

OPEC, AND WORLD OIL MARKET, 1990 TO 1996”

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This is to certify that the dissertation entitled OPEC. AND WORLD OIL MARKET. 1990 - 1996" submitted by Binaya Kumar Mallick in partial fulfillment for the award of the degree of Master of Philosophy. has not been previously submitted for any other degree at this or any other University to the best of our knowledge and this is his bonafide work. I recommend. that this dissertation may be placed before the examiners for evaluation.


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Binaya Kumar Mallick

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MY PARENTS

CONTENTS

1. Nature of Oil Market:9 An OPEC Perspective
2. Issues before OPEC
3. Performance of OPEC in last Decade
4. Evaluation of OPEC
5. Conclusion
6. Bibliography

CHAPTER-1

NATURE OF OIL MARKET: AN OPEC PROSPECTIVE

CHAPTER-1

NATURE OF OIL MARKET: AN OPEC PROSPECTIVE

Oil is such a precious commodity, which not only determines the modernisation and development of a state but also every one's health, wealth and the happiness, because oil is an integral part of our daily life. There are very few issues which do not involve oil in some way or another. During the last two decades the oil consumption and production patterns have witnessed change in the global oil market. Earlier there were only two major oil consuming countries in the World. One was North America and the other was Europe. These were only two regions which required 60 percent of the World's oil production. After 1990's two more regions have come to the consumption market, one is Asia- pacific and other one is Latin America.

On production side, about 60 percent of the world's oil have coming from Arabian Gulf, North America and Soviet Union. Since 1990 the number of oil producing countries were reached to more than eighty. Out of these Arabian Gulf, North America and Soviet Union were contributed by half of the total oil production.

In 1996, the world oil consumption is more than 70 mn b/d. But due to new discoveries and improved production methods reserve were estimated to last more than a hundred years. These countries claim that oil would run out by turn of the century. A

major push to find alternative energy sources was initiated a reaction to the alarming prospects, but the cost of developing alternative exceeded that of finding more oil.¹

Much has changed in the oil industry since establishment of OPEC which is formed, about more than 35 years ago. The world now a days is blessed with more energy resources than at in history.¹ Since 1970's and upto mid 1980's the oil market has gone through major changes. In the post -1973 period, (first oil shock) the consuming countries changed their policy of demand through the conservation policy and use of alternative sources of energy. The use of energy per head in the OECD countries was declined by 6 percent. The OPEC's share of the world oil production declined from 67.7 percent to 48 percent in the same period.²

The world oil market witnessed two major price shocks in the 1970's: the 1973/74 quadrupling of oil prices and the 1979/1980 doubling of oil prices. Each price increase was followed by structural changes in the market. It has proved to be as significant as the price increase itself. The period following the first price shock was marked by pledges and commitments to develop alternative sources of energy. The sense of urgency

1. Ali-al-Nasim, "Oil Industry: Challenge and Change", MEES, 39:10, 18 Nov., 1996.
2. Dr. Abal-Mushal- Mud "OPEC and World Oil Market Situation", 39:28, 8, April, MNES, 1996.

soon began to fade away as the world recession and changing energy ratio reduced the demand for OPEC oil by 11 percent in 1975. Normal OPEC prices began to decline throughout the period. It is due to decline of dollar value and the inflation on the price of oil. It shows that real crude cost of Japan and West Germany declined by 1974 to 1978.³

The 1975 recession was short lived and the world economy grew at healthy rates during the 1970-1978 period. The economy of industrialised countries grown by an average of 3.4 percent per year, and the economy of developing world by 5% per year, in real terms. During the same period the decline price of oil and that relative claim in the world oil market led to a change in outlook from fear and pessimism to complacency and optimism. Stocks of oil were down to minimum level preparations for emergency contingencies were reduced to rhetoric, and effort to build up alternative source of energy slowed significantly.

At the time of Iranian revolution, (1979) the world oil market was totally unprepared to deal with any crisis; Although more oil was produced in 1979 than in 1978, the massive stockpiling policies in of oil companies, the breakdown in distribution networks, and the general disarray in the market played havoc with prices. The prices went up and market outlook changed once again from optimism to pessimism. The decline of oil demand in

3. Dr. Fadhil Chalabi, "Structural Limitation on OPEC Policy Options, MEES, 39:28, April, 1996.

the market during 1980-82, prices declined. Once again oil industry and government faced the problem of suppliers.

Another significant change came across in the market during the period 1985. In 1985, when Saudi Arabia gave up the swing role and announced netback pricing, which effectively broke down the price making role in the market. OPEC subsequently became the only range-maker, with price determination being left to an increasingly competitive market. The system muddled along until the Iraqi invasion of Kuwait and the subsequent imposition of sanctions at a stroke removed the excess capacity.

The Gulf crisis of 1990-91 caused a major disruption of oil supply with the stoppage of exports of about 4 m b/d from Iraq, and Kuwait from August 1990, in the world oil market. The crisis caused the additional supply to meet the shortfall.⁴

After the Gulf war the oil market structurally changed due to the growth of development economy, policies of oil consuming countries, taxation and the environmental and the balance of payments problems. Between the years of 1990-93 the world oil demand was very less. During this period only South East Asia oil consumption was growing substantially.

Although the market was offset by the decline of oil consumption in former socialist countries (excepting China). In the period

4. Fesharik and Isaak, "OPEC, The Gulf, and the Petroleum Market. Collier Macmillan Publishers. London, 1979. OPEC, The Gulf and the Petroleum Market by Fesharik & Isaak.

of 1989 to 1994, the world oil consumption outside the former Soviet Union and Eastern Europe grew by 4.6 mn b/d less than 1mn b/d per year.

The OPEC member's share of world oil output increased from 28.7 percent to 40.7 percent during the period from 1985 to 1994. Crude oil output of the 12 member states from 15.17 million barrels perday to 24.85 million b/d during the same period, an increase of 63.8 percent. As far OPEC's exports of crude oil and petroloum products is concured, at rose from 13.1 million b/d to 21.7 million b/d during the years 1985-1994, an increament of 65.6 percent, while its share of world exports rise 42.9 percent of 52.1 percent over the same span of time.5

Since 1990's, the OPEC oil has been facing two major threats, one is natural gas from demand side and other is from non-OPEC supply side which has discussed below.

FROM SUPPLY SIDE:

1. INCREASE OF NON-OPEC SUPPLY. One of the main reasons behind the rise in non-OPEC production is due to favourable upstream investment offered by major oil companies. Second reason behind the increase of non-OPEC supply is advances in technology, improved production management, cost cutting and

5. Dr. Subroto, Major Energy Issues in the 1990s: An OPEC Prospective. pp. 1-6, OPEC Balleton, 1993.

restructuring and strategic alliances in the industry. Thirdly, the third reason, increase of oil production from north sea, particularly Norway.

It is due to growing of non OPEC supply the oil market has dramatically changed. Since 1985, the demand for oil has increased world wide by about 6.8 million barrels per day, to reach a level of 65.4 m b/d in 1992.⁶

So far as, supply side is concerned, the change in the production of the US and FSU has decline, which was not offset by increase in China and other non OPEC countries. Therefore OPEC production of crude oil and natural gas liquid increased from 17.00 m b/d in 1985 to 26 mn b/d in 1992. Although all OPEC regions shared the increased production of crude oil and natural gas liquids, the middle eastern members countries captured about two third of this increase, reflecting regions large reserve base, because of higher production capacity and competitive nature of market policy.⁷

OPEC production in February, 1993, average was 25.30 m b/d. production in Kuwait and Iran increased by 14,700 b/d and 73,000 b/d, respectively. Saudi Arabia, Libya, Qatar and Venezuela reduce their production by 75,000 b/d, 26,700 b/d, 7,000 b/d

6. CS First Boston, "Global Energy Resources" OPEC Review, 1995.

7. Robert Mabro, "OPEC and the Price of Oil, MEES, pp, 10-15, Feb. 1993

respectively production in other countries showed no change compared to January 1993.

Total OPEC production in february was about 1.29 m b/d higher than the coressponding month in 1992, and is the highest monthly production level since september 1980.

Table-1

WORLD CRUDE OIL SUPPLY MILLION BARRELS /DAY.

	1990	1991	1992	1993	1994	1995	1996
OECD	13.61	13.88	13.98	14.2	14.8	15.0	15.5
FSU	11.43	10.37	9.19	7.8	7.1	7.0	7.0
CHINA	2.77	2.80	2.79	3.0	3.0	3.1	3.1
NON OPEC	9.45	9.69	9.77	10.13	11.3	11.7	12.3
NON OPEC NGL	2.82	3.11	3.14	3.4	3.5	3.7	3.7
OPEC NGL	1.87	2.03	2.13	2.3	2.5	2.6	2.6
TOTAL	42.00	41.88	41.13	41.3	41.9	42.7	44.2

According to the above table, the world's crude oil supply has increased slowly. The Increase of FSU has declined over the 6 years period by 4.43 percent. The FSU crude oil production in the 1990 was 11.43 and its production declined to the 7.0 in 1996. The crude oil supply of china to the world oil market has increased but not significantly, it increased by .47 percent over the 6 years period. In 1990 when OPEC oil supply was 1.87 the

Non-OPEC supply was 2.82 percent. In 1996 OPEC supply became 2.6 and the Non-OPEC supply reached 3.7 percent over the 6 years period.⁸

However, the total increase of crude oil supply is the 2.2 percent over the 6 years period. The above table and data shows that the consuming oil has declined from 1990, because of growing demand of natural gas as alternative sources of energy.

The world crude oil supply including OECD, FSU, CHINA other non-OPEC, Non-OPEC NGL. OPEC NGT was 42.00 in 1990 and it became 44.2 in 1996. It means 2.2 increase supply within the 6 years term. The OECD supply between the 1990-96 has increased in 1990 OECD supply was 13.61 and in 1996 it became 15.5. But increase of FSU, supply of oil has decreased by 4.43 between the period of 1990 to 1996.⁹

FROM DEMAND SIDE:

Since 1990 the demand of oil has decreased due to various factors, Firstly the natural gas as an alternative sources of energy.

Secondly, the demand of oil has been dampend by the taxes imposed the petroloum products in consuming countries.

8. Blair, Johan, M., "The Control of Oil", London Press, 1976.
9. Ferrier and A. Furseno, "Oil in the World Economy", London Routtege, 1989.

However, due to economic growth in Asian countries, the demand of oil has increased in Asian countries. The gross national product in Asian countries grew at an annual average rate of 4.9 percent from 1980 to 1992 in real terms. The annual average rate of total GNP for 10 Asian developing countries reached as high as 7.1 percent in the same period.

The increase in income activity in Asian countries brought increase in energy demand in various ways. The industrial sector level of production requires an increase in the use of energy as an input factor. In the household sector income growth can bring about increased demand for energy appliances and a shift toward more energy dependent life style. In addition, income growth in developing countries can often promote a shift in fuel use from traditional energy like fuels woods, charcoal and animal residue, to commercial energy like oil (kerosene, LPG) natural gas, and coal. This energy demand in the household sector, energy demand as income growth brings about an increase in the number and uses of vehicles. Energy demand also grows with increased economic activity and growth of transportation infrastructure and rise in transportation demand of passengers and goods.¹¹

Natural Gas as Alternative source of Energy

Since last decade the demand of natural gas has increased.

11. Gad G. Wilber, "The Middle East Oil Decrease and Beyond", Essays on Political Economy" University of Harifa and Proshe Dayan Centre Tel Aviv University, 1997.

In early time natural gas has consumed in the oil producing countries for their domestic use only. but the world oil market affected when demand of natural gas increased in oil consuming countries as a suitable source of energy. Since 1990, the major problem faced by OPEC due to increase of gas in the market.

Gas market were much more dynamic during the entire period, but the trade between Non-OPEC gas and OPEC oil intensified after 1979. Gas competed against all oil from all sources but the market inroads by gas were especially effective vis-a-vis OPEC oil. OPEC bore the brunt, its output has fallen and is still 25 percent below its peak level of 31.5 mn b/d quite the opposite as true as gas, natural gas output has continued to increase unceasingly since 1970. Since 1970 OPEC oil output fell by 25 percent whereas as the competing gas output rise by 50 percent; in fact Natural gas captured a significant share of OPEC's oil market during the past 20 years of period.¹²

Trend of oil demand in the market

The world oil demand depends upon many factors like growth of the world economy, the policies of the consuming countries including those related to taxation and the environment as well as problem of balance of payments. Previously it has discussed how market change due to growth of Asian economy.

12. Shaikh Ahmad Zaki Yammi, "Worrying Times Ahead for OPEC", MEES, 39:28, 8, April, 1996.

OPEC's share of world oil production (excluding output of the communist world) had declined dramatically from peak of 61 percent in 1979 to 41 percent in 1985. This was bad enough for OPEC, but what was worse was the fact that the non communist world oil market had been shrinking by 1 MN barrels per year on average in the last five years before 1985.

Since 1990, OPEC's share of global oil output (excluding the Soviet Union, China and others) has declined by only 1.5 percentage points. In spite of global oil demand rising the power of OPEC has become secondary since 1990. During the period of 1993, OPEC did not manage to capture a greater share of global oil market due to its bad policy and increase of Non OPEC production. In this effect, OPEC has pursued a deliberate policy of keeping its oil out consent since 1993 to 1996. However, since the mid 1995 OPEC quota system has been leaking consistently.

WORLD CRUDE OIL DEMAND MILLION B/D.

	1990	1991	1992	1993	1994	1995	1996
OECD	36.62	36.5	36.91	37.30	38.3	38.5	39.2
G7	31.08	30.87	31.28	31.8	32.5	32.6	33.1
OECD	5.54	5.58	5.63	5.7	5.8	6.0	6.1
WORLD	27.55	27.99	28.00	27.9	28.1	28.9	30.0
USSR	8.97	8.55	7.33	5.5	4.7	4.6	4.5
EST EUROPE	1.20	0.99	1.00	1.0	1.1	1.1	1.2
CHINA	2.36	2.44	2.73	2.9	3.1	3.2	3.5
OPEC	4.10	4.30	4.54	4.8	4.9	5.0	5.2
PACIFIC RIM	2.72	2.95	3.30	3.7	4.0	4.3	4.6
OTHER	8.71	8.97	9.10	10.1	10.4	10.7	11.1
TOTAL WORLD	64.17	64.44	64.91	66.5	66.4	7.5	69.32

Source- OPEC Bulletin - 1990-96.

Between the period of 1990 to 1996 the demand of crude oil has increased except Eastern Europe. In 1990 the demand of Eastern Europe was 1.20 and it declined to 0.99 in 1991. Again 1992 it increased to 1.00 percent.¹³

However, the overall demand declined by 0.18 over the 6 years period. Again the demand of Ex USSR also has declined of Ex-USSR

13. A.L.Nasrani, Abbas, "OPEC in a Changing World Economy" New York, Publication Press, 1985

was 8.47 and declined to 4.5 percent. However, the total crude oil demand has increased on the world. In the total crude oil was 64.17 and it increased to 69.02 over the span of 6 years. The demand of world crude oil has increased due to the increasing demand of crude oil in the Asian market.

From the above analysis it is clear that OPEC role in the world oil market has become secondary, because of three factors which were responsible for it. First, there are the wide spread phenomena of lack of transparency and absence of accountability. The political system of OPEC countries are not representative in form. The monarchical political system always lacks proper accountability and checks and balances. The oil industry is huge business billions of dollars are invested and collected annually. The authoritarian nature of state led to mismanagement of its resources. In case of Gulf crisis 1990-91 caused a significant harm to the oil industry.

Secondly, the dramatic development over the past two decades and in many respect the OPEC members states have left their imprint on the domestic social and economic sciences. The frequent changes of policy by the OPEC governments in terms of resources allocation the OPEC power has become secondary. Increase of the Arab oil producing countries, oil revenue's share of total resources increased from 62.6 percent in 1987 to 73.8 percent in 1993, while tax revenue decreased from 28 to 18.6 percent non tax revenue fell from 7.2 to 3.6 % and investment

income dropped from 12.2 to 4 percent all during the 1987 to 1993.¹⁴

Thirdly, the problem facing OPEC is such that maintaining present policies can lead to the erosion of both market share and price. Since 1990, the OPEC states reversed oil policies and began encouraging foreign firms to explore in their upstream sector. The OPEC members countries have done so because of cash liquidity problems and the need to substitute for lost capacity as well as to add a new capacity. Now a days most of OPEC countries (other than Saudi Arabia the United Arab Emirates, Kuwait and of course, Iraq) are producing at capacity, irrespectives of their quotas. In fact the quota management and the pricing policy has deteriorated in the OPEC.¹⁵

It has been observed a great oil economist: Wali Khan that it is due to increase in supply from OPEC countries and also due to successful conservation efforts in the consuming nations. Therefore OPEC power in the international oil market has become secondary.

14. Wali Khaduri, Gulf Energy and the World, 1996.

CHAPTER-2

ISSUES BEFORE OPEC

CHAPTER -2

ISSUES BEFORE OPEC

Since OPEC was formed 1960; It has been maintaining stability of oil price in the international oil market. Towards the end of the 1960s, here are several factors led to the instability of oil price in the global oil market. Firstly, the members of OPEC countries decided the nationalisation of oil companies. Secondly, due to deteriorating effect of Inflation in industrialised countries on the purchasing power of member countries. The member of OPEC countries brought a resolution of change of oil price. to our come the inflation problem faced by the OPEC countries.¹ However, OPEC members decided to increase of oil price in 1973, but the problem of inflation unemployment and recession remain unchanged among the oil producing countries. As uncertainties among OPEC members remain unchanged, even though OPEC members played no deliberate role in creating the supply shortages that lasted from 1979 through the first half of 1981, USA a major consumer of oil producing countries increased its domestic demand from 15.1 million b/d in 1971 to approximately 18 million b/d in 1973. The magnitude of structural changes in the overall demand and supply situation of oil market came across crisis of stabilizing of oil price. The critical position of oil in the world market, and the uneven distribution of reserves give oil a

1. G.S.First Boston, Global Energy Resources, OPEC review, 1995.

lot of economic, strategic, and political importance. The oil price and control of supplies has become the potentially conflicting issues. If the oil which linked the development of economy among the OPEC countries.

1 STABILISATION OF OIL PRICES IN THE MARKET

The history of world oil market is the history of instability of price determination. There has been frequent price fluctuation in the oil market. The very objectives of the OPEC when formed was to stabilise the oil price in the market. As the market fundamentals or price structure depends upon the demands and supply of oil accordingly the price rate get fixed/fluctuated.

The OPEC is consisting of big oil producer and small oil producer countries. The price instability occurs in the market due to the big producers who does not protect the interest of small producers. Saudi Arabia-Kuwait Venezuela are three big producers within the OPEC speculate. The countries like Nigeria and Iran are the small producers of oil countries among the numbers of the OPEC. In the beginning the main objectives the OPEC was to bring stabilisation of oil prices. OPEC's objectives of stabilisation of prices at the level have been prevailing after the reductions in 1960 and was further realised with the establishment of the organisation. The OPEC had not been created, prices that would have continued to decline, because

factor causing that decline were still effective in the market. These factors were especially characterised by the continuing increase in the oil reserves, by surplus production capacity and by the appearance of independent companies these importances grew as they started controlling, together with the governmental oil concerns, nearly 20 percent of the world oil trade

In the february 1993, there was a special OPEC meeting of senior minister of OPEC which has indicated about the issues of oil price in the market.

According to the meeting the senior OPEC ministers decided to stabilise oil prices through a production cut of 1 mn b/d below the level of production ceiling of 29.582 mn b/d.

The moves are in response to the fall in oil prices during the fourth quarter of the 1992 and early January 1993. In mid January the price of the OPEC reference basket of the light crude reached at the very low level of \$16.3/b. This was below the target of \$18/b set by OPEC at the end of 1986 that is six years ago and very significantly below the \$ 21/b target which OPEC has mentioned in almost every official communique since 1990.2

2. H.E.Hisham M.Nagar, The Interdependence of Producer and Consumers in the Oil Market, 3 June, 1991.

2. ISSUES OF INTERDEPENDENCE WITH EUROPE

Now a days, the world economy is guided by the interdependence. As oil market is global in nature, the interdependence in the market is inevitable. Since 1970 the economic interdependence between the OPEC oil and the west is most apparent in the oil market. A sharp increase in the demand for oil in the west in the early 1970's account for the 1979 surpluses which have occurred to many OPEC countries, especially the OPEC states. According to the American petroleum institute, which 67 percent of the United States oil imports in 1973 came from OPEC nations, only 21.6 percent came from Arab States within the OPEC. By the end of 1977, 84 percent of United States oil imports came from OPEC member nations with the OPEC share having risen to 42 percent of the total United States imports (New York Times, Dec 29, 1977). Europe and Japan are likewise highly dependent upon Arab oil. Western Europe, for example, absorbed almost 44 percent of Saudi Arabia, oil exports in the 1970 while Japan accounted for nearly 20 percent of such exports. Overall Japan imports over 80 percent of its oil from the middle east.

Eric Davis, increased interdependence due to oil sales to the west, would enhance OPEC power but this argument has been changed because of increase of Non-OPEC suppliers and growing

demand of natural gas as alternative source of energy in the market.³

3. CONSUMER PRODUCER RELATIONSHIP

The history of global oil market is the history of price instability. The main problem which the OPEC has been facing is the co-operation in the world oil market rising price is the gain to the producers. But the short term gain by the oil producer countries lead to the long term harm for the consuming countries.

In 1973, there was a major call for a producer-consuming dialogue. Since 1973 to 1991 there was no much progress in the attitude of the producer and the consumer the which Gulfwar took place since 1991, there are several round meeting held on the subject and the nature of crucial issues of producer-consumer relationship has been discussed which sub natural gain and the important of their relationship. In 1994, the dialogue was again resumed at the third international energy conference being hosted by Spain. The meeting dealt for the first time with the major concern left by producer over the direction of the global environment debate. But a more important debat on the agenda was the issue of price stability. There was specifically as a key concern in the energy security from the point of view of the both consumers and producers. It was considered necessary to study the

3. Dr. Subrotó, "Major Energy Issues in the 1990s: An OPEC Prospective", OPEC Bulletin, 1993.

limits of reasonable price level to identify the price change that would maximise welfare and abviate the risks of price volatility.⁴

Venezuela hosted the fourth conference in september 1995, when delegates gathered in pure to la cruz to discuss among other things, the investment requirements and re-intégralation of the oil and gas industry. Conensus was reached in the forum that the lavelns of investments required could be more easily achived through greater co-operation, the intergation and formation of strategic alliences. There was also consues over matching security of supply with security of demand, and over the basis of current energy tax of structurer against the oil.

Due to the lack of co-opration between producers and consumers, the history of oil market came across choas atomsphere. The main result of the collapse of the oil market in 1986 was due to instabality. In the long run, no one nither producer countries nor consumer countries really benifited. Their economic were hit hard, proving that price stabality is the real goal and not over high nor undually low pricess. In the absence of any effective burden sharing initiative between opec and Non-OPEC, is there fore became natural for OPEC to seek to extend its appeal for dialogue to the consumer countries and asking then to co-

4. Eric Davis, "The Political Economy of the Arab Oil Producing Nations: Convergence with Western Interest. Studies in Comparative International Development, pp. 75-90, Summer, 1979.

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operate with the oil producers. That was an attempt to regain and the maintain stability in the energy world.5

4. EMERGENCE OF REGIONAL BLOCKS

The issues of emergence of regional blocks became important since 1990. There are so many regional blocks existing in the world like EC, ASEAN, North American Free Trade Area etc. There is also regional blocks within the OPEC and OAPEC. There are some countries within the OPEC and OAPEC who are the pro west. However, OPEC also include a so called radical block comprised of Algeria, Iraq and Libiya. The members of the radical block within the OAPEC and OPEC and particularly the Algeria and Iraq felt the need to achieve the rapid economic development more actually than do the conservative OPEC states. In Nigeria and Iraq larger population are relatively limited oil reserves necessitated higher oil prices to finance rapid economic development. Libiya, which has been more reserved in its call for increased oil prices, seem to be influenced more in its relation with the west by the ideological concern of president Mu'ammarr Alqadhafi and the ruling revolution command council than by economic considerations. Nevertheless, Libya is highly dependent on western manpower and technology to accelerate its economy and achieve growth.

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Since 1970, the problem facing Algeria and Iraq stem in

- 5. Dr. Fadhil Chalabi, Structural Limitations on OPEC Policy Options (Mics), April 1996.



large measure from their increasing indebtedness resulting from the imports of large quantities of western capital goods and technology.

The decision of radical bloc with OPEC to rise oil prices has led confrontation with pro-western block in 1977. During this period there was two tier price system within the OPEC. In 1977 when Saudi Arabia increased 5 percent oil prices, the radical bloc like Algeria, Libya and Iraq increased 10 percent price of oil.

US the major oil consumer of OPEC has imposed sanction of oil imports from Libya since 1986. US also imposed sanction other two countries that is on Iraq in 1990 (through the UN resolution) and Iran in 1987.⁶

5. ENVIRONMENT AND ENERGY TAXES

Since 1990's the environmental and taxation has become leading issues in the world energy market. The tax and legislature changes of OPEC member countries has brought strong impact on oil industry. To protect the environment has become crucial issue before world as a whole. It has also discussed both the national and international organisation. The UN conference on the environment and development debate includes issues like poverty inequality, terms of trade, external debt and the flow of resources and technology.

6. Dr. Szabroto, "Major Energy Issues in the 1990s: An OPEC Prospective, OPEC Bulletin, 1993.

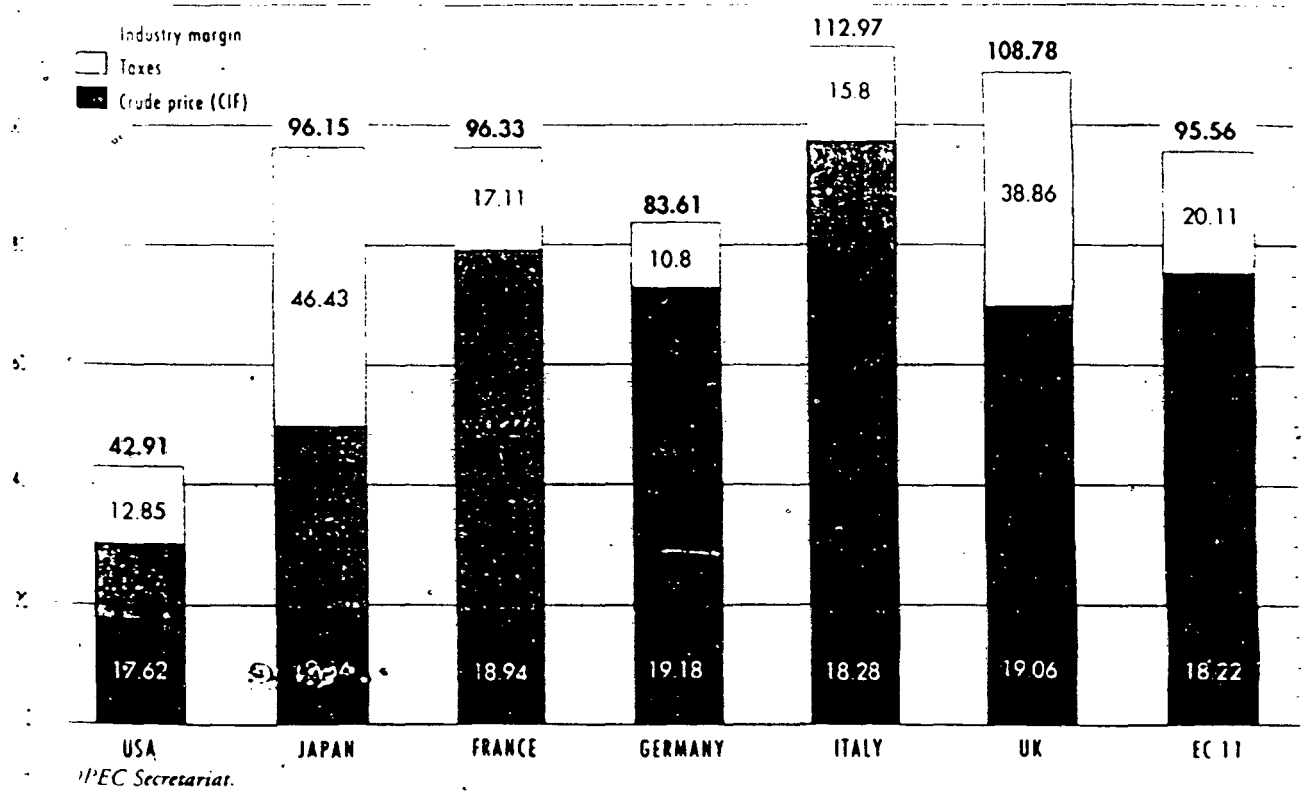
Since past 6 years, the policy makers are imposing new tax in the name of environment. The European community (EC) has been considering a carbon/energy tax for same time, through OPEC and other oil exporters have expressed their concern about the likely harmful impact of such tax on the both domestic EC economies and those of its trading partners, as well as the basis of the ECs proposal against oil. According to EC' study, The proposed tax could be enough to achieve the target to stabilising emissions in the year of at the level of 1990. despite adding \$10 to the price of each barrel of oil. It is very clear that if an industry has difficulties coping with such a high tax, than it may consider moving to an area where it is not so heavily regulated, perhaps to one of the neighbouring economic in transition, or to developing nations in the south. This would hardly improve the world wide scale of emissions on the economy of the country it is forced to leave behind.⁷

According to above figure, the latest challenge to oil market stability and to the economic fundamentals of the industry which under pin the investment for the necessary expansion of capacity, is the united states plan for an energy tax. The US tax is heavily biased against oil which is to carry an extra proposed levy making the tax on oil double that of the other energy sources. Environmental concern has been used an argument to

7. H.E.Hisham, M.Nazer, The Interdependence of Producers of Consumers in the Oil Market, (MEES), June 1991.

Figure 1: Composite consumer price of refined barrel

(\$/b)



support the US proposals, although the tax is calculated to redress part of huge US budget deficit and despite the fact that taxes are very blunt and inaccurate weapon, far removed from actual process which cause to the environment. The environment tax has become an instrument for the oil consuming government to earn more tax than the oil producer government the revenue by producing themselves.⁸

According to OPEC prediction the impact of carbon taxes on oil demand till the 2010. World oil demand in a base case scenario is expected to be 76.4 million barrels a day in 2010. The EC's tax would reduce that figure by more than 1mn b/d. If all OECD countries adopted the same tax total world demand would fall by 2.5 m barrels to less than 74 m b/d.

It has already been pointed out that the EC's current tax proposal is not enough on its own to achieve the desired target of stabilising mission emissions at 1990 levels by the year 2000 or of achieving the subsequent aim of reducing emissions by 20 percent of 1990 levels, by the year 2010. If taxes were only method used to reduce emissions, then they would have to rise to unfeasibly high level and their impact would be immunes. By the year 2000, the tax would have to be as \$37/b in OECD Pacific countries, at 1992 prices and by the year 2010 the taxes in these

8. Willrnick, Energy and World Politics, Collier Macmillian Publishers, London, 1975.

countries would reach a staggering \$270/b, again at 1992 prices. Such taxes would strip more than 15m. b/d from world wide demand. At 1992 prices, that is equal to removing more than \$ trillion of accumulate revenue from OPEC member countries by the year 2010, assuming oil price show a reasonable growth. If the prices paid to oil producers fail to rise, the impact would be even more severe. These taxes would also have a noticeable impact on GDP growth rates in OECD and OPEC countries alike and inflation would rise around the world.⁹

6. ENERGY SECURITY

The energy security ~~has~~^{has} been recognised from both the consumers and producers side. To the consumer security means the availability of suppliers at the reasonable prices to foster their economic growth and competitiveness. To producers security means continued access into the markets of oil importing countries, the steady share of oil in the total energy consumption over the long term, and fair and stable prices that allow for their sustainable development over the life time of the resources. It is the interaction between supply security equations. Emphasizing one to the detriment of the other obscures the picture and gives an illusion of security. Since the end of the Gulf crisis, in February 1991, the issues of the producers consumer dialogue as a genuine means of achieving oil market stability, especially at

9. H.E. Hisham, N. Nazar, "The Interdependence and Consumers in the Oil Market".

the period of major supply disruption. In order to prevent future oil shocks and their attendant undesirable consequences on the global economy, it has been accepted that there is a device needs for dialogue and co-operation among the producers and consumers during the time of upstream and down stream.¹⁰

In conclusion, all the above issues have been facing by the OPEC since last decade. However, several ministerial conference and summit was held concurring about OPEC's survival. There is no perfect administrative mechanism in the OPEC to monitor oil prices in the market. The problem can be resolved through research, planning and development and forestry of relations between all the parties which have direct and indirect interest in the oil.

10. Gulf Energy and the World Challenges and Threats. The Emirates Centre for Strategic Studies and Research, 1997.

CHAPTER-3

PERFORMANCE OF OPEC IN THE LAST DECADE

CHAPTER-3

PERFORMANCE OF OPEC IN THE LAST DECADE

The present chapter intends to pin point the performance of the Organisation of Petroleum Exporting Countries (OPEC) in the World oil market. In this context it is necessary to highlight the major decision taken by the OPEC oil Ministers, that had taken place between 86th conference to 100th conference over the 6 years period. The performance of the OPEC is also discussed in accordance with the various OPEC monitoring committee and its decisions. In the end of the part of the chapter the comparison of production ceiling in between 1990 and 1996 has been further discussed to know about the over all oil market scenario of the OPEC and constituent member of countries on the 86th conference Nov, 1989, OPEC conference was very important. In the conference oil Ministers of the OPEC countries defined the character and the pattern of the oil market situation of the past, and the plan of action for the future. In the opening address, H.E. Alhaji Rilwanu Lukman, President of the OPEC conference and the minister of petroleum Resources for Nigeria, declared that the importance of oil market was eroded since 1980.1 Particularly the OPEC share in the World oil market has declined due to centrally planned economies in the consuming countries. He emphasized that the OPEC share in the World oil market has declined by the 64 percent. As the OPEC share in the World oil

1. Conference Notes of the "86th Meeting of the OPEC Conference", in OPEC Bulletin, No.77-80, pp.21-25, Vol.21, 1990.

market was 49 million barrels per day in 1979 and if declined to 39 million barrels per day in 1985.

He further explained that the experience of the market situation of 1980 taught OPEC member countries to come forward for better co-operation to stabilize the world oil market. Again OPEC member countries also got support from the Non-OPEC oil producer countries for solidarity in order to stabilize the oil market.

From the above it is understood that the 86th Ministerial conference was important because that reviewed the decisions of the Eight-Ministers Monitoring Committee and decided to increase the OPEC production ceiling to 22 million b/d during the first half of 1990.²

As per decision of the conference the member countries production levels for the first half of 1990 were as follows.

2. H.E. Boussena "87 Meeting of the OPEC Conference Opening Address" OPEC Bulletin, Nos. 77-80, Vol. 21, 2-4, 1990.

TABLE-1

Countries Name	Million b/d.
Algeria	0.827
Ecuador	0.273
Goban	0.197
Indonesia	1.374
Iran	3.140
Iraq	3.140
Kuwait	1.500
SP Libyan AJ	1.233
Nigeria	1.611
Qatar	0.371
Saudi Arabia	5.380
UAE	1.095
Venezuela	1.945

Therefore, the conference in November 25, 1989 reaffirmed that the member countries commitment to abide by and strictly adhere to the production quotas as defined above in the table.3

In the 12, December 1990, the 88th Conference the OPEC was very significant because the Gulf war. Before it, the 87th conference was held on July 1990. But the Gulf war started just one month later that is on August 1990. The opening address of the 88th meeting was delivered by H E Sadek Boussena, president

of the OPEC Conference and the minister of mines and Industry of Algeria.³

The 88th Conference Meeting reviewed the oil market situation. Again the member countries determined to have a stable market, through strengthening the co-operation among the producers and consumers, The 88th Conference did not take any new decision for production ceiling because of the Gulf war. It retained the July 1990 decisions.

It is not only that the OPEC was affected by the Gulf war but also the whole World was affected by the crisis. Before Gulf crisis OPEC countries have expected their growth of real GNP 3.1 percent in 1990, as compared to its previous years of growth 1.2 percent.

However, the Gulf war did not provide opportunity for OPEC countries to achieve the desired target. Before the Gulf crisis of world oil demand was 3.6 percent in 1988 and it came down to 1.5 percent in the first half of 1990. The first sign of market decline became visible in the USA, where inland consumption actually fell. In Europe overall demand growing at 1.5 percent. Even in Asia Pacific region, where burgeoning economic level in the sign of weakening had set in. The rate of oil demand in the main NIC countries in that region, fell from 14 percent in 1988 to 11 percent in 1989.

The post Gulf war, OPEC's minister's conference was very important because in the conference the crucial issues was to take back Iraq and Kuwait to the international oil market. The addresser of the conference highlighted the impact of the Gulf war on the global oil market.

The 89th Conference, decided to convene a meeting of the MMC in September 1991, to determine appropriate production ceiling for the fourth quarter 1991.⁴

Again this conference also appealed to the international community to support Kuwait in its fight against environmental pollution caused by burning by the oil wells.

The first IPEC/OPEC ministerial meeting of April, 1993 was historical one. It was historical because in this joint meeting the oil minister reviewed the market situation for the long term. The three major issues which were discussed were first changing policy of consuming countries second, aim of supporting a cleaner environment and thirdly, growing number of regional blocks.

The Government of major consuming countries have begun imposing carbon/energy tax on the name of cleaner environment.

4. Press Release "88th Meeting of the OPEC Conference" OPEC Bulletin, Vol.22, pp.4-7, 1991.

The joint meeting needed that petroleum products already carry a tax as high as \$95 per barrel in some countries, compared to the price of crude oil, which was about \$18/b.

The above policy created panic among the oil producer countries in general and OPEC countries in particular. In 16th febraury, 1993, the tenth Monitering Committe took a major decision relating to the following matters.

First, it reviewed the 92nd meeting of the ministerial conference.

Second, the declining trend of oil price because of over supply of oil in the market during the winter period.

Thirdly, over supply of oil led to relatively low level of stock draw down during the period.

Fourthly, the 10th MMC decided to reduce the ovrall OPEC production ceiling to 23.582 million barrels per day. For this reason committee ceiling of production decided to effect from march, 1993.

Fifthly, committee decided to set up a new mointaring system consisting of H.E. Abudulla saleam E.L.Balin, secretary of the People's committee of energy of the Socialist People's Libyan, Arab jamahinia, H E Abdullah Bin Hammed Al Attiyah, minister of energy and industry of qatar, and secretary general for regular

contact with the member countries ensure compliance with the agreement.5

According to tenth MMC the following were the allocations for member countries.

OPEC productions allocations in March, 1993.

Table-2

Countries	million b/d.
Algeria	0.732
Goban	0.281
Indonesia	1.317
IR Iran	3.340
Iraq	0.400
Kuwait	1.600
SP Libian AJ	1.350
Nigeria	1.780
Quatar	0.364
Saudi Arbia	8.000
UAE	2.161
Venezulla	2.257
Total	23.582.

Source, opec Bulletin, 1993.

5. Press Release "Tenth Meeting of Ministerial Monitoring Committee" OPEC Bulletin, Vol.22, PP.45, 1993.

In 1993, there were 94th (extraordinary) meeting of OPEC conference along with the 11th meeting of MMC held on 29, 25 September at Zeneva, Switerzeland respectively.⁶

In the 11th MMC was very significant one because of the OPEC basket price. In this period OPEC basket price was fallen by \$3 per barrel from \$18.13/b in April to \$ 15.10/b september, 1993.

Again, the 11th MMC reviewed the production ceiling for the next six months at the 24.5 million barrels per day.

The 11th MMC expressed that the following distribution of production could improve market performance and stregenthen the price. OPEC production ceiling temporary allocation fourth quarter 1993 and first quarter 1994. (000 b/d).⁷

6. Conference Report "94th (Extraordinary) Meeting of the Conference" OPEC Bulletin, Vol. 23, PP. 4-7, 1993.
7. H.E. Jean Pings "11th Meeting of the Ministerial Monitoring Committee" OPEC Bulletin, Vol. 23, p.4, 1993.

Table-3

Algeria	750
Goban	287
Indonesia	1.330
IR Iran	3.600
Iraq	400
Kuwait	2.000
SP Libiyan	1.390
Nigeria	1.865
Qatar	387
Saudi Arabia	8.000
UAE	2.161
Venezuela	2.359
Total	24.520

Source, OPEC Bulletin, 1993.

In the 94th Meeting of OPEC Conference specially reviewed the Iraqi issue and re-affirmed that an extraordinary meeting of the conference to be convened in order to take the appropriate measures.

Since 1982, the conference of OPEC member countries, for the first time dealt with a sensitive agenda in 97th meeting of the OPEC conference for solidarity. The conference was addressed by the Indonesia, November, 1994. In this meeting was very

significant for the OPEC because OECD consumption of oil was increasing in 1994, due to increase of economic growth outside of the OECD, especially in Asia, which was helping to boost the oil demand. The conference reviewed the 10th meeting in the ministerial monitoring committee. Again this conference decided to maintain until the end of 1995 the ceiling of 24.52 million b/d, distributed according to the temporary allocations decided in the 94th (Extraordinary) meeting of the conference in September 1993.⁸

The 98th conference Vienna of Austria reaffirmed its position of maintaining and adhering to the agreed level of supply of 24.52 million b/d for the balance of 1995.

In this 98th conference, member countries of OPEC discussed the question of the membership of Gabon.

According to presidential address of 98th conference, the president pleased with the oil market report of 1994, conference because international oil market have achieved relative stability and its prices.

The president of this conference and his opening address of meeting expressed that OPEC is not happy for last six months because of the dramatic fall of value of the dollar, OPEC countries faced the problem of purchasing power of their revenue.

8. Conference Note "98th Meeting of OPEC Conference" OPEC Bulletin, PP.4-9, June, 1995.

In OPEC's 99th conference again it confirmed the ceiling of 24.52 million barrels per day until the end of 1996. The major issue discussed in the meeting was dominance of oil market by the Non-OPEC producers. The main agenda of 99th conference was to achieve sustainable stability in the market for a longer period. Secondly, the conference decided for adequate level of investment in the production of oil to face the increasing demand. Once again the 99th conference extended the decision of ceiling production 24.52 million b/d.⁹

In 100th conference meeting of OPEC oil ministers decided new production ceiling. In this conference Iraq allowed to sell oil for food and medicine on humanitarian ground, and conference agreed to set the overall supply ceiling at 25.033 m/b/d until the end of 1996.

The 100th conference reviewed the resolution of September 1993, and decided the following allocations:

9. Conference Note "OPEC Ministerial Conference" OPEC Bulletin, Nov.- Dec. 1995.

TABLE- 4

NAME OF THE COUNTRY	(000 b/d)
Algeria	750
Indonesia	1.330
IR Iran	3.6000
Kuwait	2.000
SP Libyan	1.390
Nigeria	1.865
Qatar	378
Saudi Arabia	8.000
UAE	2.161
Venezuela	2.359

Source, OPEC Bulletin, 1996.

The remaining volume of 1.2 m b/d has decided to be supply by Iraq.¹⁰

Since 1960's, OPEC prepared the ground for challenging the overwhelming dominance in the international oil market of multinational oil companies. In every times the organisation belived that its member countries should have a presence in the market commensurate with their considerable reserve strength with the time, the OPEC family grew, as like minded oil producing developing states started joining its ranks.

10. Conference Note "110th OPEC Conference Meeting" OPEC Bulletin, PP.3-7, Vol.24, 1996.

However, the turning point came in the 1970's. There has been a series of events occurred in one way or another.

In the process of series of events OPEC member countries started relising the fruits of their common intrest. Since than, the recognisation of their role in the market has contunued to grew. In the period of 1980's OPEC faced with crisis sabilisation of prices in the international oil market.¹¹

The objectives of OPEC statue dectared in 1960, when it was fremed to the co-ordinating and unifying of the policies of member countries and also determined to sefeguarding their own intrests, includingly or collectively. However, throughout the 35 years of OPEC existance the OPEC has been tried their best possible manner in various ways.

In 1996, the OPEC was facing the change of global economy political balance, environmentalisim and rapid technology.

In the 100th meeting of press conference H E. Dr Rilwanu Lukman, the secretary general of OPEC, confirmed that goban was no longer a member of the organisation quata after long standing discussion consequentely, it would be improve for OPEC to contunue to include the production goban within our quata orginally (given to) Gabon has been taken out for the ceiling.

11. Conference Note "100th OPEC Conference" OPEC Bulletin, Vol.24, PP.3-8, 1996.

Figure 1

OPEC'S Price Setting Performance – Quarterly Basis (1Q 1987-1Q 1997)

Difference vs. Price Target (\$/B)
(\$18/B up to 2Q 1990 \$21/B thereafter)

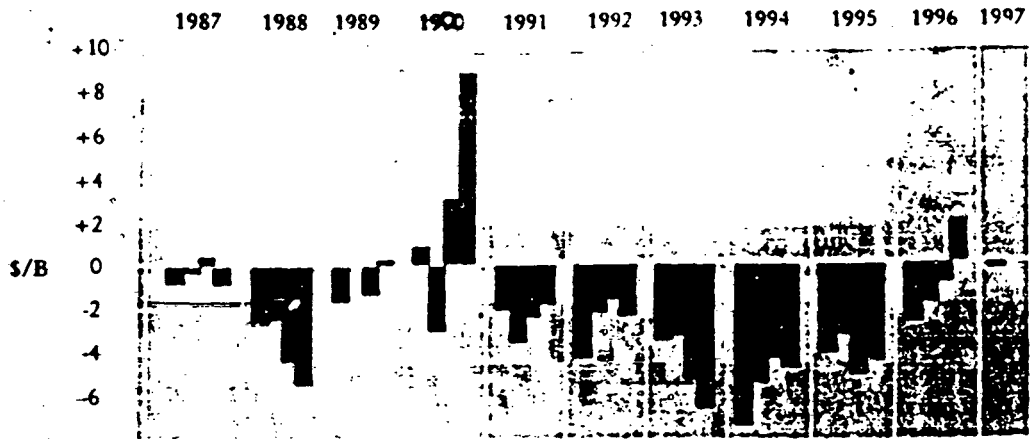
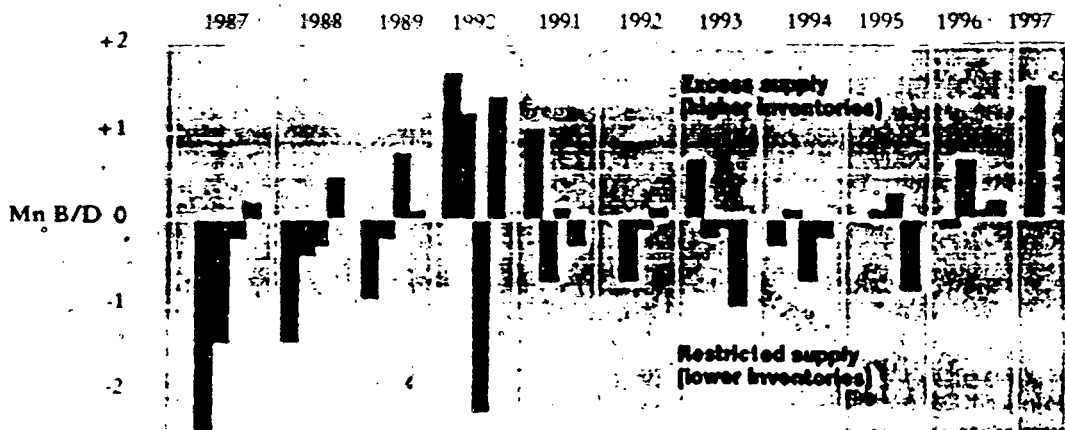


Figure 2

OPEC's Supply Management Performance – Quarterly Basis (1Q 1987-1Q 1997)

Difference vs. Demand for OPEC Oil



Source: IEA - Oil Market Report.

According to Nordine Ait Laoussine Quota "to reflect OPEC's rule as a residual supplier, I have adjusted the call on or the demand for OPEC oil to take account of inventory movements with a typical pattern of stock draw of 1.5 million b/d in Q1 stock build of 1 mn b/d in each of Q2 and Q3 and a stock draw of 3.0 mn b/d in Q4, resulting in no stock exchange for the year as whole which broadly typical of what we have experienced an average over the period under consideration, as the increase in inventories required to meet higher demand has been broadly offset by the industry's drive to operate with less stocks. The difference between adjusted call on OPEC crude and OPEC's actual output is shown at the top of the chart in a situation of over supply when World investors are increased beyond normal levels and at the bottom of the chart in the converse situation when these investors are not replenished adequately as result of restricted OPEC suppliers the above figure shows that the OPEC supply performance was not very bad. OPEC supply was an excess of demand in less than half of the times to be specify in 18 out of the Q1 quarters under consideration in fact, in only 15 out of 41 quarters it can be execute the free for all the periods Q1 88, Q4 90 and Q1 91.12

Therefore, the practical relation between the OPEC countries which only help to determined the achievements of the OPEC in the

12: Nordine Ait Laoussine "Oil Industry, Challenge and Change" MEES, May, 1997.

world oil market. According to figure-1 performance of OPEC for the last decade 1987 to 1997 has analysed. The above figure shows that OPEC performance in achieving its price target was grossly inadequate. on a quarterly basis, OPEC missed its target and was in the "red" almost systematically. There are a few exceptions, such as Q3 87, Q2 and Q4 89, Q1, Q3 and Q4 90 and Q4 96 ect. foot of the Q1 quarters under considerations and that includes the effect shows that Gulf war. The figure shows that it is very poor mangement.

According to Nordine Ait Loussine Quote "my is that such a dismal performance cannot be systmatically attributed to OPEC's excess supply but rather to the pricing system adopted by member countries and ther vediance on varrow imperfect and unrepresentative markets. It is now widely accepted that a rise or a full in these markets does not neccessarily indicate a supply /demand imbalance in the world market.

Figure 1

OPEC'S Price Setting Performance – Quarterly Basis (1Q 1987-1Q 1997)

Difference vs Price Target (\$/B)
($\$18/B$ up to 2Q 1990, $\$21/B$ thereafter)

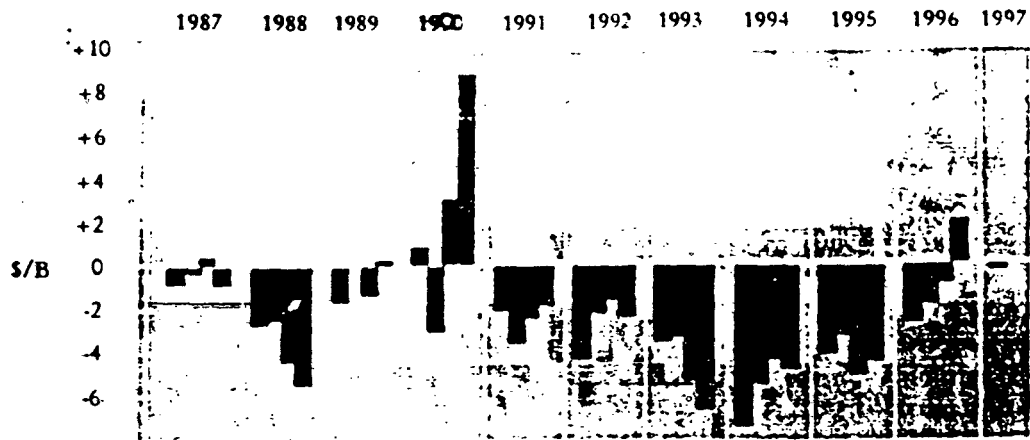
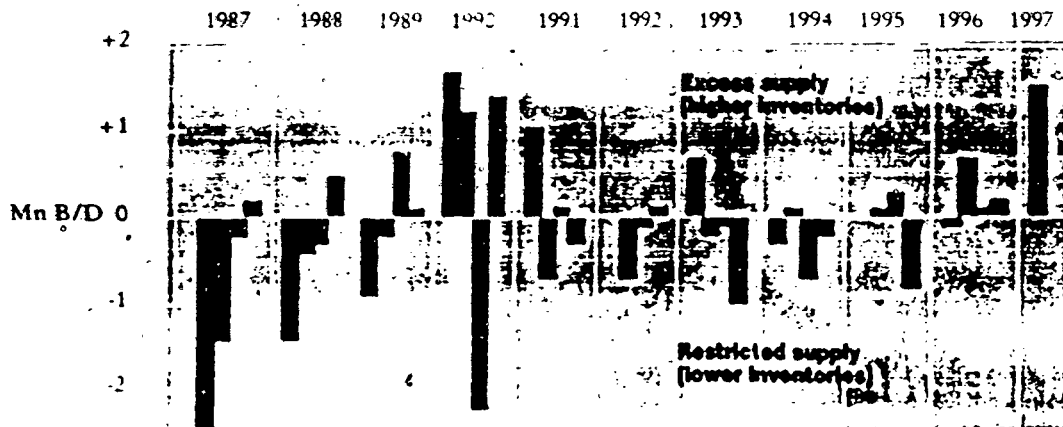


Figure 2

OPEC's Supply Management Performance – Quarterly Basis (1Q 1987-1Q 1997)

Difference vs. Demand for OPEC Oil



Source: IEA - Oil Market Report.

CHAPTER-4
EVALUATION OF OPEC

CHAPTER-4

EVALUATION OF OPEC 1990-96

OPEC was born with a limited aspiration. The expectations of the original members viz. Venezuela, Iran, Kuwait, Saudi Arabia and Iraq were modest nature. The transnational oil firms and western governments were purely interested in the new organisation. Building on a series of limited success, bringing additional members into its rank and steadily increasing its negotiating power and assertiveness, however, OPEC became the single most dominant power in the world oil industry. Its success often achieved at the expense of the oil companies and their home government have humbled the colonial overseas of the member countries and partially restructured the world economy, creating the largest wave have capital following from the developed to the developing countries in history. The organisation has been pride of third world (despite of the inability of non-oil producing developing countries to afford their of inflated oil bills) other groups have sought to emulate OPEC's success. The political and economic demands embodied to the call for a new international economic order has been partially stimulated by the organisation experience and OPEC members have taken a lead in role in the non-aligned movement among third world nations.¹

1. Shineen Hunter "OPEC and the Third World, The Politics of Aid" pp.43, Worcester, 1989.

Whether or not OPEC is a "cartel" has been a question that continues to be mooted. There can be little disagreement, however, that the organisation has been instrumental into shifting the scale of bargaining power in favour of the member states. In the process, it has gained control over pricing, production, the various issues, consumer-producer, co-operation energy-security quations, interdependence of price management-quota management aspect of oil companies.

In 80's, ERIC DAVIS's argued that quote "the increasing economic interdependence between OPEC states and the western countries reduce the possibilities of renewed conflict between oil producer and oil consumer".² In other words, the advance industrialised countries and OPEC nations increasingly seek to place them their political and economic disputes. During the period of 1990's, the OPEC countries came across major set back due to increasing supply from non-OPEC countries and emergence of alternative sources of energy like natural gas. However, major problems faced by the OPEC because of its lack of competition between producer and consumer countries. As within OPEC there is big oil producer and small oil producer in the early 1990's formation to major regional block could not ventilate the co-operation to cope the competition of the market. Iraq's aggressive

2. ERIC Davis "The Political Economy of the Arab Oil - Producing Nations Convergence with Western Interest Studies in Comparative International Developments Summer, 1979.

nature and its conflict with Kuwait and Saudi Arabia brought OPEC cartel into danger. Although the most of the OPEC nations are facing the economic crisis of OPEC countries which are more organised than OPEC during the 1990's. Some countries like Iraq wanted more oil revenue only because of the arm race and to receive the economic condition which was suffered during Iraq-Iran war. It is also western interest and its hegemony which brings the conflict among OPEC use oil as weapon.

It is stabilisation of price could enhance OPEC power, as market is vertically interrelated and very fundamental nature of market is competition. It always lead to conflict nature than co-operation. The market fundamental says that when demand is more and supply is less then the price will rise. But it does not operate in the all cases. There are some government and its political nature which determined the market conditions. GAD G.GILLBER, in his book "Middle East Oil Decade and Beyond" "the early 1920 to 1970 the struggle for the control of middle eastern oil has passed through five stages. During the first stages 1920-30's, it was the period of intense competition from the control production among the major oil companies. During the second period, a new conflict for the control the oil production in the oil industry commenced. In this period Iran has conflict with major oil producing countries Venezuela, Saudi Arabia. The significances of second period was the nationalisation of oil companies. During the third stages. It was sizeable increases in oil consumption in

industrialisation economic that lacked abundant energy resources such as countries like Italy and Japan to force them to seek ways of reducing their dependences on the major oil producing countries. Which is their chief oil suppliers and their by reduces rising outlays in foreign currencies on oil imports. During the fourth stage, the emergences of joint venturer occurred. However, these development erode the status of the major in their negotiation with the local government over the old and new concession. The emergencies of the joint venture frame work thus contributed to the reversal that took place in the control of oil production in the middle east at the start of 1970's.³

During the fifth stage in the struggle for control took place between the 1971-79, when the major lost control of oil production in the areas where they had enjoyed exclusive right since 1920's and 1970's with the control of passing to domestic national companies. In the early 1970 both libia and Iraq unilaterally nationalised their production concession and the rights which have been granted to foreign companies, but the other oil producing states avoided unilateril nationalisation of foreign companies, through the "participation process."

The participation in 29th OPEC congress, held in 1971. At the begining of 1972 all the major agreed to promote the

3. G.G.Gilber, "Middle East Oil Decade and Beyond" University of Haifa and Moshe Dayan Centre Tal Aviv University, 1997.

application of participation principles. The bargaining power of the local government in the process of transfer of control was further enhanced October 1973 when OPEC began fixing the price of oil in the world market without prior negotiation with the majors. The struggle for control of production ended in the 1970's. The local government not only extracted the revenue but also enjoyed the enormous political power at home and abroad. The control of production also allowed the local government to decide the destination of oil marketed from their territory with varying degree of effectiveness. There was a new form of agreement evolved between producer and consumer government in the late 1970's onwards between Iraq and, France, Iran and Japan and Libya and Turkey".⁴

In the 1970's the oil market experienced condition of over demand. It was the seller market determined amongst of oil produced influence price, for marketing destabilisation and dictated terms of supply. The political power to the oil states governments again the market condition changed after 1983. In this period the buyers determined the condition of market.

Since end 1977 meeting of OPEC came across a new phase called new international economic order. In this phase a new kind

4. Ghanem "OPEC, the Rise and Fall of an Exclusive Club", London, 1973.

of forum was formed for the negotiation between developing and developed countries. In 1980 a special session was major efforts for global negotiations. However, this initiative was fully successful, but the marginal success of this agreement was established of common fund for commodities to help stabilise the market prices. During this period the relation between the OPEC and third world has reached an important point because of OPEC was welcomed by the third world. Since 1960's OPEC was getting support to form the third world countries. It is because of third world countries main objective for economic co-operation, OPEC played a vital role for the developing countries, However, there was also anti-opec propaganda which was not only the reason for increased tension between OPEC and the third world. Since the oil price increases of 1973. The OPEC countries had given considerable amount of aid to developing countries but this assistance was not offset the negative effect of the oil increases and was doubtful that it could do in latter, unless there was massive increase in the volume of OPEC aid.⁵

OPEC has been sensitive to these development and since 1978, when its long term strategy committee was established. It has been trying to develop a new strategy to deal with the problem of the third world. Detail of OPEC's strategy were expected to be

5. Shireen Hunter, "OPEC and the Third World the Politics of Aid" PP.158-162, Worchester, 1989.

unvielded at the organisation tweenth anniverssary meeting to be held in baghdad in novermber 1980, but it was cancelled because of Iran and iraq war.⁶

INTRA OPEC CONFLICT

In 1990, the conflict within the OPEC beacuse vital factor for the oil market, Within OPEC, it was Iran which has the musscle the to apply pressure on Saudi Arbia about oil price trends. Tehern continues to voice concern about OPEC failure to achive the minimum reference price for the OPEC basket of crudes, which has been unchanged from the \$21 barrel target agreed on july 1990. At the end of August 1990, Iran oil Minister Gholam Reza Aqazade visited Saudi Arabia Kuwait Oman and UAE calling from production restraimmedin the support of the price goal. At the June OPEC ministerial meeting Iran decleread that it was not prepared to accept any increse in the opec production ceiling for the fourth quarter unless the referance prince to closeer to the target set by the greavere meeting. Some progress has been made on this front durring 1990 summer's with references price rising above 419 a barrel in mid august but this was mainly due to the seek caused by the soviet crisis and a focast that the oil production in the soviet union in 1991 would be down by atleast 10%. The rise in prices could take the edge Iran's compitent in

6. Ragaei El Mallakh (ed.) "OPEC: "Twenty Years and Beyond" PP.1-15, West View Press, 1982.

grevera more fundamentaly Iran is unlikely to seek a confradition with Saudi Arbia.

Since the kuwait crisis began anaylyst said that if there was a clash between the two OPEC gaints not earlier, OPEC's big worry since start of the embrago has been how to accomodate the resumption of Iraqi's export into the quata structurer. Non OPEC state were willing to sacrifice output to make room from Iraqi's under the exiting selling but in 1994 the fear of IRAQI'a factor was fading. The UN security council has due to learn in July 1994, that incharge mostly complined with its demand. The oil market were already anticipating a resumption of export and the factoring Iraqis oil into their calculation from the middle of 1995.7

EVAULATING OPEC IN THE THIRD WORLD CONTEST

Evaulating OPEC contribution to improving third world development prospect has become the most significant OPEC and oil market in third world contest. There were many factors that have contributed to OPEC's failure to achive a structural reforms to the international economic system have also been at the root of its aid ineffectiveness. The interaction of several factor rather than single one has been principal colprit. Thus, for example

7.. Willrich "Energy and World Politics" PP.1-27, Free Press, 1975.

economic difference among the OPEC members have contributed to the failure to establish a sizeable, in post cold war oil market situation, since OPEC members with the largest monetary surplus has also have been several skilled man power problems. Therefore, may have understandably been willing to contribute heavily to market situation that would essentially have been run by experts from other OPEC and in which they could have minimal influences. Regional factor have trended to strengthen the impact of economic consideration for instances, the requirements of intra Arab politics have led to the Arabs members of OPEC neglect border in the post cold war era objective. Therefore in order to demonstrate their commitment to common Arabs goals and to the enhancement of Arab prestige, these countries have developed a number of development Institution to which the world (Arab Islam govern the Arab tendency wrongly to equate Islam with Arabism) have been attended. The market situation had led to wrote and has hampered a more vigorous comprehensive of OPEC in the postcold war era and technical resources within the development Institution with the potential perhaps to become a viable alternative to the world bank. It has also led to the world bank domination of OPEC aid Institution. Since the former has been the primary if not sole source of technical advice through among other things proving key staff members particularly during the Institution formative years.

Furthermore, the impact of regional factor has been strengthened by the inherent weakness of key OPEC members and vulnerability of their political factor that have made them extremely susceptible to pressure from the developing countries with highly threatened implication for instances important roles have been played by the over dependence of Saudi Arabia on the United States for its security and given dominant US position within the world bank US desire to maintain its permanent role.⁸

Concerning the quality of OPEC aid again the same factors and their interaction have been the problem. Thus, for example various factors have led very negative impact on motivation for OPEC aid and consequently on its geographical distribution (for example, the military weakness of key OPEC members the highly unstable nature of their regional environment and the requirement both of Intra Arab politics and the global balance of power), Since these factors have meant that political and strategic rather than development consideration have decided the direction of OPEC aid in the international economic order.

The technology deficiency of OPEC countries have also have a negative impact on the quality of their aid. In particular, because of their lack of expertise, these countries have not been able to develop innovative development and aid strategies

8. Doran, Charles F. "Oil, Myth and Politics" Cambridge University Press, P.10, 1977.

that might have been better suited to meet post cold war era requirement. As a result it may essentially have trend to emulate the development countries and existing aid Institution.⁹

With the regard to increase the trade and other OPEC-Third world economic relation once again the factor discussed above have had limitary impact. Thus, the example the desire of key OPEC members to influence the attitude of industrialised countries towards the Arab-isral conflict has led them to better economic incentives essentially increased trade loans and investment. In turn, this step has reduced the available OPEC financial surpluces to be invested in the post cold era for the purchase from developing countries.

Nevertheless, it must be stressed that both low development quality OPEC aid and OPEC's failure to use aid advances third world objectives have to a considerable extent due to the general economic political problems of the post cold war era. For instances, the low level of OPEC trade has essentially been due to the underdeveloped nature of the third world economic has simply have not produced the goods that OPEC members have heeded. Like wise the absolute economic and trade dependence of many third world countries and OPEC for example Algeria efforts to

9. Skeet (Ian), "OPEC Twenty Five Years of Prices and Policies" PP.11-13, Cambridge, University Press, 1991.

forgo closer relations with different western countries have thus been frustrated by the incitative links between the french speaking African countries and France rooted in their colonial past. In the arab world similar links between the north African countries and france have hampered intra Arab trade defencies in the infrastrucurer of the third world countries have also led to low level of OPEC investments, resulting in a less than optimal use of available aid and investment. In the same vein manifestation of excessive nationalism, regionalism ethnic and religious centeredness by OPEC members have essentially effaced the fragmented state of the third world which still lacks a developed sense of collective identity.

CONCLUSION

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OPEC

OPEC countries to pursue the role that was established in the OPEC statute when the organization was formed in 1960. In particular, OPEC member countries continue to strive to maintain stable suppliers to oil consumer, a reasonable price for producers and reasonable rate of return to investor on the industry. OPEC ability to maintain its stabilising role in reviving to a great extent upon its share of world oil production, OPEC's response is to engage in dialogues with producers and consumers. OPEC is committed to playing an active role in international discussion in environmental forces, in meeting among petroleum producers and between producers and consumers. It seeks to promote greater awareness and understanding about these issues and the adoption of common sense solution. OPEC supporters effort to develop co-ordinate, adequate response to environmental concerns and to tackle proven phenomena in a systematic and equitable manner as major issue of OPEC after 1990's to enhances its powers in the world oil market through the stabilization of prices both in the world oil market through the stabilization of prices both in the long and short term with a view to eliminating harmful and unnecessary fluctuations. Moreover, one of the objectives of the international energy agency [IEA] which groups 21 developing countries is "co-operation with oil producing and other oil consuming countries with a view to developing a stable international energy trade, as

well as the national management and use of world energy resources in the interest of all countries. The objectives of producers, consumers and investors are essentially complementary as far as oil market price stability, fair returns on capital, stable oil revenues, supply security and co-operation are concerned. However, there have been some ideological differences between producer and consumers as to the role of the market in oil price determination. While the major oil consuming countries of the west hold the view that the market is best allocation of prices, the oil producing countries maintain that since the market is essentially imperfect, it should be supposed to mediate "market failures" this could be better done through the mutual understanding and co-operation. However, since 1986 the producers, led by OPEC have announced and followed a policy of price moderation, to enable them to utilise their massive oil reserves to accomplish a smooth and efficient transformation of their respective economies. So the ideological difference between producer and consumer on "free market philosophy" is no longer a major or sensitive issue. To challenge face with non-OPEC supply. Increase in world demand for oil over the last two decades has been the goodness for OPEC, but most of the growth in demand has been taken by non-OPEC producers particularly from 1990's. As OPEC seeks a stable market both from the short term and for long term for its likelihood depends on oil. One of the main reasons behind the rise on non-OPEC production is the favourable upstream investment condition offered including lower taxes and higher

royalty payments of the oil average of the past. However, what has really made the difference from the 1985 is the transmutation of business finding, developing and lifting oil. Even though oil prices have come down from their high of over \$30/b in the early 1980's, oil firm have been to achieve large reduction in upstream cost while making substantial profit in the same time. During 1995 the increases in non-OPEC production has been in north sea, particularly Norway two examples show why this is th case. The NNorwegian from task hydro announced last June a major up grade of the trol field than doubles recoverable reserves and adds in excess of \$8 billion to the value of field. Demand for oil has lready been depended by the taxes imposed on petroleum products in consuming countries. Whereas the price of crude oil has been on a generally declined trend since 1980's, this has been not been fault by end user. The imposed taxes have raised the prices of the petroleum produced in OPEC countries (other than the United States and Canada) to over \$80/b, whereas, OPEC has been last with only a quarter of the per barrel income. The rise of the environment increment has accelerated this process in the past few year and given added excute to the leaving of further taxes. According to a comentary in the May 1995 OPEC Bullitin, the issues of intergration means for the OPEC is the economic integration. It is based on promise that economic integration can render the benefit faced no longer market, economise of scale and collective influence of power in the international economic field. The OPEC has reached the extend of substantial degree of

integration on the world economy especially in trade and commerce.

CO-OPERATION

In global and regional economic integration the key word is "Cooperation" which is totally based on mutual benefit and interest. The mutual interest of all parties both globally and regionally as far as concerned is amongst other things are the stability of oil market the oil industry has experienced tremendous upheavals over the last two decades. So far as evidenced is concerned the market prices of oil which shot up from all time low of US\$1 per barrel in the 1970's to over US\$30 per barrel in 1980 and then fall down again to US\$8 per barrel during 1986. In 1992, the less than half the level attend during the peak of the crisis.

INTERDEPENDENCE

In the absence of interdependence in the international oil market, where there is no meaningful integration and cooperation among market participant as the oil market is global in nature, which is formed to serve narrow interest an organic whole is splintered with some players seeking short term gains at the expenses of long term growth and stability. As the past two decades shown that the market is totally chaos and short-term gains lead to long term harm, higher prices lead to lower prices and vicious circle of oil struggling to keep its market share is

to set in motion. It is the dichotomy between the upstream and downstream, or the buyer and sellers weakens the market ability to balance itself. In other words, without the recognition of interdependence and conscious promotion of global and regional integrative knowledge, there can be no stability in the oil market.

ENERGY SECURITY

Energy security is the heart of the global oil market and regional integrative security refers to both consumer and producers. To consumers "Security means the availability of supplies at reasonable prices to foster their economic growth and competitiveness". To producers a security means continued access to the market oil importing countries the steady share of oil in the total energy consumption over the long term and fair stable prices at low for their sustainable development over life span of their resources "in other words security in the oil market means the mutual concern of both producers and consumers.

ISSUES OF REGIONAL BLOCKS

Another of major importances in the '90s is the creation of regional blocks the US of Canada in 1990's wider than interest to include Mexico in North American free trade area and members of ASEAN (during 1990). In the South East Asia countries using the need for a regional trade alliances, although this would have trade advantage it is legally before prompted as a measure to

protect those countries which has hurt by creation of trading blocks in the north. This trend to look in word, to exclude or restrict external trading patterns was not a healthy in the long run. OPEC Secretariat and its conference has been, how environmental concern are global in nature, so too are economic and trade concern. These issues of access to markets of restrictive quotas and internal subsidies and protected industries of the creation of stockpiles and wasting of resources. OPEC, always concerns about the issues of International and Regional Blocks and its importances to oil producers and consumes.

OPEC can see that the oil industry concern itself about more than simply pumping oil. It has more than its fair share of headaches the problem to resolve, and it approaches these task through planning and through the fostering of relation between all the parties which have a direct or indirect interest in this precious commodity. In this sense, OPEC serves a major role as one of the few focal points for the industry. OPEC know that the only reasonable way forward is to ensure sustainable development around the world, but tht. this can only come when developing nations have access to markets and technology. The oil industry also needs large amount of new investment, which requires a predictable level of demand and reasonable prices in order to give a fair return to producers and investors.

If OPEC is going to solve these issues it must come together in spirit of co-operation and to develop a dialogue which will help it to find a common path to enrich their lives.

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