OPEC AS CARTEL

BY

BARR. FAB CHUKWUMA ONYISI pnm

DEPARTMENT OF POLITICAL SCIENCE

NWAFOR-ORIZU COLLEGE OF EDUCATION NSUGBE,

Abstract

OPEC (Organization of the Petroleum Exporting Countries) is an inter- governmental organization of twelve developing countries. It has maintained its headquarters in Vienna, Austria since 1965, and hosts regular meetings among oil ministers of its member countries. Statutorily, one of the principal goals is the determination of the best means for safe guarding the organization's interest, individually and collectively. It also pursues ways and means of ensuring stabilization of prices in international market with a view to eliminating harmful and unnecessary fluctuations giving due regard at all times to the interest of the producing nation and the necessity of securing a steady income to the producing countries, an efficient and regular supply of petroleum to consuming nation and as fair return on their capital to those investing in the petroleum industries.

Background

OPEC (Organization of the Petroleum Exporting Countries) is an intergovernmental organization of twelve developing countries made up of Angola, Algeria, Ecuador, Iraq, ran, Kuwait, Libya, Nigeria Qatar, Saudi Arabia, the unity Arab Emirate, Venezuela. OPEC has maintained its headquarters in Vienna since 1965, and hosts regular meeting s among oil ministers of its members of its memberös countries. Indonesia withdrew in 2008 after it became a net importer of oil, but stated it would likely return if it became a net exported again.

According to its statutes, one of the principle goals is the determination of the best means for safeguarding the organizationös interest, individually and collectively. It also pursues ways and means of ensuring stabilization of prices in international market with a view to eliminating harmful and unnecessary fluctuations, giving due regard at all times to the interest of the producing nation and to the necessity of securing a steady income to the producing countries; an efficient and regular supply of petroleum to consuming nation, and a fair return on their capital to those investing in the petroleum industries.

OPEC influence on the market has been wildly criticized, since it became effective in determining production and price. Arab members OF OPEC alarmed the developed world when they use the ñoil weaponò during the Yom Kippur War by implementing oil embargoes and initiating the 1973 oil crisis. Although largely b y previous political explanations for the timing and extent of the OPEC point of view, these change were triggered of largely by unilateral change in the financial system and ensuring period of high inflation in both the developed and developing world. This explanation encompasses OPEC action both before and after the outbreak of hostilities in October 1973, and concludes that ñOPEC countries were only óstaying evenô by dramatically raising the dollar price of oilò.

OPEC ability to control the price of oil has diminished somewhat since then, due to the subsequent discovery and development of large oil reserves I Alaska, the North Sea, Canada, the Gulf of Mexico, the opening up of Russia and market modernization. As of November 2010, OPEC members collectively held 79%of word crude oil reserves and 44% of the worldôs crude oil production, affording them considerable control over the global market. The next largest group of producers, member of the OECD and the post soviet state produced only 23.8% and 14.8%, respectively, of the worldôs total oil production. As early as 2003, concerns were that OPEC members had little excess Pumping capacity which sparked speculation that their influence on crude oil prices would begin to slip.

History

Venezuela and Iran were the first countries to move toward the establishment of OPEC in 1960s by approaching Iraq, Kuwait, and Saudi Arabia and in 1969, suggested that they exchange view and explore avenues for regular and closer communication among petroleum- producing nation. The founding members are Iraq, Kuwait, Saudi Arabia and Venezuela. Latter members include Algeria, Ecuador, Gabon, Indonesia, Libya, Qatar, Nigeria, and the United Arab Emirate.

In 10-14 September 1960, at the initiative of the Venezuelan Energy and Mines minister Juan Pablo Perez Alphonso and the Saudi Arabia Mines Minister Abdullah al-Tariki, the government of Iraq, Iran, Kuwait, Saudi Arabia and Venezuela met in Baghdad to discuss ways to increase the price of the crude oil produced by their respective e countries. OPEC was founder in Baghdad, which h triggered by 1960 law instituted by American president Dwight Eisenhower that forced quotas on Venezuela and Persian Gulf oil importation in favor of the Canadian and Mexican oil industries. Eisenhower cited national security, land access to energy supplies, at time of war. When this led to falling prices of oil in these regions, Venezuelaôs President Romulo Betancourt responded by seeking an alliances with oil producing Arab nation as a preemptive strategy to maintain the continued autonomy and profitability of Venezuelaôs oil resources (Echezona,1993).

As a result, OPEC was found to unify and coordinate membersô petroleum policies. Original OPEC members include Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. Between 1960 and 1975, the organization expanded to include Qatar (1961), and Nigeria (1971). Ecuador withdrew on December 31, 1992 because it was unwilling or unable to pay a $2million membership fee and felt that it needed to produce more oil than it was allowed to under the OPEC quota, although it rejoined in October 2007. Similar, concerns prompted Gabon to suspend her membership in January 1995. (Benjamin, 2008) Angola joined on the first day of 2007. Norway and Russia have attended OPEC is not averse to further expansion, Mohammed Barkindo, OPEC‗S Secretary General, recently asked Sudan to join. Iraq remains a member of OPEC, but Iraqi production has not been a part of any OPEC quota agreements since March, 1998.

In May 2008, Indonesia announced that it would leave OPEC when its membership expired at the end of that year, having become a net importer of oil and being unable to meet its production quota. Statement released by OPEC on 10 September 2008 confirmed Indonesia‗s withdrawal, nothing that it ―regretfully accepted the wish of Indonesia to suspend its full membership in the organization and recorded its hope that the country would be in a position to rejoin the organization in the not too distant future‖. Indonesia is still exporting light, sweet crude oil and importing heavier, more sour crude oil to take advantage of price differentials (import is greater than export) due to Air pollution in Indonesia still being low compared to china or united states.

1973 Oil Embargo

The persistence of the Arab-Israel conflict finally triggered a response that transformed OPEC into a formidable political force. After the Six Day War of 1967, the Arab Members of OPEC formed a separate, overlapping group, the organization of Arab Petroleum Exporti8ng countries, for the purpose of centering policy and exerting pressure on the west over its support of Israel. Egypt and Syria, though not major oil-exporting countries, joined the later grouping to help articulate its objectives. Later, the Yom Kippur War of 1973 galvanized Arab opinion Israel to withstand Egyptian and Syria forces, the Arab world imposed the 1973 oil embargo against the United States and Western Europe, while non Arab OPEC members did not.

1975 Hostage Incident

On 21 December 1975 Ahmed Zaki Yamani and the other oil of the members of OPEC were taken hostage by a six-person team le by terrorist carols the Jackal (which included Gabriele Krocher-Tiedemann and Hans – Joachim Klein), in Vienna, Austria, where the minister were attending a meeting at the OPEC headquarter. Carlos planned to take over the conference by force and kidnapped all eleven oil ministers in attendance and held them for ransom, with the exception of Ahmed Zaki Yamani and Iran‗s Jamshid Amuzegar, who were shot dead.

As Carlos entered the conference room and fired shots in the ceiling, the delegates ducked for Ahmed Zaki Yamanio and then divided the sixty-three hostage into groups. Delegates of friendly countries were moved toward the door, neutrals were placed in the center of the room and the ENEMIES were placed along the back wall, next to a stack of explosives. This last group included those Saudi Arabia, Iran, Qatar and the UAE. Carlos demanded a bus to be provided to take his group and hostage to the airport, were a DC-9 airplane and crew would be waiting in the meantime, carols briefed Ahmad Zaki Yamani on his plan to eventually fly to Aden, Yamani and Iranian minister would be killed.

The bus was provided the following morning at 6:40 as requested and 42 hostages were bordered and taken to the airport. The group was airborne just after 9:00 and explosives placed under Yamaniës seat. The plane first stopped in Algiers, where carols left the plane to meet with the Algerians foreign minister. All 30 non-Arab hostages were released, excluding Amuzegar.

The refueled plane left for Tripoli where there was trouble in a acquiring another plane as had been planned. Carlos decided to instead return to Algiers and change to a Boeing 707, a plane large enough to fly t Baghdad nonstop. Ten more hostages were released before leaving.

With only ten hostages remaining, Boeing 707 left for Algiers and arrived at 3:40 a.m. after leaving the plane to meet with the Algerians; Carlos talked with his colleagues in the front cabin of the plane and then told Yamani and Amouzegar that they would be released at mid-day. Carlos was then called from the plane a second time and returned after two hours.

At this second meeting it is believed that Carlos held a phone conversation with Algerian President Houari Boumedienne who informed Carlos that oil Ministersô deaths would result in an attack on the plane. Yamaniës biography suggests that the Algerians had used a convert listening device on the front of the air craft to overhear the earlier conversation between the terrorist, and found that Carlos had in fact still planned to murder the two oil ministers. Boumedienne must also have offered Carlos asylum at this time and possibly financial compensation for failing to complete his assignment (Echezona, 1998).

On returning to the plane Carlos stood before Yamani and Amuzagar and expressed his regret at not being able to murder them. He then told the hostages that he and his comrades would leave the plane after which they would all be free. After waiting for the terrorists to leave, Yamani and the other nine hostages followed and were taken to the airport by Algerian Foreign Minister Abdelaziz Bouteflika. The terrorists were present in the next lounge and Khalid, the Palestinian, asked to speak to Yamani. As his hand reached for his coat, Khalid was surrounded by guards and gun was found concealed in a holster.

Some time after the attack it was revealed by Carlosô accomplices that the operation was commanded by Wadi Haddad, a Palestinian terrorist and founder of the popular front for the Liberation of Palestine. It was also claimed that the idea and funding came from an Arab President, widely thought to be Muammar Al-Gaddafi.

In all the years following the OPEC raid, Bassam Abu Sharif and Klein claimed that Carlos had received a large sum of money in exchange for the safe release of the Arab hostage and had kept it for his personal use. There is still some uncertainty regarding the amount that changed hands but it was believed to be between US$20million and US$50 million. The source of the money is also uncertain, but, according to Klien, it was from ñan Arab president. ñ Carlos later told lawyers that the money was paid by Saudis on behalf of the Iranians and was, ñdiverted en route and lost by the revolution. ñ(Echezona, 1998)

The 1980s Oil gluts

After 1980, oil prices began a six-year decline that culminated with a 46 percent price drop in 1986. This was due to reduced demand and over-production that produced a glut on the world market. Around this period, Iraq also increase its oil production to help pay for the Iran-Iraq war. Revenues fell in the 1980s (Echezona, 1998).

Responding to war and low prices

Leading up to the 1990-91 Gulf war, Iraqi president Saddam Hussein Advocate that OPEC push world oil prices up, thereby helping Iraq, and other member states, service debt. But the division of OPEC countries occasioned by Iraq-Iran War and Iraqi invasion of Kuwait marked a low point in the Cohesion these conflicts dissipated, oil prices began to slide dramatically.

After prices slumped at around $51a barrel in the late 1990s, concerted diplomacy, sometimes attributed to Venezuelaôs president Hugo Chavez, achieved a coordinated scaling back of oil production beginning in 1998. In 2000, Chavez hosted the first summit of heads of state of OPEC in 25 years. The next year, however, the September 11, 2001 Afghanistan and 2003 invasion of Iraq and subsequent occupation prompted a surge in oil prices levels far higher than those targeted by OPEC during the preceding period. Indonesia withdraw from OPEC to protect its oil supply interests (Newswatch, November 8, 1998)

On November 19, 2007, global oil prices reacted strongly as OPEC members spoke openly about potentially converting their cash reserves to Euro and away from the US dollar.

Production disputes

The economics needs of the OPEC member states often affect the internal politics behind OPEC production quotas. Various members have pushed for reductions in production quotas to increase the price of oil and thus their own revenues. These demands conflict with Saudi Arabiaôs stated long-term strategy of being a partner with the Wordôs economics powers to ensure a steady flow of oil that would support economics expansion. Part of the basis will drive developed nations to conserve and develop alternative fuels. To this point, former Saudi Oil minister Sheikh Yamani famously said in 1973: ñthe stone age didnôt end because we ran out of stonesò (Echezona, 1995).

Once such production dispute occurred on September 10, 2008, when the Saudis reportedly walked out of OPEC negotiating session where the organization voted to reduce production. Although Saudi Arabia OPEC delegates officially endorsed the new quotas, they started anonymously that they would not observe them. The New York Times quoted one such anonymous OPEC delegates as saying ñSaudi Arabia will meet the Marketôs demand. We will see what the market requires and will not leave a customer without oil. The policy has not changedò.

Impact on International Climate change in initiatives

OPEC countries have had a disproportionate role in the group of 77(G-77) country meetings. The G-77 is one of the most influential global forums for enacting international efforts against climate change. From 1994 to 2004, an OPEC country held the chair position in the G-77 meetings six out of eleven years.

Membership
Current members
OPEC has twelve member countries: six in the Middle East, four in Africa, and two in South America.

Country	Region	Joined OPEC	Population (July 2008)	Area (Km^2)
Algeria	Africa	1969	33,779,668	2,381,740
Angola	Africa	2007	12,531,357	1,246,700
Ecuador	America South	2007	13,927,650	283,560
Iran	Middle East	1960	75,875,224	1,648,000
Iraq	Middle East	1960	28,221,180	437,071
Kuwait	Middle East	1960	2,596,799	17,820
Libya	Africa	1962	6,173,579	1,759,540
Nigeria	Africa	1971	158,259,000	923,768
Qatar	Middle East	1961	824,789	11,437
Saudi Arabia	Middle East	1960	28,146,656	2,149,690
United Arab Emirates	Middle East	1967	4,621,399	83,600
Venezuela	South America	1960	26,414,816	912,050
TOTAL			**369,368,429km**	**11,854,977km**

Former Members

Country	Region	Joined OPEC	Left OPEC
Gabon	Africa	1975	1994
Indonesia	South East Asia	1962	2008

The United States was a de facto member during its formal occupation of Iraq via the Coalition Provisional Authority.

Indonesia left OPEC in 2008 because it ceased to be a net exporter of oil. It could not fulfill the demand of its own countryòs needs as growth in demand outstripped output. The situation was made worse because of weak legal certainty and corruption that deterred foreign investors from investing in new reserves in Indonesia. In recent times, the government has increase financial incentives for foreign firms to invest in exploration and extraction but has found itself forced to import more supplies from the likes of Iran, Saudi Arabia and Kuwait. Indonesiaòs departure from OPEC will not likely affect the amount of oil it produces or import. The countryòs growing dependence on imports is proving increasingly expensive as global prices soar (Tell Magazine 3rd July, 2008).

Economics

OPEC is a swing producer and its decisions have had considerable influence on international oil prices. For example, in 1973 energy crisis OPEC refused to ship oil to western countries that had supported in the Yom Kippur War or 6 Day War, which Israel had fought against Egypt and Syria. This refusal caused a fourfold increase in the price of oil, which lasted five months, starting on October 17, 1973, and ending on March 18, 1974. OPEC nations ï including many who had recently nationalized their oil industries ï joined the call for a new international economic order to be initiated by coalitions of primary producer. Concluding the First OPEC summit in Algiers they called for stable and just commodity prices, an international food and agriculture program, technology transfer from North to South, and the democratization of the economy system. Overall evidence suggests that OPEC did act as a cartel when it adopted output rationing in order to maintain price (Aribasala, 1985).

Sustainability

According, to Mikael Höök, who carried research on the life cycles of oil fields, despite technological advances that increase the productivity of oil wells, the rate of decline of oil fields will eventually increase as times continues. Energy policy expert Joyce Dargay accuses OPEC, along with several other institutions, of drastically under predicting future oil demand by 2030 by more than 25%, a difference of 28 million barrels a day about twice the current amount supplied by Saudi Arabia.

Quotas circa 2005

OPEC Quotas and Production in thousands of barrels per day.

Country	Quota (7/1/05)	Production (1/07)	Capacity
Saudi	10,099	9,800	12,500
Algeria	894	1,360	1,430
Angola	1,900	1,700	1,700
Ecuador	520	500	500
Iran	4,110	3,700	3,750
Iraq		1,481	
Kuwait	2,247	2,500	2,600
Libya	1,500	1,650	1,700
Nigeria	2,306	810	2,250
Qatar	726	810	850
United Arab Emirates	2,444	2,500	2,600
Venezuela	3,225	2,340	2,450

AFRICAN IN OPEC

Nigeria joined OPEC in 1971 as its eleventh member. Even before its formal application for membership, Nigeria had been largely a defector OPEC country. It had adopted OPEC procedures in posted price determination and royalty expensensing. It had control of the oil industry after those in OPEC the countries, especially the Gulf States and Venezuela. Clearly, it was more effective to brandish OPEC policy documents at the oil companies, rather than similar documents drawn up unilaterally by the Nigerian government.

Initially, fears were expressed in government circles against Nigeria joining OPEC, on the grounds that this would lead to the countryôs involvement in the Middle East conflict where certain OPEC countries seemed increasingly inclined to employ oil as political weapon. It was also feared that the OPEC practice of oil output at a level below its requirements for generating development finance these fears were allied by demonstrating non-involvement of non-Arab OPEC countries, such as Iran Indonesia and Venezuela, in previous Middle East conflicts. It was also required unanimity for mandatory decisions, thereby guaranteeing the sovereignty of each member/country in the determination and promotion of its natural interests. (Aribisala,1985).

Other OPEC members from African continent are Libya who joined in 1962, have similar low-sculpture quality. Algeria joined in 1969; Gabon became a member in 1975 and left OPEC in 1994, while Angola became also a member in 2007. Nigeria oil for example was particularly vulnerable market strategies of these emergent non-OPEC competitors of Nigeria and other light crude OPEC producers, including Libya were compelled to reduce their oil price unilaterally because of increasing reductions in their oil market shares.

Conclusion

Echezona noted that future of OPEC, everything points to the political differences between and within OPEC members. Iran for example, had always supported Kurdish rebels against Iraq, there was eight years Iran/Iraq War, and then the gulf war of 1991 in which major oil producer in the Arab World were involved in the multinational coalition to crush Iraqi aggression on Kuwait. The Iranian revolution of 1979 put a damper on trade relations between Iran and major oil consumers in the West. The same is the categorization of Iran and Libya as sponsors of International terrorism.

The critical point about OPEC is that it is a limited governmental alliance designed to maximize returns from oil. The possibility of cartelization such as cheating has been borne out by the way other oil producers cashed in on the Arab oil embargo of 1973 and Gulf War in 1991 and the eight years Iran-Iraq War which crept in much of the 1980ôs. Why this has been so is because of different economic interests of OPEC members and differences due to the quality of oil which each country produces.

The West had been anxious to maintain the stability of the Saudi railing circles because of Saudi oil and the manner in which it could manage international oil flow in Western interests. The Saudis can suspend production in times of surplus and can determine the threats of price like due to the vastness of their oil producing capacity. But today revolution is blowing across Arab World and this may break the hegemonic umbrella.

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