THE OPEC ROLE UNTIL THE YEAR 2000

RENE G. ORTIZ

Ever since oil was first discovered and its versatility defined it as a key element of rapid economic growth and military hegemony around the world, oil has been considered a commodity of vital political and strategic importance. Therefore, the internationalization of the oil industry was inevitable and its freedom from any form of government interference was impossible.

The partition of the declining Ottoman Empire's oil reserves amongst the oil companies of the industrialized nations, especially the American and British companies, led to the dominance of the so-called Seven Sisters (now more than eight oil companies and independents). Their position reached its peak in the late fifties, when they controlled more than 90 percent of the crude oil production, processing, and marketing outlets.

The creation in September 1960 of the Organization of the Petroleum Exporting Countries (OPEC) was not only an attempt to restore the control and management of a depletable natural resource to the host countries but was also the beginning of a major power shift in the oil industry. This shift resulted in the redistribution of oil markets and financial assets and the sharing of a highly political, strategic, and lucrative business between the international oil companies and the host countries (represented by their national oil companies). Moreover, for the oil producing developing countries it was considered the achievement of an old aspiration. However, for the industrial nations (which had gained enormous power), the birth of OPEC was considered a threat to the maintenance of the status. quo, commercially, financially and militarily. After all, OPEC triggered the energy crisis!

In this context, the early seventies witnessed an OPEC ready to take over the role of administering its members' oil resources. This transformation identified several issues. For the first time the problem of low and declining reserves was made public. In addition, the oil dependence of the industrialized countries was aired as a real threat to their prosperity and the development of alternative energy resources and oil substitutes appeared as a necessity for the world if the international community was to avoid major shocks.

Rene G. Ortiz, F'76, an international energy consultant in Ecuador, is a former Secretary General of the Organization of Petroleum Exporting Countries, OPEC.

A dialogue between the poor and the rich was urged and established as a means to overcome an energy transition period from an era of cheap energy to one of high-priced energy (see the following graph).

Moreover, for the industrialized countries the opportunity to restore their leadership in the management of energy resources was planned in the context of a disarrayed and volatile international oil market by quickly developing non-OPEC oil production. This introduced for the first time a sensitive price-oriented shift towards natural gas and coal as oil substitutes. As a consequence the energy transition became and remains a struggle for an energy market share amongst oil, natural gas and coal producers — groups with diverse political orientations spread throughout the world.

In the geopolitical energy game briefly summarized above, OPEC is now (and particularly after March 1983) demonstrating that it is there to protect the members' oil share in the energy market; and that, in order to retain their share, they will not hesitate to use measures such as price-cutting, production quotas, and oil diplomacy in conjunction with other energy producers.

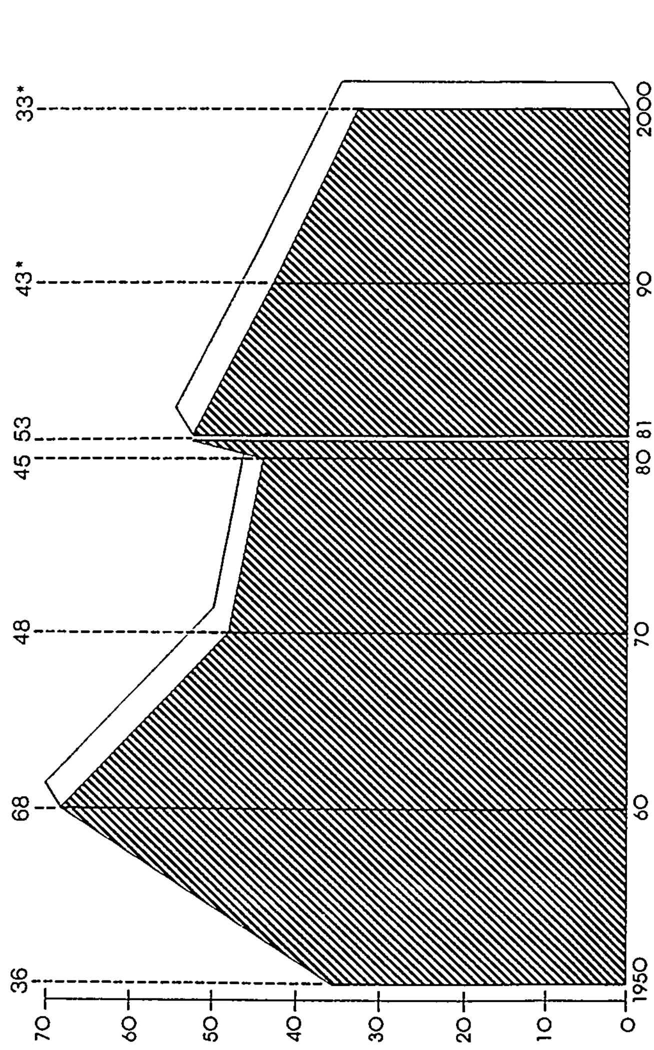
Furthermore, in the early 1980s, as a result of the combined effects of economic mismanagement, high inflation rates, wasteful patterns of oil consumption, unwarranted decline of industrial productivity, and a gradual shifting from a full manufacturing to a service information industry, the industrial world entered a major economic recession, and regrettably carried the rest of the world with it. High oil prices in the 1970s, coupled with the exaggerated oil stockpiling by oil importing nations and an erratic fluctuation of oil prices, just aggravated the world economic recession that we are leaving today. On the other hand, OPEC's decision in the seventies was also to build up an ability to administer the price of crude oil in order to help the management and control of the world oil markets which otherwise would have resulted in a more chaotic interplay of other influential market forces.

Therefore, I think, the challenge of OPEC countries for the remaining part of the century, as part of the developing world, lies in a clear recognition and promotion of the principle that cooperation is the only tool which can help them to retain an influential market share in the energy sector. That, in turn, would eventually mean the chance for the rest of the developing world to restore "the say" they had achieved in the seventies in order to negotiate a more equitable interdependent world economic order with the industrial nations.

The energy situation in the eighties is already a bit different from that of the seventies. On the one hand, OPEC's experience over the last twenty years has made it possible to develop a pragmatic and disciplined view of their role in the future, and an understanding of the need for a stable oil market as a direct force for orderly change in their own economies.

OPEC oil reserves to production ratio trends 1950-2000

Number of years



* 1980 production level of 22.5 million b/d.
The number of years which would deplete oil reserves at prevailing production levels.

In addition to an excess oil production capacity of about 10 million barrels per day and a strategic oil inventory in the member countries of the International Energy Agency the oil market has an uncommitted non-OPEC group of oil producers which profits directly from OPEC's efforts toward market stability. (For example, it was the non-OPEC producers who benefitted most from last year's March decision on production quotas for every OPEC member.) Nevertheless, it looks as if OPEC and non-OPEC producers are trying to understand that there is an excess of oil capacity and that only a coordinated action will bring such a large capacity into the market without risking OPEC's market stability, thereby preventing an oil price collapse. The financial, social and political consequences of such a collapse would be catastrophic for the established financial system and for the expected economic recovery of the second part of the decade.

In this context, even a short term outlook for oil prices runs the risk of misleading investors in crude oil, industrial plants and oil equipment. However, in order to complete the picture of the oil market, I will venture to make a short term projection.

To begin with, the market seems to reflect the uneasiness of the oil industry — including sellers, buyers, traders and refiners — because the market firmed up in January of this year as a result of a very unusual cold winter. In addition, a relative increase in world oil consumption has occurred as a result of a gradual economic recovery in the industrialized nations. Nevertheless, caution is necessary for both producers and consumers. For oil producers a high degree of discipline is required in order to prevent an oil price collapse. Oil companies with direct access to oil producers are limiting their purchases to amounts of petroleum they need for their downstream system. Nothing more and nothing less seems to be the name of the game. The spot market is therefore relatively quiet and oil prices will continue unchanged for the rest of the year and most likely throughout 1985. For OPEC, the issue of differentials among their crudes is still a matter which will keep experts and ministers busy and it will be discussed within the framework of the long-term strategy.

In spite of this in-house management of OPEC, the probability of another supply crisis in 1985 looms like Damocles' sword if non-OPEC producers continue to be reluctant to share the burden of keeping the world oil balance. Norway and Great Britain are not helping at all. In 1983 while OPEC countries were adopting production policies to stabilize the oil market, Norway and Britain increased their production 37.6 and 10.4 percent above 1982 levels, respectively. (See Table 1). It will be a mistake if the major oil companies, which play a significant role in the downstream operations of the oil industry, do not favor the participation of non-OPEC producers in an informal concerted action to stabilize the oil market. It is only through such cooperation that the oil price structure can be maintained, at least in nominal terms. Accordingly, a more stable price structure will:

1. Help oil producers with low reserves to have a predictable income in the 1980s in order to tackle effectively their own development problems.
2. Promote the necessary investment in oil exploration and development to sustain economic growth, especially for the decade of the 1990's.
3. Revive investment projects in alternative energy resources.
4. Help the economy in the industrialized countries to accelerate their recovery.
5. Reaffirm the confidence in mankind to pragmatically solve the problems of the Third World countries by cooperating in this time of crisis.

The foregoing analysis reveals the fragility of the energy market and its impact on the management of the world economy. Moreover, it provides persuasive evidence that the international energy market is largely influenced by countries, regions, governments and business enterprises which possess vast exportable and tradeable reserves of oil, natural gas and coal.

Consequently, price competition to maintain or increase shares in the energy markets of oil, natural gas and coal is and will continue to be highly influenced by political developments in and around OPEC, the Organization for Economic Cooperation and Development (OECD) and the Soviet Union. To a lesser extent price competition is also affected by technological innovation and general economic activity. These latter factors by themselves constitute serious obstacles during times of energy transition since they make the international energy market imperfect and restrict the free interplay of the laws of supply and demand in the market.

Under this scenario, the only available alternative for the remaining part of the century is world coordination and cooperation. This, in my opinion, offers the opportunity to strengthen South/South talks and also to reopen talks between North and South. The latter, unfortunately, has been subjected to world oil market behaviors, especially regarding OPEC oil supply; and, regrettably, OPEC has again played the unwanted role of a residual oil supplier. During 1983 OPEC production declined 7.2 percent while non-OPEC production increased by 4.6 percent. It was only when apprehension vis-à-vis the security of oil suppliers appeared that the OECD desired world cooperation. It called for oil price moderation and warned that world economic recession would result otherwise. When the market turned to a "buyer's situation" all efforts were either relaxed or ignored. Dialogue between the rich and the poor, then, has been called for at incongruent periods of time, resulting in monologues, first by the OECD, then by OPEC, then by non-OPEC LDC's, and so on. Should the absence of a dialogue continue, the world cannot avoid a crisis.

Table 1
FREE WORLD OIL PRODUCTION
(MILLION B/D)
DAILY AVERAGE

	1982	1983	Volume Change	Percentage Change
OPEC	18.48	17.15	1.33	− 7.2
Non-OPEC	19.62	20.52	0.90	+ 4.6
Norway	0.48	0.66	0.18	+37.6
Britain	2.06	2.28	0.21	+10.4
Others	17.08	17.59	0.51	—

SOURCE: P.I. International
PREPARED BY: Conside Ltd.

If OPEC took the role of the ugly actor of the seventies to awaken the world to the depletable nature of oil resources and draw attention to the wasteful patterns of oil consumption in the industrialized nations, OPEC will take on, for its own benefit, the challenge of stabilizing the energy market towards and beyond the year 2000.