Chapter V

OPEC AND ITS MARKETING POLICY

Previous chapter covered the marketing performance of IOCL, BPCL, HPCL and IBP with their production, sales, marketing strategy, future plans etc. Also this chapter highlighted Globlisation and its impact on Indian petroleum industry in terms of production, marketing and distribution. This chapter will cover the OPEC and its marketing policy. It includes structure, performance and functions of OPEC, OPEC’s control over oil production, its pricing policy and petroleum products exported by OPEC.

Introduction:

Oil, due to its specific nature, is a key product and a strategic commodity in today’s world. Industry this is worldwide dependent on it for survival and its cost will always affect the price of the finished product, thereby its control is a powerful challenge before today’s international market. Organisation of Petroleum Exporting Countries (OPEC) member states had an early understanding of this new international economic system, and its potential to shift the balance of power from the West. It can be argued that they
demonstrated this understanding in the early 1970s, as evidenced by the drive of its members towards fast economic growth and development.

Over the last more than three decades some experts have highlighted the vital role that OPEC has played in the socio-economic development and the rapid growth of the member states. Moreover, because OPEC has control over vast petroleum deposits it has been perceived more as a potential political organisation than as an economic one. It is opined that OPEC should not control oil in the same way as other products in the global market. There appears to be opposing morals for the West, where it is perceived to be fair to control and dominate many products, in the interest of their own countries economic security but unfair for others, especially in developing countries, to do the same with their resources, namely oil. This argument will be highlighted later on through the specific study of Saudi Arabian development experience. During the immediate post cold war period, international attention was focused on the tense situation between the Eastern Block and the Western powers. At the same time oil-rich countries such as Saudi Arabia, Iraq,
Kuwait, Iran and Venezuela founded a new international cartel, namely OPEC. Among all international trade organisations, OPEC has proved to be a good example of an alternative international political power with an undisputed amount of bargaining power and one of the few powerful organisations not controlled by the West.

Structure of OPEC:

On 14th September, 1960, OPEC was formed. The Founder members were Saudi Arabia, Iraq, Iran, Kuwait and Venezuela. Since then the membership has been expanded to include Algeria, Angola, Indonesia, Libya, Qatar, United Arab Emirates and Nigeria, making for a total of twelve country members while OPECs headquarter is in Vienna; in table 5.1, shows year of joining as a OPEC member, population, total land area, crude oil reserve, their GDP per capita. Since its formation OPEC quickly began to dominate the global oil industry market. Prior to this date these oil rich countries had little or no control over the decision making within this industry. Particularly, in the most important areas of the oil business, such as in the marketing, development, pricing and production of the resources, On the other hand,
the member states were, at the time, far away from having any long-term national development plans.

The following table indicates the particulars of member countries of OPEC.

**Table: 5.1: OPEC membership, population, total land, crude reserves, GDP, 2006.**

<table>
<thead>
<tr>
<th>Country</th>
<th>Joined as OPEC member</th>
<th>Population</th>
<th>Land area</th>
<th>Crude oil Reserve</th>
<th>GDP per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Years</td>
<td>Million</td>
<td>1000 Sq. meter</td>
<td>Billion Barrels</td>
<td>Dollars</td>
</tr>
<tr>
<td>Algeria</td>
<td>1969</td>
<td>33.13</td>
<td>2382</td>
<td>12.20</td>
<td>3462</td>
</tr>
<tr>
<td>Angola</td>
<td>NA.</td>
<td>16.41</td>
<td>1247</td>
<td>9.04</td>
<td>2667</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1962</td>
<td>223.57</td>
<td>1904</td>
<td>4.37</td>
<td>1629</td>
</tr>
<tr>
<td>Iran</td>
<td>1960</td>
<td>69.48</td>
<td>1648</td>
<td>138.40</td>
<td>3058</td>
</tr>
<tr>
<td>Iraq</td>
<td>1960</td>
<td>29.58</td>
<td>438</td>
<td>115.00</td>
<td>1363</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1960</td>
<td>2.80</td>
<td>18</td>
<td>101.50</td>
<td>34394</td>
</tr>
<tr>
<td>Libya</td>
<td>1962</td>
<td>5.97</td>
<td>1760</td>
<td>41.46</td>
<td>8433</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1971</td>
<td>134.41</td>
<td>924</td>
<td>36.22</td>
<td>858</td>
</tr>
<tr>
<td>Qatar</td>
<td>1961</td>
<td>0.85</td>
<td>11</td>
<td>15.21</td>
<td>61977</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1960</td>
<td>23.49</td>
<td>2150</td>
<td>264.25</td>
<td>14770</td>
</tr>
<tr>
<td>UAE</td>
<td>1967</td>
<td>4.76</td>
<td>84</td>
<td>97.80</td>
<td>35375</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1960</td>
<td>27.03</td>
<td>916</td>
<td>87.04</td>
<td>6735</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>571.47</td>
<td>13482</td>
<td>922.48</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Annual Statistical Bulletin of OPEC-2006)
Above table shows the detail of OPEC members, their year of joining as a member, population, total land area, crude oil reserve, GDP per capita. Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela are founder members then UAE joined OPEC in the year 1971 Angola is the country that joined OPEC lastly. Regarding the population Indonesia is the largest populated country in the OPEC members, while Nigeria is on number second Qatar is the smallest populated country in the OPEC members. Total land area of Algeria is highest among the OPEC member Saudi Arabia is on number second while Qatar is having smallest land area among the OPEC member countries. Saudi Arabia is having the highest crude oil reserve (264.50 Billion barrel), Iran is on second number with 138.40 Billion barrels crude oil reserve while Indonesia is having smallest crude oil reserve. Regarding to GDP per capita Qatar is on number one while Kuwait is on number second. Nigeria has a lowest GDP among the OPEC members.

Indeed, the experience showed that without OPEC’s policies and support member states were unlikely to have achieved their goals individually as can be seen in Table 5.1, which explains the production of oil that varies member to
member. The task can be regarded as even more difficult if we regard oil as the most important budgetary revenue to OPEC members.

The OPEC Statute Stipulates “Any country with a substantial net export of crude oil, which has fundamentally similar interest to those of Member Counties may become a full Member of the Organisation, if accepted by a majority of three-fourth of Full Members, including the concurring votes of all Founder Members”. The Statute further distinguishes between three categories of membership: Founder Members, Full Members, and Associate Members. Founder Members of the Organisation are those countries which were represented at OPEC’s first Conference held in Baghdad in 1960, and which signed the original agreement for establishing OPEC. Full members are the Founder Members, plus Members those countries whose applications for Membership have been accepted by the Conference. Associate Members are the countries which do not qualify for full membership, but which are nevertheless admitted under such special conditions as laid down by the Conference.
The Conference is the supreme authority of the Organization, and consists of delegations normally headed by the Ministers of Oil, Mines and Energy of Member Countries. A delegation may consist of one or more delegates, as well as advisers and observers. When a delegation consists of more than one person, the appointing country should nominate one person as the Head of the Delegation. The Conference generally meets twice a year, in March and September, and in extraordinary sessions whenever required. It operates on the principle of unanimity and one Member, one vote. A quorum of three-quarters of Member Countries shall be necessary for holding a Conference. The Conference Resolutions shall become effective after 30 days from the conclusion of the Meeting, or after such period as the Conference may decide unless, within the said period, the Secretariat receives notification from Member Countries to the contrary. In the case of a Full Member being absent in the Meeting of the Conference, the Resolutions of the Conference shall become effective unless the Secretariat receives a notification to the contrary from the said Member, at least ten days before the date fixed for publication of the Resolutions.
A non-member country may be invited to attend a Conference as Observer, if the Conference decides so. The Conference shall elect a President and an Alternate President at its first Preliminary Meeting. The Conference shall normally be held at the Headquarters of the Organisation, but it may meet in any of the Member Countries, or elsewhere as may be advisable.

Alternate President will hold the responsibility in absence of President, or when he is unable to carry out his responsibilities. The President shall hold office for the duration of the Meeting of the Conference, and shall retain the title until the next Meeting. The Secretary General of OPEC shall be the Secretary of the Conference.

The Conference would look after the following objectives put forwarded by the OPEC members:

1. To formulate the general policy of the Organisation and determine the appropriate ways and means of its implementation;

2. To decide upon any application for membership of the Organisation;
3. To confirm the appointment of Members of the Board of Governors;

4. To direct the Board of Governors to submit reports or make recommendations on any matters of interest to the Organization;

5. To consider, or decide upon, the reports and recommendations of Organization;

6. To consider and decide upon the Budget of the Organization, as submitted by the Board of Governors;

7. To consider and decide upon the Statement of Accounts and the Auditor’s Report, as submitted by the Board of Governors;

8. To call a Consultative Meeting for such Member Countries, for such purposes, and in such places, as the Conference deems it fit;

9. To approve any amendments to this Statute;

10. To appoint the Chairman of the Board of Governors and an Alternate Chairman;

11. To appoint the Secretary General; and

12. To appoint the Auditor of the Organization for duration of one year.
Functions of OPEC:

To understand functions of OPEC, it would be better to have a look upon its Principal Objectives. The Principal Functioning Objectives of OPEC can be enumerated as:

1. Security of supply is a central objective of the Organization, as stipulated in OPEC Statute;

2. To co-ordinate and unify the petroleum policies of the Member Countries and to determine the best means for safeguarding their individual and collective interest;

3. To seek ways and means of ensuring the stabilisations of prices in international oil market, with a view to eliminating harmful and unnecessary fluctuations; and

4. To provide an efficient economic and regular supply of petroleum products to consuming nations, and a fair return on capital to those investing in the petroleum industry.

OPEC's past decisions and actions, particularly since mid-1980s, underline commitment to secure of supply. Logically OPEC wanted security of demand because it’s Member Countries rely heavily on steady petroleum revenues to develop their economies. Secure sales outlets and supply
are essential for steady petroleum revenues. The International petroleum industry is becoming more integrated, in particular with international oil companies becoming more heavily involved in developing upstream sectors. This in itself made it much more difficult for an individual party to threaten security of supply. If we summarize in one word the reason why equitable and stable oil prices are so necessary, that word would be Investment. Investment is the key to the future of any business, and the oil industry is a particularly good example.

In order to meet the ever increasing crude oil demand in the world, sustained investment - running into tens of billions of dollars over the next few decades - is required in OPEC member countries, as well as in other oil producing nations. OPEC countries must reach a balancing point where prices are not too high, so as to encourage excess investment. This would eventually lead to oversupply, which in turn would put downward pressure on prices. But at the same time, prices must not fall too low, to the extent that they may discourage investment. This would lead to future supply shocks, which would eventually lead to price spikes. This is why co-
operation among all oil producers is so important for smooth functioning.

Thus, it is quite apparent that for the oil industry to continue to fulfill its role as the leader of the world economy, all interested members must make their own contribution towards ensuring an adequate and steady flow of investment into exploration and technological development. To achieve the proposed goal, a strong co-ordination should be maintained amongst members so as to ensure fruitful output.

**The Economic Commission of OPEC:**

The Economic Commission is a specialized body operating within the framework of the Secretariat, with a view to assisting the Organization in promoting stability in the international oil market. The Commission is composed of a Board consisting of the Secretary General, the National Representatives appointed by the Member Countries, and a Commission coordinator. At the end of 2006, OPEC had crude oil reserves of 922482 Million barrels, representing 77.2 per cent of the world total of 11, 96318 million barrels. Although Iraq’s production has not been a part of any OPEC quota agreements since March, 1998. EIA estimates that the
current twelve OPEC member’s account for about 40% of world oil production, and about 2/3 of the world’s proven oil reserve. OPEC countries have a total population of about 571 million and for nearly all of them; oil is the main marketable commodity and foreign exchange earning. Non-OPEC producers and the governments of consuming countries have a clear role to play in the process of achieving and maintaining a healthy global oil sector; this will, in turn, provide a sound base for world economic growth. These governments could help their domestic economies by reviewing the excessive levels of taxation they impose on oil products, thereby allowing consumers to more productively allocate their own resources and enhance their economic growth. By the decisions taken, OPEC demonstrated its commitment to its longstanding role as a responsive and responsible actor, by saving the global economy hundreds of billions of US dollars as a result of the Organization’s determination to ensure stability in the international oil market. OPEC was in the last few years, reliable, responsible and ready to ensure the needs of the market and to react against any dangerous fluctuations of the prices. OPEC always wants joint co-operation with all
producer and consumer countries as well as to share the risk but also the profit, a reasonable and fair profit with all the actors of the world economy.

For these countries, oil is the key factor for development – economic, social and political. Their oil revenues are used not only to expand their economic and industrial base, but also to provide their people with jobs, education, health care and a decent standard of living. Therefore, it is apparent to these member countries to takeover control upon production policies.

**OPEC’s Control over Oil Production:**

Recently oil production of OPEC countries increased resulting in imbalance between the available refining capacity and the demand for petroleum products. Until the necessary investments are undertaken in the downstream sector of the industry, volatility is likely to remain a feature of the oil market. OPEC Member Countries, both on their own and in partnership with some international oil companies, have taken the initiative for investment, both inside and outside their countries. OPEC’s investment is a part of its ongoing efforts to ease market volatility and to help prices to moderate toward
the levels consistent with healthy economic growth, particularly in the developing countries. However, these efforts will only be successful if they are met with similar efforts on the part of other producer and consumer country in the downstream sector. In the following table no. 5.2 production of petroleum products made by the twelve OPEC member countries has been displayed.

Table No. 5.2: Production of Petroleum Products by OPEC: (1000 barrel per day)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Index (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>7425.4</td>
<td>100.00</td>
</tr>
<tr>
<td>1998</td>
<td>7693.5</td>
<td>103.61</td>
</tr>
<tr>
<td>1999</td>
<td>7662.3</td>
<td>103.19</td>
</tr>
<tr>
<td>2000</td>
<td>7676.0</td>
<td>103.37</td>
</tr>
<tr>
<td>2001</td>
<td>7951.5</td>
<td>107.08</td>
</tr>
<tr>
<td>2002</td>
<td>8162.3</td>
<td>109.92</td>
</tr>
<tr>
<td>2003</td>
<td>8033.7</td>
<td>108.19</td>
</tr>
<tr>
<td>2004</td>
<td>8523.1</td>
<td>114.78</td>
</tr>
<tr>
<td>2005</td>
<td>8957.3</td>
<td>120.63</td>
</tr>
<tr>
<td>2006</td>
<td>8869.0</td>
<td>119.44</td>
</tr>
<tr>
<td>Total</td>
<td>80954.1</td>
<td>-------</td>
</tr>
<tr>
<td>Average</td>
<td>8095.41</td>
<td>-------</td>
</tr>
</tbody>
</table>

(Source: Annual Statistical Bulletin of OPEC-2006)
On the basis of above table, one would notice that production of petroleum products by OPEC member was 7425.4 thousand barrel per day (bld) in 1997 which went up 8869 thousand bld in the year 2006, (an increase of 19.44% during the above decade). However, the average production of OPEC member is worked out as 8095.41 thousand b\d. projecting that first 5 years production was less than the average production. While rest of 5 years production was more than average.

Although above table shows steady increasing trends in the domestic production of petroleum products during the decade, this low rate of growth in petroleum production by OPEC had an impact on international petroleum pricing resulting in periodically increase in an petroleum prices.

Reportedly, it is recommended that for maintaining stability in the pricing of petroleum products, OPEC should increase the production of petroleum products to meet out the demand.

As OPEC have medium – and long-term plans consistent with its overall efforts to bring stability in the market, in more concrete terms, OPEC Member Countries are planning a 50% increase in exploration and production of
petroleum, which would bring production to 18.0 Mb/d by the end of 2012. A relatively short time’s span considering the usual lead time required for refinery expansion; these projects will at times require willingness on the part of industrial oil companies to participate. OPEC should pursue for stability and harmony in the petroleum market for the benefit of both oil producers and consumers. To this end, OPEC Member Countries respond to market fundamentals and forecast developments through co-coordinating their petroleum policies. Production limits are simply one possible response. If demand grows, or some oil producers are producing less oil, OPEC can increase its oil production in order to prevent a sudden rise in prices. OPEC might also reduce its oil production in response to market conditions in order to counter falling prices. Because of volatile nature of production it is necessary to stable the market by monitoring production process closely and supervise it accordingly.

OPEC seeks stability in the oil market and endeavors to deliver steady supplies of oil to consumers at fair and reasonable prices. The Organization has achieved this in a number of ways: sometimes by voluntarily producing less oil, sometimes by producing more when there is a shortfall in
supplies as can be seen in Table 5.2. The OPEC production policy must require pursuing stability and harmony in the petroleum market for the benefit of both oil producers and consumers. To this end, OPEC will preserve the benefits and national progress of members as it’s the prime aim; on the other hand, better international relations should be maintained by adopting flexible production policies. Member Countries respond to market fundamentals and forecast developments by coordinating their petroleum policies. Saudi Arabia is for instance a lively case in this regard.

**Dominance of Saudi Arabia:**

Since the Gulf War, Saudi Arabia is clearly seen to be in the dominant position in production as reflected in recent OPEC meetings. It has refused to relinquish its hold on pricing and output decision-making. Therefore, an OPEC dominated by Saudi Arabia, with its emphasis on long-term strategy can moderate price which it hopes will increase consumption and satisfy Western policy-makers and consumers. Saudi Arabia has a strong influence over the Gulf Co-operation Council (GCC) members and other Arab countries. It also has an ever increasing influence in the Islamic world and moreover, as a key member of OPEC. All
these elements will add more power to its position as the biggest oil producer in the world. This option has been shaped by the power of the decision-makers to guarantee the stability of the price and the production of oil to cope up with world demand. However, as an Islamic state, Saudi believes that the oil wealth was granted by God, and is, therefore, conscious of its responsibility and is working with other producers and consumers to ensure a level of stability on the international oil markets.

The strains of reduced output and specific production quotas were imposed collectively in March 1983. Saudi Arabia have substantially large production capacity than the other member countries, and also the least cost producers, so that it is in a position to easily increase or decrease output with relatively large influence on the total market. In 1983, due to high production of Oil by Saudi Arabia, Oil prices in International market declined. In 1970 OPEC members formed their national oil companies; they began to determine policies governing the all phases of the oil and gas industry. It includes exploration, production, processing, transportation, marketing and price determination as well as direct participation in organizational and operational activity. These
companies are operating on the basis of their economic benefits. It is not certain whether Saudi Arabia would be willing to continue its relatively low level of production or take further cuts to maintain oil market stability while appealing the other members of OPEC with an acceptance of high levels of export and earning.

**OPEC’s pricing Policy:**

As it is well known that OPEC oil has been a critical source of petroleum during the last century, and expected it will continue to be throughout the 21st century. According to oil industry analysts, the collapse of the Soviet oil industry, the world’s largest producer, resulted in a complete disintegration from the previous system. This led to OPEC returning to the spotlight as the leading and largest source of petroleum products in the world. If the price of OPEC oil soared with respect to its share of world production, consumers would be provided with an incentive to conserve supplies and simultaneously look for alternative sources of energy. In its commitment to ensure sufficient supply to meet consumer needs, OPEC generally took lead in international market supply decisions, much more co-operation with non-OPEC producers in recent years. The objective is to have
prices at reasonable levels that are acceptable to both producers and consumers. Prices must be high enough to ensure a fair return for producers and other parties investing in the industry as well as to enable sufficient investment in future production capacity. But, if prices are too high, they will drive people away from oil, on the top of this, high prices are likely to reduce OPEC's share in the world oil market.

After formation of OPEC in 1960, it played active role in pricing as OPEC was caretaker for member countries, it was normal during the decade of 60’s. OPEC’s role was mostly as a deterrent against unwanted oil price cuts by the private oil companies. With the breakout of the Arab-Israeli war in 1973, OPEC members imposed an embargo on crude oil sales to the united state, and forced to increase prices. Since the 1973 oil hike price shock, the history and behavior of the OPEC attracted considerable attention. Many conflicting theoretical and empirical interpretations about the nature of OPEC and its influence on world oil market have been proposed. Similarly, during March 1998 and March 1999, OPEC embarked on two production cuts in an attempt to put an end to the slide in oil prices. These production cuts were implemented with a high level of cohesiveness among
members, contradicting the view that OPEC is not able to implement cuts. In the high oil price environment of 2004, there was another switch in perception and doubts re-emerged about OPEC’s pricing power.

The events of the last few years highlight some important observations that are essential to understanding OPEC behavior. First, OPEC’s pricing power is not constant, but varies over the time. There are many instances in which the organization lost power to influence oil prices. Second, this change in pricing power is induced by market conditions and can occur both in weak and normal market conditions. This does not imply that market participants can afford to ignore OPEC. In fact, OPEC has succeeded in many instances in implementing production cuts with a view to prevent declines in oil prices. Also OPEC has succeeded in offsetting the impact of sudden disruptions in supply and in moderating the rise in oil prices. Third, pursuing output policies has become more complicated with the growing importance of the futures market in the process of oil price discovery. The effectiveness of any policy depends to a large extent on the ability of OPEC to influence participants’ expectations in the futures market. Finally, long-term investment plans can have
important implications for OPEC’s continuing pricing power. Many international organizations such as the International Energy Agency (IEA) and Energy Information Administration (EIA) project greater reliance on Middle Eastern oil in the next two decades. Hence, they predict a distinct increase in the market share of Middle Eastern oil exporters. This is seen to have the effect of increasing strength of OPEC’s market power.

However, for reasons of convenience, lack of marketing experience and inability to integrate downwards into refining and marketing in oil importing Countries, as part of the equity participation agreements, Governments made it compulsory to sell the oil at buyback prices to the companies that had originally held the concessions. Equity participation and nationalization of oil resources profoundly affected the structure of the oil industry. During the late 1970s, multinational oil companies lost large reserves of crude oil and became increasingly dependent on OPEC supplies. Therefore, the ideal pricing policy from OPEC’s point of view is one that maximizes the equity value of its oil resources. In other words, that which maximizes the sum of all present and discounted future revenues from the sale of oil.
In the early 1980s, new discoveries in non-OPEC countries responding to higher oil prices and taking advantage of new technologies meant that significant amounts of oil began to reach the international market from outside OPEC. According to the EIA between 1975 and 1985 non-OPEC countries increased their share of world total oil production from 48% to 71% with most of the increase coming from Mexico, the North Sea and the Soviet Union. The increase in non-OPEC supply had two main effects. First, non-OPEC countries were setting their own prices which were more responsive to market conditions and hence, more competitive. Second, the number of crude oil producers increased dramatically. At first sight, it may seem that OPEC plays a very limited role in the formation of oil prices. But this simple description does not provide a realistic portrayal of OPEC’s role in price determination.

From January 1, 1987 OPEC started new pricing policy for their oil. OPEC collected price data on a “basket” of a crude oils, and uses for these oil streams to develop an OPEC reference price to monitor world oil market. OPEC countries, like other oil exporters, just take the market price from the spot market and plug it in the pricing formula to arrive at the
price at which they sell their oil. This formula was based upon Seven countries; including; Algeria Saharan Blend, Indonesia Miners, Nigeria Bonny light, Saudi Arab light, Dubai Fateh, Venezuela Juana and Mexico Isthmus (a non- OPEC oil) and from January 1, 1987 to June 15, 2005 OPEC calculated an arithmetic average of seven crude oil streams, to estimate the OPEC basket price. OPEC sets production quotas based on its assessment of the market call on its supply. Oil prices fluctuate partially according to OPEC performed its well calculation. Through the process of adjusting its production quotas, OPEC can only hope to influence price movements towards a target level or target zone. In a supply– demand framework, the oil price is determined by OPEC and non-OPEC supplies as well as oil arriving to the market from OPEC members who do not abide by the assigned quotas. Since these supplies cannot be predicted with accuracy and are influenced by factors other than prices, OPEC can only hope that the resulting oil price is close to its preferred price. In this context, models that consider OPEC simply as a price setter to maximize the Net Present Value (NPV) of oil receipts over time are of limited utility.
Pricing policy of OPEC studied in different sense by various researchers, one of its aspects is conservation. It is noted that when price goes up consumption comes down as it was seen in 1974, the first year of high prices. The sudden flattening of oil consumption was a direct consequence of the high oil price, of course, some of the effects indirect for example common people always are upset with prices. OPEC demonstrated that high prices push down consumption, but the opposite is also true because reduction in price raises consumption of these products. Since the impact of high prices takes so long to play out, and prices never returned to their original low levels, the impact of falling prices is hard to see. As the price of oil is highly sensitive to fairly small changes in supplies or to fluctuations in demand that are not matched by corresponding adjustments in supply, both the OPEC and non-OPEC producers influence and apply remedial measures to the conditions in which they operate. However it is important to note that OPEC and Non-OPEC production levels in themselves do not directly influence the international oil market, but only the quantity of oil that is internationally traded does. The following table shows the value of petroleum
exports made by the OPEC member countries during the
decade of reference period.

**Table 5.3: Petroleum products’ exports by OPEC
members (Million Dollars)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Petroleum Product Export</th>
<th>Index (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>166558</td>
<td>100.00</td>
</tr>
<tr>
<td>1998</td>
<td>109656</td>
<td>68.83</td>
</tr>
<tr>
<td>1999</td>
<td>158447</td>
<td>95.13</td>
</tr>
<tr>
<td>2000</td>
<td>255675</td>
<td>153.50</td>
</tr>
<tr>
<td>2001</td>
<td>213557</td>
<td>128.21</td>
</tr>
<tr>
<td>2002</td>
<td>209895</td>
<td>126.01</td>
</tr>
<tr>
<td>2003</td>
<td>255549</td>
<td>153.42</td>
</tr>
<tr>
<td>2004</td>
<td>360557</td>
<td>216.47</td>
</tr>
<tr>
<td>2005</td>
<td>532591</td>
<td>319.76</td>
</tr>
<tr>
<td>2006</td>
<td>649457</td>
<td>389.92</td>
</tr>
<tr>
<td>Total</td>
<td>2911942</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>29119.42</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Annual Statistical Bulletin- 2006)

On the basis of above table one would notice that
petroleum export by OPEC was 166558 million dollar (M$) in
the year 1997 which went up 649457 million dollar by an
increase of 290% in the year 2006. Petroleum exports during
the decade indicate increasing trends every year over the
previous year except in the year 1998, 1999. However, the average export of petroleum is worked out to be 29119.42 (M$) for the decade period. Projecting first eight years exports were less than average export as such as one would notice that decrease in the year 1998 and 1999. Except for these two years petroleum exports indicate increasing trends for rest of the period but with slow space. It is observed that when OPEC’S exports of petroleum products decline then prices of petroleum products go up in international market. Hence, it is suggested that OPEC should maintain the balance in petroleum export according to the demand of consumer countries, so as to stable the international prices.

If past OPEC behavior and decision- making is analyzed, it becomes apparent that one major flaw in most scholarly works on the subject lies in the popular view taken of the structure of this organization in terms of a classical profit-maximizing. But reality is different from this popular view and it became non-existent from several years ago. In reality OPEC is more in the nature of a dominant participant for price leadership model, with Saudi Arabia being the dominant firm in this case. Beyond the overall economics of
decision making within OPEC, there are no doubt complex political and religious factors are at work. The assumption of power by the Iran has only complicated the existing political contradictions at work in the Middle East, with two prominent members of OPEC, viz. Iran and Iraq locked in what seems to be an interminable war. Therefore, number of critical questions on which future oil market development would depend. The classical requirement for such a model to operate in practice is that the dominant firm should have substantially larger production capacity than the other members of the grouping and should also be the least cost producer so that it is in a position to easily increase or decrease output with a relatively large influence on the total market.

From a very different perspective which emphasizes the bureaucratic nature of OPEC, achieving the desired price level to acquire ‘more’ revenues has become more difficult in the current context in which prices are increasingly being determined in the futures market. OPEC’s influence on prices is now dependent on the expectations of participants in the futures markets. In principle, quota decisions can be viewed
as signals to the market about OPEC’s preferred range of prices. It is important to stress that this signaling mechanism may or may not succeed, depending on how the market interprets these signals. Specifically, the effectiveness of the signal will depend on whether the market believes that OPEC is able to undertake the necessary output adjustment in different market conditions.

Although OPEC has on many occasions succeeded in defending the oil price, adjusting output downward has sometimes proven to be unsuccessful. If global demand for oil falls, Non-OPEC suppliers will continue to produce at their maximum potential. In their attempt to defend a target price, OPEC members would call for their production cuts. The behavior is highly predictable: OPEC would choose prices or quantities such that the marginal revenue minus marginal extraction cost would increase at the rate of interest. Even when agreements are reached, each member has the incentive to go against these decisions. Because of the absence of a monitoring mechanism, these violations are not usually detected and even if they are, the organization does not have any powers to punish and also it can’t force member countries
to abide by the agreed production cuts. Hence, it is recommended that more authorities/powers should be given to OPEC conference about monetary punishment to that member country, those who found violating the agreement of OPEC. These problems become more acute when the required cuts are significant as the small OPEC members usually find it difficult to reduce their production on a pro-rata basis; the usual system adopted by OPEC over the years.

There are, of course, technical and resource constraints, which must be kept in mind while marking future projections, and which undoubtedly influence economic decision-making within, and the politics of the global oil market. Each member country within OPEC is, therefore, likely to shape its own strategies in keeping with its own resource base and the likelihood of depletion of resources in the future. Based on the foregoing discussion, it needs hardly to be stated that the outlook for OPEC production and exports is fraught with uncertainties.

**Conclusion:**

It is concluded that OPEC’s production capacity should be balanced which can assist to maintain balance in the prices
of petroleum and to meet rising level of global demand of petroleum. OPEC countries must reach a balancing point where prices are not too high, but at the same time, prices must not fall too low, to the extent that they may discourage investment. OPEC must achieve sustainable order and stability in the international oil market, with reasonable prices and fair returns to investors. The long-term picture points to the need for increased investment in oil production capacity, but the magnitude of the required expansion is far from clear, even in the short and medium term period. This is partly due to the wide range of feasible demand growth scenarios, but it is also reinforced by contrasting views on the potential evolution of non-OPEC production. The challenge of enhancing market stability and ensuring that sufficient capacity exists, therefore, involves anticipating, in a timely and effective manner, the investment required over the coming decades.
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