis of the 'Tehran agreement' in 1971. Nevertheless, by the end of 1973, Saudi Arabia had emerged as the OPEC leader by virtue of its huge production, unmatched oil reserves, very strong fanatical position, and the eloquence and experience of its oil Minister, Ahmad Zaki Yamani. Despite this, as Skeet (1991) states, during the 1970s it was evident that Iran and Saudi Arabia were the two main players in OPEC as their total production made up 48 percent of total OPEC production.

After the victory of the Islamic revolution of Iran in 1979, Iran-Saudi relations were affected by Iran's policies of revisionism in the region such as exporting the revolution, maintaining of Shiite groups as well as liberation movements and also the political demonstration of 'liberation from infidels' during the Hajj. The new political-religious scenario coincided with the Iran-Iraq war and the Saudi Kingdom's fear of the Iranian peril which induced some clashes in their bilateral relation in the framework of oil. For instance, there was an increase of oil price in the early years of the 1980s, but Yaqubi (2009) notes, in the middle of the decade, Saudi Arabia reduced oil price intentionally by over-production, a move aimed at asserting pressure on Iran during the its war with Iraq. According to Hunter (1990), Iran's use of the Hajj to undermine conservative Arab regimes and its war with Iraq prompted Saudi Arabia and Kuwait to attempt punishing the Iranian regime

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by a reduction of the oil price. Indeed it was a means for Saudi rulers to weaken Iran's capabilities during the war since Iran's victory in the war could jeopardize the Saudi Kingdom's sovereignty and authority. Put differently, Saudi Arabia strived to utilize any tools such as oil to counter Iran's threat. Consequently, the price of Iranian light crude oil in the spot market dropped to US$13 in 1986 (Rahnema & Behdad, 1996), which slowed down Iran's victory in the war.

Although both Iran and Saudi Arabia held the leadership of the OPEC in the pre- revolution area, Iran's engagement in the eight-year war with Iraq as well as its huge economic problems on the one hand, and Saudi Arabia's high oil production capacity on the other, paved the way for the latter to reinforce its position within OPEC and in the region as well as the Islamic world since the 1980s. Therefore, with the purpose of controlling the Iranian regime, even after the Iran-Iraq cease-fire on 20 August 1988, Saudi Arabia continued undermining Iran. For instance, by early October, its production "reached 5.7 million b/d, well above its OPEC quota of 4.3 million b/d. The Saudis claimed that they were protecting their market share from Iran's possible incursion, a pretext that soon became untenable" (Amirahmadi, 1990, p. 20). In any case, the disagreement between Iran and Saudi Arabia over the oil price and quota remained unresolved for most of the 1990s as well. However, as earlier mentioned, both countries eventually reached an agreement that was mainly the result of the two countries' domestic economic problems and the spiraling oil price in the late 1990s.

This study applies functionalism, drawn by David Mitrany, as the theoretical framework to examine the subject of the matter. According to Viotti & Kouppi (1998), Mitrany in his theory states that modern society has created some common problems, which can be solved by related experts as well as cooperation between countries. In other words, states cannot provide different demands of their people without cooperation (2008) quoted Mitrany as saying that functionalism is on the basis of "self interest." By it, he means states perceive that they can benefit more by cooperation with each other in a supranational organization. Functionalists regard a supranational organization as a "complement" that helps states to solve their problems. Functionalists, moreover, view integration as a necessary step because states are not able to handle the effects of modernization. Contrary to the neo-realists who believed in a zero-sum game, functionalists stress that the process is "positive-sum game" in that all the countries involved can benefit from it.

Iran's Post-War Economic Necessities:

After the end of the eight-year Iran-Iraq war in 1988, and in the next decade, reconstruction of the country and improvement of economic circumstances were the highest priorities of the Iranian leadership as the war had created enormous socio-economical problems which had to be settled. These problems were the main cause of "popular discontent" and "harsh criticism" of the regime in the 1990s. That is why, even Ayatollah Khamenei during his meeting with Khatami and his cabinet on 24 August 1999 made it clear "... the most important problem of the country today is the economic problem" (Menashri, 2001, p. 106).

Economic Situation during President Hashemi Rafsanjani:

The problems which Iranian leaders were confronted with since the end of the war was rooted in two different interconnected sections. One was the destruction brought about by the war which badly affected various dimensions of the economy; the other was the anger and dissatisfaction of Iranian society over the deteriorated economic situation and their demands for improvement in the living conditions. Indeed, the Iran-Iraq war "impacted on different sections of the economy and spoiled the people's life by its immeasurable expenditure as well as its devastations. It was at the time that Iranian people were suffering from spiritually since some of their family members, relatives and even friends had been lost or injured during the war.

With regard to devastation of the war, for instance, according to Sadowski (1993), Iran spent US$644 billion, almost ten times the value of the 1978 gross national product (GNP) during the war, aside from matters such as inflation, war casualties, etc. He states that these problems "pushed Iran's real gross domestic product down from US$6,052 per capita in 1977 to US$2,944 in 1988" (p.62). Moreover, Iran also owed US$6 billion in foreign debts during the war. During the Iran-Iraq war, likewise, around 87 cities and 2,676 villages suffered serious damage (Yaqubi 2009). The direct and indirect costs of war were estimated at around US$1,000 billion and approximately US$500 billion was economic as 50 percent of economic facilities like those associated with the oil industry were destroyed (Razzaghi, 1988, p.39) while oil was the "backbone" of Iran's economy. Serious damage to Khorrramshahr port, the Abadan refinery, and the Kharg loading facilities are some good examples. That is why, in the 1990s Iran attempted to improve its relations with European countries in order to seek their help in rebuilding Iran's oil facilities. Despite Iran-US hostility, also President Hashemi Rafsanjani (1989-1997) strived to invite American companies to invest in Iran's oil industry and participate in reconstruction of related industries. Iran's needs for investment capital, technology and industrial experts from the West (Hinnebusch & Ehteshami, 2002), meanwhile, injected a great sense of urgency into these endeavors.

Another problem in the second decade after the revolution was unemployment and lack of full jobs, another consequence of the war, "since many industrial enterprises had been destroyed or damaged badly and also the financial situation of the country was not appropriate to create jobs for the youths". A study of the rate of unemployment in Iran indicates that between 1979 and 1985 it increased by one million a year to touch 2.7 million in 1985 (Statistical Center of Iran). The unemployed encompassed 20 percent of the active population of the country. The rate of unemployment rose to 2.16 and 2.18 million in 1988 and 1990 respectively (Momeni, 1998). Although due to social, cultural and religious restrictions, the presence of women in economic activities was at low level in decade of the 1980s, but after the war and since the 1990s, the presence of woman increased in different economic sectors and indirectly intensified the unemployment problem. In other words, unlike on the 1980s when women played a small role in Iran's economy and social activities, during the 1990s women wanted to work and be present in society like the men. According to Momeni (1998) increase of women in the workforce contributed to a further crisis in the job market in this decade.

During this period, Iranian leaders were challenged by a shortfall of residential housing resulting from the war as well. This problem led the Iranian people to ask the country's authorities to deal with this matter since housing was considered a people's primary necessity. According to Momeni (1998), in the early years after the beginning of the war and also during the last years of the war, huge number of residential units were destroyed or damaged by expansion of the war into residential regions. For example, based on the data issued by the Statistical Center of Iran, there were 8.29 million home units available in 1986 while the number of families was 9.67 million. It was revealed that 1.38 million families did not enjoy principal settlement. This problem was sustained during the next decade since it was not an issue that could be resolved overnight. It needed a lot of time and also required enough budget and financial support that came mainly from petrodollars at a time when, as Salehi-Isfahani (1995) points out, the price of oil had been decreased after the Iran-Iraq war to half the price of the mid-1970s. At the same time, natural disasters like earthquakes and floods worsened the situation of residential units. For instance, following the Manjil-Rudbar earthquake in 1990, as Hashemi declared, approximately 110,000 residential units were destroyed (Amir Ahmadi, 1990, p. 48). It also happened at a time when the population growth rate of the country had doubled to around 3.2 percent each year in 1989 (Amir Ahmadi & Nikpour, 1990). Although the annual population growth rate decreased to 2.5 percent in 1991 and 1.2 percent in 2000, (Central Budget and Planning Organization and Statistics and Registration Administration of Iran, 2001), the earlier high population growth rate had aggravated the situation during the decade since many outstanding related problems remained unsolved. Meanwhile, Iran's foreign loans accumulated to a staggering US$ 30 billion by the end of 1993 and per capita income fell 22 percent (Rakle, 2007).

In addition, the increased population and budget constraints badly affected health services, and education in the 1990s in light of the war. With regard to the education section, those who had stopped their education because of the war, wanted to continue after the war. However, the increased population made university entrance very competitive. These factors challenged Hashemi's administration in the 1990s and it was pressured to find a solution for the problem. Establishing the Islamic Azad universities were one of the Hashemi's solutions to deal with this problem. Based on a Central Bank report and estimates, the, GNP decreased to 12.4 compared to the time at the beginning of the revolution. Also, there was a deficit budget of 50 percent and inflation rate increased to 28.9 percent (Yaqubi, 2009). Hashemi himself described the problems after the war: 51 % budget shortages, US$12 billion foreign debts, only US$ 7 billion annual oil incomes, and 16 percent unemployment (Khalili, 2005). Meanwhile, as Khatami (2004) quoted to the World Bank, the GDP dropped from 3.7 during 1974-1990 to 1.9 during 1991- 1997 and to 0.9 in 1997. In addition, the amount of Foreign Direct Investment (FDI) decreased during these years from US$23 million in 1991 to US$10 million in 1996 (United Nations Conference on Trade and Development, 1997).

These hardships which coincided with internal opposition against economic reforms worsened the economic situation further. For instance, during the second term of Hashemi's presidency, many personalities including Ayatollah Khamenei, attempted to stop the progress of Hashemi's reformist policies. Although at first Khamenei had chosen the middle way between those who supported reform and those who opposed it, he shifted his position in 1993 and "he firmly established himself as an anti-reformist leader, and joined forces with those in the Majlis who shared similar fears of reforms" (Khatami, 2004, p. 172). Their opposition to the presence of US investors in Iran's oil industries can be mentioned as a case in point. The main reason for their opposition, in general, was rooted in Hashemi's economic policies that were related to the West. In fact, they feared that the administration's economic reforms might pave the way for Western interference and subsequently threaten the country's sovereignty. Meanwhile, it seems that the domestic environment was not ready for such immediate action since the war had just finished and still people as well as authorities could remember the West antagonistic policies against Iran during the war.

Economic Situation during President Mohammad Khatami:

The economy that Khatami inherited from his predecessor later was "poorly planned, centrally directed, badly managed, and a structurally distorted one" (Amuzegar, 1999, p.535). Khatami's pledge to revive the sick Iranian economy significantly influenced his victory in the presidential election in 1997. The main challenges in this difficult period were "falling oil export revenues due to declining crude oil prices; an inflationary recession caused by budget deficits, reduced capital investment, and an 'anti-profiteering' political climate; a near empty treasury undercut by a paltry tax base, and over-burdened by rising subsidies and budgetary assistance to money-losing state enterprises; widespread cost/price distortions built up by years of obstructive regulations and controls during the 1980-88 Iran/Iraq War; a weak and faltering currency, suffering from overvaluation and speculative capital flights; and a shortage of social amenities (housing, classrooms, health clinics, recreational facilities) resulting from faulty investment, poor design and neglect" (Amuzegar, 1999, p. 535).

Khatami in his "State of the Nation" speech in 1997 stressed "high inflation, faltering GDP growth, troublesome unemployment, large foreign debt, low credit-worthiness and an entrenched bureaucracy" as the main problems that he had to deal with after he was sworn into office (Amuzegar, 2001). In this period, Iran's GDP per capita was low compared to that of other oil producers due to a large population, state-dominated economy, and the US trade sanctions (Abootalebi, 2004). According to the World Bank, Iran GDP continued falling and from 1.9 in 1991 to -1.0 in 1998 (Khatami, 2004). The current account surplus dropped to US$2.2 billion from the previous year's US$5.2 billion. A near US$4-billion drop in oil revenues meant that thousands of development projects were left unfinished because of lack of funds (Amuzegar, 2001). Moreover, "self-imposed" restrictions on imports to promote self-reliance and to save foreign exchange, as well as "black marketering, economic mismanagement, and the presence of a large, inefficient public sector, have led simultaneously to high rates of unemployment and inflation, hurting large segments of the population" (Abootalebi, 2004, p. 42). Meanwhile, Iran was also suffering from rapid population growth which intensified problems of unemployment. Unemployment rate was around 40 percent in 1999, the highest level since the cease-fire with Iraq (Amuzegar, 2001).

After Khatami's inauguration, the Iranian rial in the free market depreciated from around 4500 to the US$ down to 5600 in August 1998, and then worsened to over 9400 in mid-July 1999. During this period Iran non-oil exports also declined to US$3 billion annually, two percent less than 1996/97 (Amuzegar, 1999). A sharp reduction in construction activities plus continual drought in the farm sector hurt the economy further and also increased budget shortfalls (equal to 5.2 percent of GDP), while stagnant industrial capacity utilisation and increasing worker layoffs reduced annual growth to 2.1 percent in 1998–9. Inflation officially exceeded 18.1 percent (with private estimates claiming it was at least a third higher). With non-oil exports only slightly higher than in 1997–8, the current account became negative at minus US$2.1 billion for the first time in four years. At the same time, total external debt also rose by nearly US$2 billion (Amuzegar, 2001).

When Iran under Khatami was facing such problems, failure of the first and second development plans and their negative impacts on the economic developments (Alnahas, 2007) alongside United States-imposed sanctions worsened the economic problems and put further pressure on the government. Meanwhile, bad conditions in the international oil market intensified Iran's economic distress. In other words, reduction of state oil revenues stretched tight the situation since Iran had been dependent on oil revenues. During 1998-99 the average price of oil was US$10.51 per barrel, 38 percent lower than the year before. Oil export receipts were US$9.9 billion for the same year, the lowest since 1986. It was at this time that Khatami was searching for "economic growth, employment, and inflation control" on the basis of the Third development plan since 1999. According to the plan, Iran had to pursue annual growth rate of six percent, reduce the unemployment rate to 10 percent, and keep inflation at below 16 percent (Amuzegar, 1999). In general, the economic difficulties put the Iranian regime under severe pressure during the 1990s to change the situation and improve the standard of living of the people.

Saudi's Economic Challenges During 1990s:

In the decade that Iran was suffering from economic hardships, Saudi Arabia was also facing internal social-economic difficulties. The two incidents of the Iran-Iraq war and Iraq's invasion of Kuwait affected the Saudi economy and challenged the country in this decade. Although the eight-year Iran-Iraq war damaged the Iranian economy considerably, it also contributed to economic difficulties for Saudi Arabia as well since the

Kingdom was one of the main financial supporters of Iraq along with Kuwait. In fact, the war and Saudi leaders' fear of the Iranian regime caused Saudi Arabia to spend billions of its financial resources during the war when it could have been spent for the country's economic development. For instance, Saudi Arabia loaned US$30 billion to Iraq and also sold 280,000 barrel of oil daily in favor of the Iraqi government from the neutral region (Husseini, 2007). The Iraqi invasion of Kuwait, referred to as the Gulf Crisis was the other incident that badly affected the Saudi economy. During the crisis, Saudi Arabia, once more, expended huge amounts of its fiscal reserves for the US-headed military coalition which was established against Iraq's occupation of Kuwait. Indeed, Saudi Arabia was the major financial donor to the international coalition that resulted in the withdrawal of Iraqi forces from Kuwait and the castigation of the Iraqi government. It was for this reason that Iraq turned into a threat to the Saudi Kingdom's sovereignty. The information leaked from Iraq revealed that after Kuwait, next victim target would be Saudi Arabia due to the attraction of its huge oil resources. Iraq's military campaign near the Saudi border proved the certainty of the Iraqi intention, which was in general a push for regional hegemony.

Anyway, after the end of the crisis, its considerable expenditure put the Saudi government under financial pressure. In this regard, Cordesman (2003) indicates that after the Gulf war of 1990-1991 Saudi Arabia attempted to recover its economy from the adverse impacts of the crises which had badly damaged its economy and financial situation and its ability to invest in infrastructure and petroleum development and related facilities. According to Dean (2003), the cost of the crisis, estimated at between US$50,000 and US$65,000 million, was significant for Saudi Arabia and led to dramatic rise of current account and budget deficits in 1990-1991. In addition, the war caused Saudi Arabia to become one of the biggest buyers of American military armaments, due to the potential regional threat of Iraq and Iran, which inherently undermined the country's monetary situation further.

In addition to the destructive outcomes of the above-mentioned events, Saudi Arabia was also struggling with diverse social and economic challenges inside the country such as the need to improve medical services (increasing the number of hospitals and clinics), development of manufacturing sectors (factories), social and economic impacts of its explosive population growth, education, communication, water supply and so on. For instance, average population growth rate was 4.4 percent during 1990-1998. It inherently created a serious problem for Saudi Arabia because it significantly increased the number of Saudi youths in the labor market who were looking for jobs. According to the World Bank's estimate, "Saudi Arabia's population rose from roughly 9.4 million in 1980 to 19 million in 1999 - an increase of 104% - and Saudi Arabia's GDP dropped from US$156.5 billion in 1980, in current US dollars, to US$125.5 billion in 1995" (Cordesman, 2003, p.20). The World Bank also estimated that the GNP decreased by over 35% during the same period. It was at this time that the Saudi government had failed to create jobs for the youths who had entered the job market. Cordesman (2003) argues that the resulting combination of economic and demographic change affected virtually every aspect of Saudi life. According to the writer, private consumption rose "from 22% of the GDP in 1980 to 41% in 1998, while government consumption rose from 16% to 32%. At the same time, gross domestic investment during that period dropped slightly from 22% to 21%, and gross domestic savings dropped precipitously from 62% of GDP to 26 % "(p.6). This growth in consumption mirrored both the effect of population growth and a growing social reliance on imports and services. That is why, due to economic problems and Saudi's inability to maintain domestic stability, Kechichian, (2001) argues that despite of good start of Saudi Arabia in Central Asia for influence in both religious and economic affairs in early of 1990s, after collapse of Soviet Union, it lost its position.

Anyway, in order to settle the problems and also to develop the country's economy, Saudi Arabia, like Iran, had introduced "five-year plans" since 1970 that were mainly bankrolled by petrodollars. In second, third and fourth economic development plans, from 1975 to 1990, the Saudi government attempted to improve the living standard, GNP, social and defense security, development of human resource, agriculture, and reduce its dependency on oil (Ashnaee, 2002). In the fifth plan (1990-95) it attempted to stem the rural-urban drift, develop foreign relations, maintain private sectors and tried to variate incomes of the country. In this plan, the budget of the country was mostly dedicated to defense affairs, education, health, transportation, water, electricity, agriculture and public affairs. Dean (2003) explains that increase in government and private expenditure gave rise to substantial deficits and increased borrowing since the late 1980s. Meanwhile, government subsidies played a significant role in the major sectors of the economy and the population's standard of living. According to the writer, the Saudi government further reactivated a range of major projects on the basis of 1990-5 five-year plan aimed at industrial diversification and import substitution. Moreover, in 1993 and 1994 the Saudi government was under increasing pressure "to improve the public finances; many years of deficit budgeting having helped to raise the government's net outstanding domestic debt to an estimated 318,000m.rials (equivalent to about 76% of annual GDP) in the latter years" (p.971). In the 1996 "budget total expenditure was 'frozen' at the 1995 level, while total revenue was expected to fall by nearly 3% if oil export prices declined as forecast and moreover, domestic debt reached 405,000 million riyals (86% 0f GDP) by 1995 " (Dean, 2003, p. 971). In order to resolve the existing hardships, Saudi Arabia had to be reliant on oil incomes.

The Role of Oil in Iran's Foreign Policy towards Saudi Arabia:

Oil is a major source of foreign income for both Iran and Saudi Arabia or, as Sheikh (2003) stated, oil is the "lifeblood" of both countries. It provides about 90 percent of export revenues and more than 80 percent of Iran's GDP (Khatami, 2004). According to the US Energy Information Agency (EIA) "Oil revenues still made up 90% to 95% of Saudi Arabia's total export earning, 80% of its state revenues and 40% of its GDP in 2001" (Cordesman, 2003, p. 20).

Since Saudi's economy turns around oil and its production (Ashnaee, 2002), Iran's economic reconstruction, which was going to be conducted based on first and second development plans, relied mainly on oil income (Marschall, 2003; Abir, 2003; Ramazani,2004; Yaqubi, 2009; Gillespie & Henry, 1995). In other words, reconstruction as well as economic reforms needed to be supported by a budget which conventionally was supplied by oil revenues (Ekhtiari Amiri, Ku Samsu, & Gholipour Fereidouni, 2010). In fact, "[oil] provided the necessary capital for over-ambitious reconstruction programs" (Menashri, 2003, p.108) initiated by the government since the 1990s. According to Gillespie & Henry (1995), Rafsanjani's first development plan was based on eight percent annual growth and the needed budget was supplied by foreign exchange, US$147 billion, non-oil export, US$17 billion and oil revenues, US$103 billion. With regard to the second five-year development plan (1993/4-1998/9) in which the share of oil and gas became pronounced, they termed oil as the "axis of the country's future development." The increasing role of oil in the economy caused "economization of foreign policy" in this period (Hinnebusch & Ehteshami, 2002, p. 290).

With the aim of increasing oil revenue as well as oil production capacity, Iran saw the crucial need and attempted to reconcile its ties with Persian Gulf states, as the main producers of oil, which had been strained during Iran-Iraq war. Iran also hoped that "relations with Persian Gulf countries would increase investments from Arab countries and open up Arab markets for Iranian products" (Rakel, 2007, p. 160). However, it was relations with Saudi Arabia that were of utmost importance since, as Yaqubi (2009) argues, Saudi Arabia had an almost exclusive role in controlling the oil price because it was responsible for 25.99 percent of world oil resources and also its production capacity was more than nine million barrels per day. Meanwhile, in addition, Saudi Arabia had become "the undisputed leader" in the OPEC during the 1990s by virtue of the Gulf crisis. It was because of its high production when Iraq could not export its oil due to international sanctions during the crisis and afterwards.

Therefore, Iran's cooperation with Saudi Arabia was deemed necessary in the 1990s due to the latter's strong position in the OPEC and its immense influence on oil price. One of the Iranian officials in the foreign ministry stated that, indeed, "We needed Saudi Arabia pertaining to oil and Hajj. These were Saudi property which we had to purchase in diplomacy. But, security was our goods because we were exporter of insecurity while they searched for security". In this perception, another official asserted that "the only place Saudi Arabia could help us was OPEC and price of oil. In other matters they were not in a position to assist us. Besides, oil was the issue that they hurt us by it. Therefore we attempted to be safe in this part" by rapprochement with Saudi Arabia. Put differently, oil was always the important pressure tool for Saudi Arabia and whenever Saudis wanted to press Iran they acted through OPEC. It means that they opposed Iran's stance of increasing of oil price and reduction of production.

In general, as Salloukh & Brynen (2004, p.74) state, during the 1990s, the most important factor which consistently persuaded Iran to consolidate its relations with Saudi Arabia after the Iran-Iraq war was the oil price and revenue which would "fuel the country's reconstruction." Indeed, "Iran reached the point that if it wanted to change oil price it had to cooperate with Saudi Arabia. I think president Hashemi bravely entered this level and destroyed the existing dams and became pioneer itself". When Hashemi came into power, Iran's foreign policy pursued two major goals towards the Gulf countries: first, achievement of harmonic oil policy with main oil producer countries in the framework of OPEC so it could influence increase of the oil price; second, security arrangement in the Persian Gulf based on Article Eight of 598 resolutions. Hashemi announced that "we will cooperate with Saudi Arabia in fields of oil and regional security and it is in favor of all regional countries" (Yaqubi, 2009. p.58). In this regard, Gholamreza Aghazade, then Oil Minister, said that Iran's new oil policy indicates "new realism" in the world market. The new policy was based on making friendship instead of pursuing an ideological crusade (Ramazani, 2004).

Despite this, it seems that Iran also followed other goals by rapprochement with Saudi Arabia within OPEC in 1990s besides boosting of the oil price. One of the goals was achieving a strong position in OPEC or restoring Iran's previous position like in the 1960s which was lost due to Iran's engagement in the war and heavy damage of its oil industry and also due to Saudi's huge production capacity. In addition, Iran wanted to regain its position in OPEC because its economy depended on oil. According to Marschall (2003), one of the purposes of Hashemi Rafsanjani's "good neighbor" policy, which was based on accommodation with Persian Gulf states, in particular Saudi Arabia, was "regaining Iran's leadership in OPEC" which could enable Iran to increase its oil revenues in order to reconstruct the devastated economy". Iran, further intended to remove the shadow of politics from OPEC. In other words, "depoliticizing" of OPEC was Iran's new oil policy (Gillespie & Henry, 1995). In this respect, Iran intended to convince Saudi rulers not to mix politics with economic issues since Iran and Saudi Arabia political relations were still not back to normal due mainly to their earlier hostility in the 1980s. Iran, indeed, strived to prevent the effects of such enmity on their relations and decision-making in the organization since Saudi Arabia usually used oil as a tool to put Iran under pressure.

Although Iran and Saudi Arabia needed petrodollars for tackling their economic problems and improving the economic situation, Saudi demand for oil incomes was different; "For us it was vital and our life depended on oil while development of Saudi Arabia and its growth rate and its ambitious projects had been faced with problems". In fact, due to Iran's situation after the war, namely reconstruction of the country and improvement of the economy and the living standard of the people, we severely needed oil earnings while Saudi's situation was not like Iran's in that period since it was not engaged in a direct and total war. That is why Iran's requirement for petrodollars and increasing of oil price seemed essential and crucial.

Despite Iran's endeavors for achieving an agreement with Saudi Arabia on oil price and quota, it was not successful during these years for various reasons: first, the Saudis were still suspicious of Iran's intentions in the region; second, the existing political problems; third, different agendas regarding oil price and quota; fourth, external pressure on Saudi Arabia by US; and fifth, the Saudis' fear of Iran's economic stability and military expenditures. For instance, in 1992, Iran asked for a reduction of production to push the price of oil to $21 per barrel. Despite Saudi Arabia's announcement in January to cut production, the OPEC meeting in February showed that "the two states were still far apart: Iran was unwilling to sign-off on the final agreement and Iran's oil minister singled out the Saudis as the cause for the meeting's failure" (Salloukh & Brynen, 2004 p.72). Also, in March 1994, despite Saudi Arabia suffering from a 20 percent budget deficit, it opposed OPEC's decision for cutback of production, of around six percent, that could lead to increase of oil price (*Ettelaat*, 1994). Although "[Saudi Arabia] sustained a loss but the damage it caused Iran was more because their oil income was high. In fact, they really prevented the development of Iran".Accordingly, the total Iranian oil revenues were about US$ 12 billion in 1993, US$ 13billion in 1994, US$15 billion and US$10 billion in 1997 and 1998, respectively. Continuation of the low oil revenues caused that Iran's economy was not in good form in 1990s. It was at this time that the United States imposed some pressures under the Iran-Libya Sanction Act (ILSA) legislation since 1995 that prohibited investments over US$20 million in Iran, which would apply to American companies or non-American companies that had relations or dealt with American businesses.

In short, as discussed earlier, despite Iran's and Saudi Arabia's urgent need of petrodollar, no agreement was concluded concerning oil until the last years of the 990s when the external factor of declining world oil price occurred and remained at the lowest level for almost two years. In other words, the internal economic pressure inside of Iran and in particular Saudi Arabia, with regard to its leading position within OPEC, was not a critical factor to reach an agreement concerning oil. An external economic pressure was needed so that the cooperation between Iran and Saudi Arabia would take place within the organization. It was at this time that Iranian-Saudi political relations had been improving gradually.

External Factor of Falling World Oil Price:

As discussed earlier, Iran and Saudi Arabia were suffering from internal problems of socio-economic hardships during the 1990s and oil had always been main financial source of both countries for settlement of their problems in previous decades. However, it still required a common external problem for both countries to agree for cooperation. In this case, declining world oil price since 1997, as a common problem, increasingly affected Iran and Saudi economic conditions and their countries' development and convinced them, in particular Saudi Arabia, to cooperate with each other in the supranational organization of OPEC, although in most years of the 1990s, Saudi Arabia had persistently rejected Iranian proposals for increasing the oil price. The oil crash which was the result of good weather in the northern hemisphere, the financial crisis in Asian countries (the best customers for Middle East oil), and the resumption of Iraqi exports under a UN oil-for-food deal, increase of OPEC’s formal production ceiling (by 2.5 million barrels per day, or about 10 per cent) (Cordesman, 2003; Amuzegar, 2001) affected the Iran and Saudi economies drastically.

Consequence of Reduction of World Oil Price:

Iran’s reliance on hydrocarbon sources during the past decades had made it vulnerable to fluctuations in the international price of oil. Put differently, oil wealth had always been an angel or evil of Iran’s economy during past years. Accordingly, when Iran’s oil price fell to around US$10 or less due to a fall of world price of oil, the shadow of the evil loomed over Iran and weakened the country’s economy further. Due to the sustained drop of oil price, for instance, the budget ran into huge new deficits and also disrupted timely payments of the external debt that had been painstakingly worked out in 1994 after an earlier default (Amuzegar, 1999). Severe budget deficits, due to declining oil price for more than 20 months, gave rise to “ 30 percent cuts in public capital outlays, additional scrapping of planned investment projects, and reduced credits to the private sector. A large number of "service sector" companies, particularly in urban construction, faced bankruptcies despite protracted housing shortages. Real economic growth during the first two years of the Khatami administration was further affected by reduced availability of imports due to shortages of foreign exchange, the poor performance of the agricultural sector, and voluntary oil output cuts to comply with OPEC's new quotas. (Amuzegar, 1999, p. 542)

During 1997/98, non-oil exports also declined by about seven percent to US$2.9 billion from the previous year’s US$3.1 billion - the lowest figure in four years (Amuzegar, 2001). Meanwhile, according to official data, real economic growth decreased in 1997/98 to 2.5 percent from 5.8 percent in 1996/97 as the country's oil earnings went down by 20 percent to US$15.5 billion (from US$19.3 billion a year earlier). Petroleum revenue in 1998/99 was about US$10 billion. The current account also dropped to a shortfall of more than US$3.4 billion from an initial surplus of US$1.6 billion. “External debt rose from less than US$12 billion at the start to US$13 billion by March 1999; it reached around US$14-17 billion by March 2000 (excluding unrealized letters of credit)” (Amuzegar, 1999, p. 542). Under the oil development also hard currency incomes dropped to US$10.5 billion in 1998/99, down from US$15 billion in the previous year. The crisis, in addition affected repayment of some US$6.2 billion in rescheduled foreign debts during the 1998/99 fiscal year, therefore, “The government was forced to seek US$2.3 billion in debt rescheduling from German, Italian, and Japanese trade partners to avoid defaulting on the repayment of its already rescheduled external debts” (Amuzegar, 1999, p. 542). Furthermore, budget stringency caused workers' layoffs in factories operating far below capacity due to a shortage of raw materials and semi-processed goods. Faced with a US$6 billion budget deficit during 1998-9, “the Central Bank decreased foreign exchange allocations to industries by 80 percent to US$900 million from an annual average of US$4.5 billion, causing industrial investment to drop by 40 percent in the period, and in non-metal industrial exports by 21 percent” (Amuzegar, 1999, p. 542). These problems were increasingly jeopardizing the Iranian regime from within. Although Iran’s domestic atmosphere had been changed in favor of expansion of political activities, people were still looking for their outstanding economic requirements. This serious situation pressured the Iranian leaders to initiate rapprochement with main oil producers such as Saudi Arabia.

At the same time, the slump in the oil price affected Iran’s economy; it also affected Saudi Arabia and contributed to serious economic distress for the country. From January 1998 through March 1999, average price of Saudi oil fell to between US$9 and US$13 per barrel, and it “...seriously hurt Saudi Arabia’s economic and financial situation and ability to invest in infrastructure and petroleum development and facilities. The event cut total Saudi oil export revenues to US$45.5 from US$54.7 billion in 1997, in current US dollars, to only US$29.4 from $34.2 billion in 1998” (Cordesman, 2003, p.28). According to Dean (2003), the decline in oil price in 1998 led to reduction of Saudi’s revenues and GDP at current prices by 11.5%. The event also caused some large projects to be scaled down or differed, public-sector wages and employment were frosty, and payments to builders were suspended for the maximum permissible settlement periods (often 180 days). In 1998, the decline in petroleum revenues gave rise to a worrying budget deficit of 48,400 million riyals, “which was financed primarily by domestic borrowing, domestic debt in that year was estimated to have exceeded 100% of GDP. … [Further], by 1998 the government’s domestic debt was equivalent to 115.7% of GDP” (Pp.971-2).

Cooperation as the Best Solution:

With regard to implications of the world oil price on Iran and Saudi Arabia, they, as two major members of OPEC, alongside other members, decided to cooperate with one another in order to stabilize the oil price. Therefore, Iran and Saudi Arabia did a series of negotiations for coordination of their stance within OPEC resulting in an agreement on oil price which was very “positive”. The effects of the decline of oil price on the Saudi economy played a very significant role in the cooperation between Iran and Saudi Arabia during this period. That is why, contrary to earlier policy, Saudi Arabia cooperated with its Iranian counterpart within the OPEC to eventually bring about an increase in the oil price. In other words, although Saudi Arabia had faced internal economic problems in previous years and strived to settle them with its rich financial resources, the collapse of world oil price and its continued low levels severely strained the Saudi economic situation and convinced its ruler to take serious action and cooperate with Iran. It was at this time that the Riyadh-Tehran political relationship had improved particularly since the presidency of Khatami which paved the way for cooperation in the field of oil.

As such, Saudi Arabia and Iran reached a ‘mutual understanding’ to collaborate in all matters concerning oil. Rafsanjani was quoted as saying, “mutual good understanding between petroleum exporting countries would certainly prevent a downturn in oil prices,” (Cordesman, 2003, p. 47). Iran and Saudi Arabia, in fact, came to this conclusion that if they could be friends they would be able to affect the oil price. Therefore, Khatami and the Crown Prince discussed ways to support an accord among oil-producers to cut output and lift the price. In this case, Jehl (1999) argues that “Like Iran, Saudi Arabia has suffered in the last 18 months from historically low oil prices, and the lesson that both countries learned from the agreement reached this spring was that cooperation was necessary to force oil prices higher.”

Consequently, when the oil price climbed, it enhanced very significantly the state budgets and economic circumstances of both Saudi Arabia and Iran. For instance, the cutback agreement among OPEC members, on March 23, 1999, increased Saudi oil prices to well over US$30 per barrel. This led to a sharp rise in oil revenues which improved Saudi Arabia’s economic situation. Also “Saudi Arabia earned about US$66 to US$75.3 billion from oil exports in 2000, more than double its oil export revenues in1998” (Cordesman 2003, p.28). That is why, in the sixth plan of development, the country enjoyed a satisfactory economic development (Ashnaee, 2002). With regard to Iran, oil finally presented its angel side to the country. For instance, as Amuzegar (2001) explains, enhancement of Iran’s oil price above US$25 per barrel led to GDP growth rate of 5 percent, increased both public and private spending, strengthened the state budget due to the sale of some US $11 billion of increased oil revenue, and a foreign debt of about US$8 billion. It also caused consumer inflation to decline to 12.6 per cent (the lowest in 10 years) and the external current account increased to US$12.6 billion - the highest level on record. The good price of oil moreover resulted in Iran’s deposits overseas to reach US$13 billion, the highest level for nearly two decades. Iran was also able to reduce the country’s liabilities with the banks to their lowest level in eight years. That is why; according to the writer, Iran’s economy was “healthier” than it had been in the previous 10 years. In general, Iran and Saudi Arabia realized that it would be in their “self-interest”, if they cooperated because they could benefit more by cooperation. In other words, by cooperation, they were able to serve their interests which would not have been achievable on their own. Subsequently, the average oil price of US$24 was achieved in 1999. In the same year also OPEC announced a target band of $22- $28 per barrel as an acceptable price level (Taylor & Francis Group, 2010).

Conclusion:

Iran and Saudi Arabia were faced with various domestic economic problems during the 1990s which were considered internal pressure elements for their governments. In this regard, Iran’s situation was from the substantial devastation resulting from a long-term total war with Iraq. Thus, the main focus of the Iranian post-war administration was on two spheres: reconstruction of the country along with improvement of the economy and advancement of the living standard of the people, both of which jeopardized the very foundation of the revolutionary regime. In order to achieve its post-war goals Iran needed petrodollars. Towards this end, Iran attempted to restore its relations with Saudi Arabia, the most powerful actor within OPEC in the hope of enhancing the oil price. Although both countries had reconciled their bilateral relations gradually, Iran was not successful in increasing the oil price until 1999 because Saudi Arabia opposed such an increase despite its own problems.

Yet, what took place in the last years of the decade was the continued decline of world oil price for almost two years. This was a significant external factor from the onset and badly affected Iran’s economy which had already been suffering in previous years. Although the declining oil price initially did not seriously affect the Saudi economy, its continuity endangered the regime and as a result, contrary to earlier years, the situation persuaded the Saudi rulers to cooperate with their Iranian counterparts to achieve a better oil price. Both countries had finally realized the crucial importance of having and maintaining normal good relations in order to be able to achieve the common objective of improving the world price of oil, which would bring the much needed petrodollars to support their devastated and embattled economies. In short, as Rakle (2007) notes, both countries needed and demanded for a higher oil price as a result of a pressing domestic factor and global market pressure. In summary, in line with the theory of functionalism, the common problem of declining world oil price, as an external factor, along with Iran's and Saudi Arabia's domestic economic problems, as an internal factor, resulted in the cooperation of the two countries regarding oil within OPEC, as a supranational organization, for the first time.

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