THE POLITICIZATION AND DEATH OF REBUS SIC STANTIBUS

Since 1968, the countries comprising the Organization of Petroleum Exporting Countries (OPEC), and particularly those bordering the Persian/Arabian Gulf, have been moving toward a markedly different view of their mineral resources. With the recent oil embargo and the concomitant use of petroleum as a "weapon," the transformation is complete; the States involved now consider their natural resources to be a political tool rather than simply an income-producing good. Instrumental in this transformation has been the concept of rebus sic stantibus, and it is the objective of this article to illustrate the use to which the doctrine has been put, and its subsequent demise as an effective legal tool.

I. THE DOCTRINE

Rebus sic stantibus is a doctrine which, in simple terms, holds that an agreement may, when certain conditions are met, be partially or wholly abrogated. The conditions necessary may be detailed in the agreement itself, but more often the agreement is silent not only as to the particular conditions necessary, but also as to recognition of the doctrine itself.

Primarily for this reason, the progression of the principle into recognized law has been laborious. Grotius first marked it as a viable concept in 1620, but it was not until 1929 that it achieved a place in a written compilation of the law. Since 1929 it has moved through two major codifications, the most recent being in 1969.

1. "Politics" or "political" should be taken to mean "national": thus, "political goals" refer to such inherently national objectives as economic independence and national self-sufficiency, both of which are avowed goals of the Persian/Arabian Gulf countries under consideration here.

2. Literally, "at this point in affairs; in these circumstances." BLACK'S LAW DICTIONARY 1432 (4th ed. 1951).

3. Primarily, but not exclusively: in all times and in all circumstances in which rebus sic stantibus has been called upon, the countervailing force of pacta sunt servanda has been applied. This latter doctrine, with its command of logic and centuries of use, has been the primary additional force opposing the translation of rebus sic stantibus from theory into practice. For the definitive discussion on the relative merits of rebus sic stantibus and pacta sunt servanda, see LORD McNAIR, THE LAW OF TREATIES 491 et seq. (1961).


These three codifications and the arguments surrounding them have considered *rebus sic stantibus* as an element of treaty law, and it is within the law of treaties that the doctrine has achieved most of its growth. Several Western systems of law, however, consider the doctrine to be a part of their contract law, and, as will appear later in this article, the principle is firmly embedded in the law surrounding the interpretation of oil concession agreements in the Middle East.

There has been considerable judicial reluctance to embrace the theory; in fact, a recent International Court of Justice opinion implies that the use of the doctrine in international jurisprudence is virtually nonexistent. This reluctance, however, has not extended to the international business community. On the contrary, while the principle seems to have reached a point of stagnation in its original milieu of treaty law, it has flowered abundantly in the rich soil of commercial disputes. In the process, most of the arguments which have gone into interpreting the doctrine within the framework of a treaty have been adopted by its advocates and detractors in the business world, leading to the same spirited arguments found in the *Comments* to both the Harvard Research and the Vienna Convention, as well as the literature surrounding them.

These arguments have taken on an added dimension with the introduction of the political considerations inherent in the huge multinational corporate investments present in the Middle East Gulf States, where the pattern is for one or several private corporations to contract directly with a State for the exploitation of the mineral resources of the State. With the State as one party to a private contract, it is inevitable that the State's political objectives ultimately intrude into the contractual relationship, often subjugating that relationship to purely political goals. Such has been the case in the Middle East, where the new-found

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8. These arguments are beyond the scope of this paper. The reader is referred to the *Comments* attached to the Harvard Research and the Vienna Convention for additional information on this question.


10. The doctrine came close to judicial review several times since 1929; never, however, was it actually considered by the courts. For an extensive treatment of the subject, see Lessitzyn, *Treaties and Changed Circumstances*, 61 Am. J. Int'l L. 909 (1967) and authorities cited therein.


12. See note 48 infra and accompanying text.

13. See notes 5 & 7 supra.

14. As reference to Appendix I indicates, this has been the pattern in the Middle East countries bordering on the Persian/Arabian Gulf.
"oil weapon" has evolved directly from the private contractual relationship. In the process, the countries bordering on the Persian/Arabian Gulf have "politicized" the legal concept of *rebus sic stantibus* by using it as the "legal" tool to justify the increasingly State-oriented direction of the petroleum industry. In the end, the transformation of the industry complete, the principle, in its legal context, has been left a shell with little utility.

II. BACKGROUND FOR POLITICIZATION

A. The Participants

The Organization of Petroleum Exporting Countries is a cartel composed of eleven oil-producing States. Founded in 1960, OPEC has grown in importance to the point where it is the paramount bargaining agent for the governments of its Member States. In that capacity, it has relied on the doctrine of *rebus sic stantibus* extensively. Considering that OPEC is an organization composed of States, it is both logical and correct to assume that its policies and goals reflect the view of the petroleum world held by the governments of the Member States. Consequently, the politicization of the doctrine becomes a factor with which to contend, for the words (and, more recently, the actions) of the Organization and the governments have become inseparable. It is the doctrine of *rebus sic stantibus*—in its transformed, political sense—which has been instrumental in linking the Organization (reflecting the oil industry) to the governments' political goals.

This extreme degree of politicization is a recent development in the doctrine of *rebus sic stantibus*. There was a time when the doctrine was seen in its traditional aspect, as a strictly legal theory useful in justifying the mitigations of seemingly harsh contractual terms. In this legal sense, it has been an integral element of the OPEC analysis of the posted price question since 1968, when OPEC passed Resolution XVI. 90, stating in concrete terms the OPEC expectation that "changing circumstances"

15. See note 1 supra.
16. The Middle East countries involved are Iran, Iraq, Saudi Arabia, Kuwait, Abu Dhabi and Qatar. These are the countries which will be considered in this article.
17. "The principle aim of our organization (OPEC) has been and still is the coordination and unification of the petroleum policies of its member countries and the determination of the best means for safeguarding their interests." Address by Dr. Nadim Pachachi, Secretary-General of OPEC, Royal Institute of International Affairs, May 19, 1972, in XV Middle East Econ. Survey, May 19, 1972 (Supp.).
18. That is, the unilateral raise in posted prices and the oil embargo, both discussed later in this article.
19. And, of course, which has led to such actions as unilateral price raises, price freezes, and the oil embargo.
20. See §§ II(B) and III(A) *infra* and accompanying notes.
would—not should—be the basis for the revision of existing concession agreements at predetermined intervals in the future. 21 The legal application of the doctrine to the posted price question represents the conventional usage of the concept. 22 It is only when one approaches the participation question 23 that the political use of the doctrine becomes obvious. Without the success of the doctrine’s use in the posted price question, however, it would have been unusable in the participation question, and thus not amenable to the politicization which has permitted the State-oriented direction of the industry.

The doctrine of rebus sic stantibus has been used most effectively, both during its transitional stage and following its complete transformation, against the oil companies and consortiums holding concessions in the Gulf area. 24 As will be demonstrated fully in subsequent sections of this article, all of the primary price and participation agreements between the Gulf States and their respective concession-holders have been abrogated in whole or in part. In all cases reliance has been placed on the increasingly politicized principle of rebus sic stantibus.

B. The Issues and the Agreements

As already noted, the issues of posted prices and participation are the two matters being used to trace the transformation of the doctrine. Conceptually, these terms pose no problems. Posted prices are those “prices” which, once calculated, are used as the basis for the calculation of the host government’s income per barrel of crude oil exported. 25 Participation is a shorthand term representing the governments’ demands that each State own a share of the assets of the concession-holding companies—that is, that they own outright some part of the facilities having to do with the extraction process.

There are two additional issues, the dramatic unilateral raise in posted prices 26 and the oil embargo of 1973-74, which cannot be ignored in a discussion of the transformation of the rebus sic stantibus doctrine.

21. “In any event, the terms and conditions of such contracts shall be open to revision at predetermined intervals, as justified by changing circumstances. Such changing circumstances should call for the revision of existing concession agreements.” Reproduced in XII MIDDLE EAST Econ. Survey, July 11, 1969 (Supp.).

22. “Conventional” is here intended to express the recent utilization of the doctrine in a commercial context, not in the older and more established treaty context.

23. See §§ II(B) and III(B) infra.

24. Appendix I outlines the companies holding concessions in each of the Persian/Arabian Gulf countries under consideration here.

25. The host governments’ incomes consist of royalties and income tax: the royalty is a flat 12 ½% of the posted price, and the income tax rate is 55% of the posted price. Thus, the figure arrived at for the posted price has a dramatic impact on host government income, although it is not per se determinative.

26. 70°.
These occurrences, although not representative of the transformation process, illustrate the end result of the politicization of the doctrine in the Middle East. In these cases, no mention was made of *rebus sic stantibus* for the simple reason that it was no longer necessary. By adroit manipulation of the principle in previous years and in regard to previous issues, the host governments had come to the point where they no longer needed the legal/political umbrella of the doctrine; that is, they could simply do as they wished, using the industry in as political a fashion as they liked.

For the purposes of demonstrating the politicization of the principle, four agreements between the OPEC Gulf countries and their concession-holders will be considered. The Teheran Price Agreement, signed February 1, 1971, is a five-year price agreement between the Gulf States and their respective concession-holding companies. In relevant part, the Agreement establishes posted price levels, and indicates that the Parties agree that no support shall be given to any Gulf country which tries to increase its take to a point above that agreed upon in the contract.

From at least one point of view, that latter Agreement became a nullity less than a year later, when, in the face of insistent demands by OPEC for a raise in posted prices due to the devaluation of the United States dollar (upon which, in part, the prices are based), the Geneva Agreement on Parity was signed between the same parties as the Teheran Agreement. The practical effect of this Agreement and the events stemming from it has been to nullify the Teheran Agreement, originally a five-year pact.

Eighteen months after the signing of Geneva I, and after considerable fluctuation in the value of the dollar, an agreement called the Supplemental Agreement was signed, again between the parties to the original Teheran Agreement. As with Geneva I, the thrust of Geneva II was a raise in posted prices, allegedly to compensate the countries for their losses resulting from devaluation of the dollar.

Before the signing of both Geneva pacts, a great deal of OPEC time was given over to justifying the demands for higher prices, seemingly at odds with the original Teheran Agreement. The point of including these

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27. That is, the issues of participation and posted price.
29. Teheran Agreement § 3(b).
30. Reprinted in XV Middle East Econ. Survey, January 21, 1972 (Supp.).
31. Teheran Agreement § 2.
32. Most notably, an across-the-board devaluation of 10%.
justifications in the following section of this article is to demonstrate the successes which OPEC obtained by the conventional use of the doctrine *rebus sic stantibus*. These successes, in turn, led to the successes of the participation demands, during the course of which the true transformation of the doctrine took place.

The fourth agreement considered here is the General Agreement on Participation,\(^\text{31}\) signed October 5, 1972 between the countries of Abu Dhabi and Saudi Arabia and their respective concession-holders.\(^\text{32}\) This Agreement represents the second stage of the three-stage transformation of the oil industry, and the one in which the politicization of *rebus sic stantibus* was the most dramatic. It is here that the doctrine was used to justify a demand commercial in nature, but evolving out of non-commercial (i.e., political) goals, although the medium through which the demand was being carried out—the oil industry—was commercial in nature. It is, in other words, the stepping stone between the industry as an income-producing vehicle, and the industry as a political extension of the State, and *rebus sic stantibus* was the argument used to justify the transition.

III. THE POLITICIZATION

A. Step 1: The Posted Price Question

OPEC's 1968 Resolution\(^\text{36}\) set the stage for the utilization of *rebus sic stantibus* as the validating doctrine in any oil concession agreement modification.

The Teheran Price Agreement, the basis for subsequent alterations of the posted price figures,\(^\text{37}\) was preceded by extensive attempts at justification of the principle in traditional fashion. Thus, when the Chief of OPEC’s Legal Department chose to speak on the subject to the OPEC Seminar on Petroleum Economics less than a year before the Teheran Agreement was signed,\(^\text{38}\) he engaged upon an exhaustive historical analysis of the doctrine, citing its ongoing validity in international law and

\(^{34}\) Reprinted in XVI MIDDLE EAST ECON. SURVEY, December 22, 1973 (Supp.).

\(^{35}\) Shortly after Abu Dhabi and Saudi Arabia signed the Agreement, Qatar and Kuwait joined. Kuwait's Parliament, however, never ratified that signature, leaving Kuwait without a participation agreement. Recent developments indicate that Kuwait will soon have an agreement giving them 60% participation (as opposed to the General Agreement's 25%). Should this come about, it is likely that the three signatories mentioned will demand a revision of the General Agreement to bring their participation share into line with Kuwait's.

\(^{36}\) See note 21 supra.

\(^{37}\) That is, Genevas I and II, notes 30 & 33 supra.

the law of treaties, several leading systems of municipal law (including the OPEC Member Countries), as well as ethics, philosophy and the general theory of law. While not without their detractors, these (and related) attempts at justification served to make the point that \textit{rebus sic stantibus} was certainly a principle of international law of sufficient stature to employ as a foundation argument. Only briefly noted at this time and in reference to this question was that aspect of the justification which would become so important later on; that is, that petroleum concessions, by their very nature, are somehow different from other international agreements in the vast element of public interest represented by a contract between a State and a private investor.

In 1970, sensing future fluctuation in the value of their supporting currency, OPEC passed Resolution XXI. 122, stating that posted prices would be adjusted to reflect any changes in the parities of any monies directly or indirectly affecting the purchasing power of the OPEC members. At this point the stage was set for the demands for the Conference which ultimately led to the drafting of Geneva I. Thus, by August of 1971, OPEC's Secretary-General was quoted as saying that "the Teheran . . . Price Agreement did not deal with the question of the parity of money and, therefore, should the United States dollar be devalued, the gains achieved by the Teheran Agreement would be substantially eroded." In other words, due to a dramatic change in circumstances, unanticipated at the time the Teheran Agreement was signed, OPEC felt justified in calling for a revision of the posted price figures. Apparently, that feeling was justified, for scarcely five months later, Geneva I was signed, bringing into effect new posted prices designed to reflect the fluctuations of the dollar's value.

40. \textit{Id.} at 7-11.
41. \textit{Id.} at 13.
42. For instance, it has been argued, in the context of the concession agreements, that \textit{rebus sic stantibus} looks, at best, only to the termination of an agreement, not the simple alteration of a part thereof. See note 46 \textit{infra} and sources cited therein.
43. Letter from Mohammad Talaat Al Ghunaimi, Legal Advisor to the Ministry of Petroleum and Mineral Resources of Saudi Arabia, to the Editor, \textit{MIDDLE EAST ECON. SURVEY}, January 1969 and letter from Mr. Khairy Manna, formerly of the OPEC Secretariat and an official of the Kuwait Ministry of Finance and Oil, to the Editor, \textit{MIDDLE EAST ECON. SURVEY}, January 1969, in both of which the principle was defended as a basic principle of international relations.
44. See note 38 \textit{supra}.
45. In relevant part, Resolution XXI. 122 reads:
". . . in case of changes in the parity of monies of major industrialized countries' oil revenues, posted prices should be adjusted to reflect such changes."
Reprinted in XIV \textit{MIDDLE EAST ECON. SURVEY}, August 20, 1971 (Supp.).
46. Interview with Dr. Nadim Pachachi, in Beirut, August 18, 1971.
47. The Agreement was actually signed on January 20, 1972.
It is to be emphasized that this interpretation of *rebus sic stantibus* is a conventional one. It operates within the commercial sphere, on purely commercial matters. So it was with Geneva II; again, a commercial matter was being settled by use of a recognized (though not wholly endorsed) principle within the commercial context.

The basis for Geneva II was, again, a devaluation of the United States dollar. Signed in June 1973, the Supplemental Agreement was preceded by a call to the logic of *rebus sic stantibus* similar to that preceding Geneva I. Again the Secretary-General of OPEC considered the justification, although in considerably stronger terms: "They [the oil companies] must give up once and for all the concept of a fossilized contract and train their vision to the sight of a living, evolving developing contract." Later in the same address, Dr. Pachachi indicated that "It is neither fair nor logical that the developing countries should bear the financial consequences of national policies followed by some great powers to achieve national aims in Vietnam or the Middle East." In other words, any change in the value of the OPEC countries' supporting currencies, for whatever reason, was sufficient "change in circumstance" to justify a revision of Teheran's posted prices, contract provisions to the contrary notwithstanding.

The sum total of the Geneva modifications to the original Teheran Agreement was the successful invocation of *rebus sic stantibus* on two occasions. On both occasions, the principle was interpreted in a conventional, commercial sense. However, the foundation had been laid for the novel interpretation that would precipitate the demise of the doctrine as a strictly legal tool.

**B. Step 2: The Participation Question**

The participation question, by its very nature, engendered a more rapid and more explicit politicization of the principle. For the first time, demands were being made within the commercial context, but based on goals outside that context. Simply, the countries wanted more control over the production of crude exports, not only as a means to generating additional income but also as a means of assuring later self-sufficiency and economic independence. Thus, in the months before the signing of the General Agreement on Participation, both OPEC officials and independent State representatives were calling for agreement on the issue.

48. See note 42 supra.
49. Address by Dr. Nadim Pachachi, Royal Institute of International Affairs, May 19, 1972, reprinted in XV MIDDLE EAST ECON. SURVEY, May 19, 1972.
50. *Id.*
51. Cf. Teheran Agreement § 3(b).
52. That is, such goals as economic independence and national self-sufficiency.
53. For example, Mr. Khairy Manna's and Dr. Al Ghunaimi's letters to the Editor.
Their basis was the same as in the posted price question, as evidenced by the statement of the Saudi Arabian Minister of Petroleum and Mineral Resources: "... a fundamental change has occurred in the economic structure of the international oil industry. ... [O]ur original participation bid was based on the principle of changing circumstances, and, as I see it, the new changes which have taken place ... make participation a national demand." Note the terminology: participation had become a "national demand"—this is, it has transcended the commercial context which gave it birth and moved into national (e.g., political) prominence.

OPEC, too, planted its participation demands squarely on the foundation stone of *rebus sic stantibus*. In 1971, shortly after the Saudi statement, the OPEC Committee designed to study and report on the rationale and mechanics of the participation demand started their report with a justification based on the doctrine:

The main backing for OPEC's legal case as regards the participation demand is the principle of change of circumstances, with particular reference to the fact that host government participation has become the general rule. 55

In other words, there was little question that *rebus sic stantibus*, in its guise as a legal theory, was considered to be the basis for the inherently political demand of participation by the host government in the production process. To further bolster the demand, the governments let it be known that, should OPEC fail to reach agreement with the companies, the host governments would have "no alternative but to implement the demand through unilateral legislation"—that is, nationalization. 54

The final step in the politicization came early in 1972, when King Faisal, the Saudi Arabian Head of State, publicly brought the full pressure of his office to bear on the question. In a short statement delivered by Yamani, the King indicated that:

The implementation of effective participation is imperative and we expect the companies to cooperate with us with a view to reaching a satisfactory agreement. They should not oblige us to take measures in order to put into effect the implementation of participation. 57

This was the first time that the King—or any other similar ranking State official—had made a statement on the question, and it served to
demonstrate the national implications of the issue more clearly than any previous action.

Thus, the OPEC countries had put the full weight of their State influence behind the participation issue, and had supported it with the "legal" principle of change of circumstance. It is not surprising that, five months after King Faisal's announcement, the General Agreement on Participation was signed.58

Participation was the first major victory for the "political" rebus sic stantibus. The doctrine was no longer purely legal in nature, but, in the view of the OPEC countries, it had eased the transition from viewing the oil resources as a commercial entity to viewing them as a political entity.

C. Recent Developments

Two events subsequent to Geneva II and the General Agreement on Participation warrant notice here, not for what they add to the politicization of the doctrine, but for what they show to be the effects of that politicization.

By September 1973 it had become clear from OPEC's point of view that the Teheran Agreement could no longer stand the pressure being exerted on it by the world monetary fluctuations.59 In an interview conducted during the first week in September, Shaikh Yamani indicated that "The Teheran Agreement is either dead or dying and is in need of extensive revision. . . . [T]here has been a dramatic change in circumstances . . . namely, a fierce upward pressure on prices. . . ."60 In other words, the OPEC countries now desired to substantially alter, to an extent much greater than before, the Teheran Agreement.

On September 15 a conference—essentially a Geneva III—was convened, with the same purposes as Genevas I and II. By mid-October it was apparent from the producing countries' point of view that little or no satisfaction was being derived from the discussions as they were then progressing. Thus, in a move simultaneously unprecedented and logically following from the past, the countries unilaterally raised the posted prices, abrogating the Teheran Agreement and the two supplemental agreements.61

58. The actual date of the signing was December 20, 1972.
59. At this point, virtually all major currencies were floating and neither the United States dollar nor the Pound Sterling was at all stable. This, in turn, led to instability in terms of the purchasing power generated by the concession agreements.
60. Interview with Shaikh Ahmad Zaki Yamani, in Beirut, September 7, 1973.
61. XVI MIDDLE EAST ECON. SURVEY, October 13, 1973. Additionally, effective January 1, 1974, the OPEC countries unilaterally froze their prices. The freeze received a three month extension on March 1, 1974.
In a related move, the same countries, only one day later, launched what has come to be called the “oil weapon” by announcing a reduction in output to continue until the uniquely political objective of the return of the occupied Sinai lands to Arab control was effectuated. This embargo, relaxed in March, realizes fully the impact of oil as a political tool, and completes the transformation of the industry. As noted above, the governments have no call to rebus sic stantibus or any other validating doctrine, as there was no longer a need to justify their acts; the principle had done its work well.

IV. CONCLUSION

The doctrine of rebus sic stantibus has been severely altered in its application in the Persian/Arabian Gulf oil-producing countries. This is not to say that it is necessarily valueless in international relations. Rather, the doctrine, at one time a strictly legal justification for unilateral action taken in response to adverse treaty and commercial developments, has been transformed into a rationale for unilateral commercial demands founded on exclusively political goals. This transformation of the concept, coupled with the International Court of Justice’s rejection of its application in 1973, signify the death of rebus sic stantibus as a purely legal theory. Whether or not the concept will retain vitality as a political tool remains to be seen; it is unlikely, however, that the multinational corporations analogous to the oil companies will sit by passively while an increasingly sophisticated interpretation of the principle is utilized against them. Rather, we are likely to see an increased awareness of the doctrine’s power, with a correspondingly increased respect accorded the potential use of that power.

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62. Id.
63. That is, on March 18, 1974.
**APPENDIX I**

The following is a break-down of the Persian/Arabian Gulf countries and the concession-holders operating in them. Column A lists the countries; Column B, the companies:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iran</td>
<td>The Iranian Consortium, composed of Exxon, Texaco, Mobil, Standard Oil of California, Gulf, British Petroleum, Shell, Compagnie Francaise des Petroleum, and Iricon, a company composed of six United States firms.</td>
</tr>
<tr>
<td>Kuwait</td>
<td>British Petroleum, Gulf.</td>
</tr>
<tr>
<td>Iraq</td>
<td>British Petroleum, Shell, Compagnie Francaises des Petroleum.</td>
</tr>
<tr>
<td>Abu Dhabi</td>
<td>British Petroleum, Shell, Compagnie Francaises des Petroleum, Exxon, Mobil, Partex, representing the Gulbenkian Foundation's holdings.</td>
</tr>
<tr>
<td>Qatar</td>
<td>Identical to Abu Dhabi.</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Aramco, composed of: Texaco, Standard Oil of California, Exxon, Mobil.</td>
</tr>
</tbody>
</table>