Chapter 2

OPEC Agenda in Eighties
OPEC which came into being as an organization of oil exporting countries in 1960, to aggregate the interest of oil exporting countries, was placed in a difficult situation in the eighties, when changing oil dynamics led to sharpening of differences among its members. This is not to argue that OPEC since its inception has been a cohesive grouping. The diverse interests of its members did find reflections in more than one occasion. But the buoyant oil market always been the point of reference to narrow down the differences and hindsight. It can be argued that OPEC did its job quite successfully. In the eighties, as pointed out in the preceding chapter, the oil market underwent a qualitative change. New issues came up before the OPEC. In this chapter, an attempt has been made to review and analyze the agenda that the OPEC faced in the eighties.

The first move towards the establishment of the Organization of Petroleum Exporting Countries (OPEC) took place in 1949 when Venezuela approached Iran, Iraq, Kuwait and Saudi Arabia and suggested that they exchange views and explore avenues for regular and closer communication between them. The need for closer co-operation became more apparent
when in 1959, the oil companies unilaterally reduced the posted price for Venezuela Crude by $0.5 and $0.25 per barrel and that for the Middle East by $0.18 per barrel. Consequently, the First Arab Petroleum Congress, held in Cairo (Egypt) and adopted a resolution calling on oil companies to consult with the respective government of Producing countries before unilaterally taking any decision on oil prices on the establishment of an "Oil Consultation Commission".¹

In August, 1960 the oil companies further reduced Middle East posted price for crude by between $0.1 and $1.14 per barrel. In September 1960, the Government of Iraq invited delegations at the highest level from Iran, Kuwait, Saudi Arabia and Venezuela to meet in Baghdad to discuss the reduction in prices of crude produced by their respective countries. As a result of this, on September, 10-14, 1960, a conference was held in Baghdad, attended by representatives of the governments of Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. It was this conference which created OPEC as a

permanent Inter-governmental Organization with the following principal aims:

(I) OPEC's principal aims are the coordination and unification of Petroleum policies of member countries and the determination of the best means for safeguarding their interests, individually and collectively. The organization also seeks to devise ways and means of ensuring the stabilization of prices in International Oil market with a view to eliminating harmful and unnecessary fluctuations, "due regard being given at all times to the interests of the producing nations and to the necessity of securing a steady income for them; an efficient, economic and regular supply of petroleum to consuming nations, and a fair return on their capital to those investing in the petroleum industry."

(II) In June 1968, a "declaratory statement of petroleum policy in member countries incorporated in resolution No. XVI. 90, was adopted by member countries. The statement called on Member Countries to undertake, as far as feasible, direct exploration for and development of hydrocarbon resources.

2. Ibid, p. 2.
resources; to seek participation in the equity of existing Concessions, and progressive and accelerated relinquishment of average of present contract areas; to establish conservation rules to be followed by operating oil companies; and to determine posted or tax reference prices by the government so as to prevent deterioration in the relationship of these prices against the prices of manufactured goods traded internationally".  

(III) The "Solemn declaration" adopted by the Conference of the Sovereign and Heads of OPEC Countries in March 1975, in Algiers, added new policy guidelines in the light of the changing pattern of the relationship between producer and consumer nations. It indicated that OPEC should seek, in consultation and cooperation with other countries of the world, the establishment of a new International Economic order based on Justice, mutual understanding and genuine concern for the well being of all peoples.  

Since early seventies, OPEC had started enforcing 

above-mentioned objectives. Consequently, the structure of the oil market began to change in the early 1970s, when many exporting countries seized producing interests which was previously dominated by the multinational oil companies. The nationalization transferred the responsibility for managing the market and maintaining a stable price environment to the exporting countries, keeping in mind of the aims of the OPEC. 5

The multinationals shifted from net sellers of both crude and products to net buyers between 1973-1987. In 1973 crude oil supplies available to seven majors exceeded their processing requirements by 3.8 mb/d. But in 1987, the volume of crude processed by the six remaining companies exceeded the volume of crude available to them by 2.8 mb/d. During the same period the companies product deficits increased from 0.9 mb/d to 5.1 mb/d. The change in the scale of operations between 1973 and 1987 altered the relationship between multinationals and other companies. Traditionally, the

multinationals redistributed supplies to other companies through third party sales. This role was abandoned during the 1980s as the volume of crude available to them declined from 62% of world supplies to 14%. Further they became net buyers of a further 22% of world supply.

As it is obvious from the above analysis that the role of OPEC in the seventies was like a cartel and it had control over prices and output. But it had completely changed in the eighties because of the turmoil and chaos in the International oil market in the eighties as it is mentioned in the first chapter (Global Oil Market in the eighties: An overview) of this thesis. Thus, the agenda of OPEC has also changed from the seventies to eighties due to unstable situation of the International Oil Market.

For the sake of analysis, the major issue during the different conferences of OPEC in the eighties are categorized into following:

(1) To bring price stability in the International Oil Market.

(2) Defining the production ceiling and soliciting endorsement from its members;
(3) Co-operation with non-OPEC oil exporting countries;
(4) To resolve conflict on price differential among member states and
(5) Other agenda:

(1) Price stability:

The Price stability has been the leading item on the agenda of OPEC since its inception. As it is clear from OPEC's Statute of 1965, "The organization shall devise ways and means of ensuring the stabilization of prices in the international oil markets with a view to eliminating harmful and unnecessary fluctuation". 6

The highly volatile market in the eighties forced the OPEC to meet frequently during 1979 and 1980 in a bid to bring in a new unified price structure which would reflect the prevailing market realities. The 55th meeting of OPEC which was held on 20 December 1979, in Vienna, had discussed five different level of prices. These were: The official selling price; the buy back price; the tax paid cost price; 

6. OPEC STATUTE, 1993, OPEC Secretariat, Vienna, p. 3.
the spot price; and the real price after premiums or discounts. These five separate price levels were applied by following broad grouping of countries: Algeria, Libya and Nigeria, Qatar, Saudi Arabia and UAE, Iraq and Kuwait, Iran and others. This situation of uncertainty continued into 1980 and was accompanied by a steady increase in official selling prices. The issue came up in 56th extra ordinary meeting of OPEC in Taif on 7-8 May 1980, but no agreement reached as there was strong feeling within the organization for the reunification of prices. 7

The 58th extra-ordinary meeting of the OPEC Conference which was held in Vienna on 17 September 1980, it was decided to fix price of the market crude at $30/b and to freeze the prices of other OPEC crudes at their prevailing levels. These measures meant effectively that the official selling price of Arabian light would rise by $2/b (from the level of $28/b) which would reduce the gap between it and most expensive light crudes to $7/b from $9/b. A major turmoil

7. Keith Merchant; "OPEC In the Third Decade": Coping with the glut", OPEC Review, Vienna, Autumn 1990, p. 231.
occurred in the International oil market in 1980 with the start of war between Iran and Iraq. Consequently, oil exports from both the countries came to a halt, withdrawing almost 4 million b/d from the world market. This has effectively wiped out the glut from the world market which was estimated at 2.3 mb/d before the 1980. Other member countries had been producing below the capacity before the war, raised their output level in an attempt to make up shortfall in the market.\(^8\) In the light of the prevailing market conditions, the organizations decided to raise the official market crude price at $32/b (Saudi Arabia had in fact raised the price of Arabian light to $32) and declared that member countries could charge up to the ceiling price of $36/b for deemed marker crude. The maximum price of OPEC crude was set at $41/b, restoring $9/b differential between marker price and the overall ceiling.\(^9\)

The oil market started becoming weak by early 1981, though the production in Iran and Iraq pick-up again but not at pre war level. In the light of emerging market pressure, 

\(^8\) Ibid, pp. 230-231.

the 61st meetings of the OPEC Conference was held in Geneva on 29 October 1981 and as the press release after the meeting suggests "the main item on the agenda.... to adopt the unified pricing system for OPEC crudes in order to create the right conditions for stability in the market. It resolved to set the official price of the marker crude - Arabia light 34 API F.O.B. Ras Tanura - at the US $ 34 per barrel effective not later than November 1, 1981 and to abide by that price until the end of 1982".10 This conference had also agreed to a set of value differential for the pricing of all other OPEC crudes in accordance with their respective qualities and geographical locations. In effect, this meant price reductions for the crudes of most member countries. In addition the organization maintained its grip of the concept of long-term strategy (this was in the context of a six-man ministerial committee on a long-term strategy, which had been set up in May 1978 at an informal meeting of OPEC oil ministers in Taif, Saudi Arabia to examine future strategies for the organization and policies it should follow in the medium and long-terms), by deciding

that the committee would continue its work and submit a report to the mid-December Conference (the committee met inconclusively just before the conference, and the matter rested there) in response to the decisions of the October Conference, the Saudis announced a cut in output to 8.5 mb/d.\textsuperscript{11} The oil market deteriorated further at the beginning of 1982, with many producers were cutting prices heavily in an attempt to retain market share. By the end of February 1982, spot market prices were on average $5.50/b below official selling prices. When 63rd meeting of the OPEC Conference was held on 19-20 March 1982 in Vienna, OPEC's total output had fallen below 18 mb/d, compared with an annual average of around 30-31 mb/d throughout 1973-79 (with the exception of a brief fall to 27 mb/d in 1975). Just before this meeting, the UK had announced a sharp reduction in North Sea oil prices to $31/b. The conference resolved to retain the $34/b marker price, and decided that the price differentials for light and extra light crudes in relation to marker crude would be set at the same level as

in 1978. Moreover, it set an output ceiling for the organization of 18 mb/d. After the conference, Saudi Arabia announced a unilateral reduction of 5 mb/d in its own output ceiling, effectively bringing the OPEC's ceiling down to 17.5 mb/d. Saudi Arabia declined to accept to an output quota as decided by the OPEC, since it claimed that its production levels were a matter of national Sovereignty. Quotas were assigned to other member countries, however with the two gulf war protagonists each was allotted 1.2 mb/d. The conference also established a ministerial committee of four oil ministers to periodically monitor market situation and recommend measures to be taken to bring order to the market.12

The market remained in a generally depressed state during the second half of 1982, with heavy price discounts being offered by some producers in order to move their oil. OPEC production fell to around 16.7 mb/d in late summer. At the end of 1982, the 66th meeting of conference which was held on 19-20 December 1982 in Vienna, set a ceiling on OPEC output for 1983 at 18.5 mb/d, although it added; "An

agreement on establishing national quotas for the distribution of that total amount would require further consultations among the respective governments". 13 The market did not take kindly to the agreement and as the year drew to an end, prices began to fall sharply. In all, OPEC's average annual output fell by 3-4 mb/d per year in 1980, 1981 and 1982, culminating in a level of 19.0 mb/d. Its share of the world oil market, outside the Centrally Planned Economics (CPEs), followed a similar trend, declining 48.6% in 1982, after being as high as 68.1% in 1976. 14 The 67th meeting of the OPEC Conference was held on 14 March 1983 in London in which for the first time in its history, OPEC reduced the price of its marker crude, to $29/b. Nigeria as a temporary measures, could charge $1/b more for its crudes, above the regular differential levels. OPEC agreement added: "Member Countries shall avoid giving discounts in any forms whatsoever and refrain from dumping petroleum products into the world oil market at prices which will jeopardize the crude


The conclusion of this meeting has brought a sense of relief to the market because there was feeling that OPEC's agreement was a realistic one in the prevailing circumstances, after a long period of gloom and uncertainty. The Organization's member countries appeared committed to adhere to the letter of the agreement. Initially OPEC output fell to just over 14 mb/d, before recovering, in line with spot market prices. Nevertheless, at the same time, a high level of destocking by consumers reduced the impact of the organization measures.

The first half of 1984 witnessed a fair degree of stability, with OPEC output climbing slightly to average, just under 18 mb/d. For the first half of 1984, prices stayed generally firm, although they briefly surged in the middle of May 1984 when the tanker war erupted in the Gulf, and a disruption to oil supplies was feared. In the 70th meeting of the OPEC conference which was held in July 1984

15. Keith Merchant; No. 7, p. 236.

in Vienna, the OPEC President, Kamal Hasan Maghur had expressed general satisfaction with the market's performance. In his opening address to conference, he said: "since we last met, OPEC has ... succeeded in stabilizing on oil market which is still weak, and strengthening on oil price structure which has been under enormous pressure". He added: "this credit should go to OPEC almost entirely. For it virtually single-handedly shouldered the heavy responsibility of stabilizing an oil glutted market only through making sacrifice at the expanse of badly needed development programmes in member countries". 17

In making these remarks, he was implicitly criticizing aspects of the general market behaviour of consumers (principally those from the industrialized world), the multinational oil companies and non-OPEC oil producers. This revolved around the issue of stocks. Stocks also related to quantities of a good held in order to compensate for seasonal fluctuations in demand or supply. Stocks utilized for these purposes can be described as being used passively. It

was at this level that there was a considerable amount of misunderstanding and mischievous behaviour in the market. In the eyes of observers, in the early 1980s, there seemed to be conscious policy by some consumers to destock at critical moments in a glutted market, thus accelerating the fall in oil prices and putting additional market pressures on an already beleaguered OPEC, consequently leading to the instability in the market, to the overall detriment of the market's performance. The July 1984 conference, reaffirmed OPEC's commitment to its March 1983 agreement. Thus OPEC decided to 'establish contacts' with non-OPEC producers whose increased output had contributed substantially to market situation "with a view to finding ways and means of enhancing co-operation between OPEC and those countries, in a joint effort to shoulder the responsibility of stabilizing the oil market and defending the oil price structure". To keep its own house in order, the conference also decided to form delegations to visit member countries and make the necessary contacts with the government concerned in order to consolidate its member countries commitments to market

stability. The temporary concessions were made to accommodate the special problems facing Nigeria, when the conference decided that some adjustments could be made in its production quotas, within the organization's overall output ceiling. 19

The manifest disunity among OPEC members, in a climate of market weakness were the bad days for the organization in 1985, when with its member countries facing the prospects of a further heavy reduction in oil revenues which would inflict added pressure of their domestic economies. Spot market prices during the first half of 1983 had demonstrated a generally downward trend. By the time, organization Executive Ministerial Council met in Taif on 2nd June 1985, they were at $ 2-3/b below official levels. 20

It was with all this in mind that OPEC's 76th meeting of the Conference was held on 7-9 December 1985 in Geneva. The result of this meeting was of historic importance. The press communiqué stated: "Having considered the past and

likely future developments in the world oil markets and persistently declining trends of OPEC production, the Conference decided to secure and defend for OPEC a fair share in the world oil market consistent with the necessary income for the member country's development". 21 This meant that OPEC was prepared to flood the market with oil. The impact on market was instantaneous as spot market prices nosedived. Brent Blend (which, with the recent removal of 'OPEC marker' status from Arabian light, was becoming widely accepted as a principal indicator of spot market prices) lost around $4/b within a day and half of the announcement of OPEC's decision, and then conversely gained about $3.5/b within the next half day, underlying the state of confusion within the market. The 1986 started with a more sustainable plunges in prices, first below $25/b then by the end of January 1986, below $20/b. 22

An extra-ordinary meeting of the Conference, known as


the 77th meeting held in Geneva in the middle of March, but after nine days, it was decided to adjourn and reconvened on 15-21 April 1986. Five non-OPEC oil producing countries attended the adjourned meeting - Angola, Egypt, Malaysia, Mexico and Oman had expressed their concern over the deteriorating market situations and agreed that joint OPEC and non-OPEC measures might be taken to stabilize the market. But prices dipped below $10/b in the early April 1986 in the highly turbulent conditions. This conference had failed to reach unanimity in its deliberations. Ten member countries agreed that, in order to restore market stability, OPEC's average output level for 1986 has been fixed at 16.7 mb/d and that for third and fourth quarters, it should have been 16.3 mb/d and 17.3 mb/d respectively. That also decided to form a five-man group of oil ministers, with the mandate to contact non-OPEC oil producing countries in a bid to reach agreement on a joint effort to stabilize the market.23

The 79th meeting of the conference of OPEC was held in Geneva from 6 to 22nd October 1986. During its deliberation for 17 days, agreed upon pragmatic solution. The 12 member

countries signed the agreement. The agreement was to fix the output ceiling at 14.961 mb/d for November 1986 and 15.039 mb/d for December 1986. The press statement said: "The conference also discussed the proposal of Saudi Arabia to return to a fixed price structure for OPEC crude oil ... and decided to return, as soon as possible, to the application of a fixed price system." The agreement met with little success as the price fell on spot market immediately. The spot market prices rose and settled in the region of $14-15/b up to the end of the year. The 80th meeting of the conference was held in Geneva on 11th to 20th December 1986. "The conference decided ... to return promptly to a fixed pricing system at a level of $18/b for OPEC's reference price. This price which was based on a basket of seven crudes, would come into force as of 1st January 1987". The seven crudes included six from OPEC and one from Mexico, isthmus. A maximum spread of $2.65/b was established between OPEC's heaviest and lightest crudes (Arab heavy and


bonny light) and it was agreed that this matter would be reviewed periodically by a newly formed seven-man ministerial committee on price differentials. The market reacted favourably to the December agreement and in the 1987, spot prices moved up towards the reference level, which they reached in the spring with OPEC's basket climbing to $18/b in the third week of May 1987. Many OPEC Countries phased out existing market related contracts and replaced them with ones at the new official selling prices. 26

The 81st meeting of the OPEC Conference was held on 27-28 June 1987 in Geneva. OPEC President, Mr. Lukman in his opening address to this conference, highlighted the role played by stock movements during the first-half of 1987. He said: "In the first stage of implementing the December agreement, there was reluctance by companies to comply with OPEC's fixed pricing system. This led to a heavy stock drawdown of as much as 3 mb/d, which in turn caused a reduction in our member countries production levels, leaving the

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organization's total output well below the ceiling in February and March 1987. This eventually proved to be in OPEC's favour, however, since it greatly reduced the excessive surplus stock of cheap oil accumulated in 1986, and provided the foundation for the subsequent strengthening of the price. He also referred critically to two peripheral issues in the international oil market: the value of dollars and restrictive trading practices. "Consuming Countries .... on the one hand .... talk of free economy, while on the other they seek higher prices and protectionism .... Let us, for example, briefly look at the impact of national fiscal measures on oil prices. The present level of oil prices averages out at $ 18/b, compared with $ 28/b in 1985, representing more than a 1/3 reduction. If we now include the dollars recent, spectacular decline in value vis-a-vis other major currencies, averaging out at 33.5 % since its peak value in March 1985, then the real cost of an imported barrel of real oil in the non-dollar areas has been cut by two third. Yet we see that the prices paid by the end-consumer in most OECD countries outside the US have not been reduced accordingly. The national fiscal policies have therefore put a brake on consumption and this is not condu-
cive to growth. It is against the concept of free trade". 27

Thus, the 81st Conference was a relatively low-key of affair, with the reference price remaining unchanged and output ceiling being raised slightly to 16.6 mb/d for the second half of the 1987. Iraq maintained its position of disregarding the quota arrangements but acknowledging the official price structure, the conference set up a committee of five oil ministers to monitor price evolution in the market and added: "Should there be any significant change in market prices, the committee would immediately call an extra-ordinary meeting of the conference, with a view to deciding on necessary OPEC production levels during the remaining period of the year, which would secure the desired market stability". 28 The conference also constituted a three minister committee to visit member countries in order to motivate them to comply with the organization's agreement. Moreover, it reinstated the five-men ministerial committee which had been set up at its April 1986 meeting to encourage


co-operation from non-OPEC oil producers. The second half of 1987 witnessed spot market prices fluctuating within a range of around $3/b. The breaches of OPEC discipline became more widespread on both pricing and production fronts. At the 82nd meeting of the conference held on 9-14 December 1987 in Vienna, OPEC felt generally satisfied with the market's overall performance during the previous 12 months (and especially the first six months) and attributed this principally to the return to the fixed pricing system accompanied by production control. Mr Lukman in his opening address to the conference: "Since the pricing and production levels agreed upon were realistic ones and were thus sustainable over a long period - provided that all the responsible parties acted to the common good. The $18/b price level was regarded as being beneficial to both OPEC and non-OPEC oil producers, as well as those involved in supplying other sources of energy. For OPEC member countries, it would ensure modestly increased but stable oil revenues, buoying up our domestic economies and permitting the implementation of many of our development projects. For

other countries with a keen interest in energy industry, the price level would be high enough to justify the continuation of investment in oil exploration and development as well as in other energy fields". So he ended on a note of cautious optimism, saying that many underlying weakness remained in the international oil market. In addition to them were the repercussions of October 1987 stock market crash and the continuing decline in the value of the dollar "over the past two years, he said, we have been three of the world's leading economic indicators collapse: oil prices, the dollar and international stock markets. Some analyst believe this may herald the onset of global recession, while other strike a less pessimistic note for the coming year. We must be prepared for any eventuality".

The market reacted unfavourably to the near agreement and crude oil price plunged $2-3/b, although it increased slightly again by the end of the 1987. OPEC output was then around 18.4 mb/d, but then fell by around 1.0-1.5 mb/d in

31. Ibid, p. 266.
January and February 1988. Prices fluctuated sharply during these months and at the end, North Sea Brent had fallen to around $14.70/b and OPEC's basket to $14.86/b. The situation became slightly worse in March 1988, by which time most OPEC members had effectively abandoned the official price, and offered market related pricing formulae or discounts as the only means of shifting their oil. Saudi Arabia announced that from 1 April 1988, all its crude contracts would be subject to new price formulae linking selling prices to the spot rates of various crudes, depending on the destination. Prices had rallied strongly in the second week of April 1988 when OPEC's price monitoring committee announced a meeting between OPEC and non-OPEC oil producers at the end of April 1988, to examine the issue of joint action in order to bring market stability. Brent peaked at $17.45/b and went on to average of $16.60/b for the whole of April 1988, which was its highest monthly figure for rest of the 1988. The OPEC basket averaged $15.85/b in April 1988, a level which would also not be exceeded until January 1989.\textsuperscript{32}

Prices fell after the 83rd meeting of the OPEC conference.

\textsuperscript{32} Ibid, p. 266.
ence, which was held on 11-14, June 1988 in Vienna. By 1 July 1988, OPEC's basket had fallen to $13.74/b and Brent to $14.20/b. The downward trend was given a temporary respite in the second week of July 1988. It was due to the destruction of Piper Alpha oil platform in the north-sea and the immediate expectation of the withdrawal of more than 3 mb/d of crude from the world market for the foreseeable future. But when it became clear that the loss of crude could be absorbed easily in the glutted market, the earliest trend manifested itself again. Prices had fallen heavily in the global oil market. In real terms $13 for a barrel of crude in November 1988 was not a great deal. But it was better than $9 in the depths of the price collapse in July 1986. Since in the meantime, the dollar had fallen heavily in value. The U.S. currency was worth 2.15 Dutch-marks in July 1986, but only 1.75 in November 1988. Thus OPEC was again facing a severe revenue crisis and this was doubly frustrating for the organization when it reflected upon the market's relatively rapid recovery in 1987. There was strong movement in the oil price in both directions during and after the 84th meeting of the OPEC conference, held on 21-28 November 1988. By the end of 1988, many crudes exceeded $
16/b indicating a generally favourable reaction in the market. The OPEC basket ended in 1989 at $14.61/b. Oil prices continued to rise in January 1989 with some crudes passing through the $18/b barrier and OPEC basket reaching $14.43/b. The organization's production fell to just over 20 mb/d.³³

The 85th meeting of the conference of OPEC was held in Vienna, on 5 to 7 June, 1989. In his opening address, the president of the conference, Mr. Lukman said "development in the first half of the year and had been heartening with a general easing of market tensions and firming-up of prices to around $18/b reference level, allied to resurgent dollar. But he continued that these gains had to be viewed in their proper perspective, for we have yet to ascertain whether they form part of a long-term upward trend in pricing levels or whether they merely constitute a short or medium term cynical peak".³⁴ This conference raised the organizations output ceiling to 19.5 mb/d but retained the $


18/b reference price.

As it is evident from the above study that price stability has been major item in the agenda of OPEC throughout the eighties. This issue has cropped up in most of the meetings of the OPEC conferences in the eighties. One of the important findings of the above analysis is that OPEC was no longer able to influence the price in the international oil market especially in the late eighties. This was the basic reason that OPEC has concentrated itself on production ceiling in view of the glut situation of global oil market in the eighties. Now a brief study of production ceiling is imperative here.

(2) Production Ceiling :-

The demand for OPEC oil had declined during the eighties due to various factors like recession, conservation measures in the industrialized world, the intensive exploitation of crude in the less-accessible non-OPEC area, the rigorous pursuit of alternative energy resources, and the rapid development of enhanced oil recovery technology. The IEA instituted an "emergency oil sharing plan to guard
against the risk of major disruption in oil supplies and this was embodied in the concept of member countries keep strategic stock to enable them to cope with such eventualities.\textsuperscript{35} These developments had led to the reduction in production of the OPEC. This made it necessary for OPEC to devise agenda to maintain the prices. Hence the subject became important item of agenda of OPEC in the eighties.

Table 1

OPEC Production ceiling

<table>
<thead>
<tr>
<th>Years</th>
<th>Conferences</th>
<th>OPEC Production Ceiling mb/d</th>
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<tbody>
<tr>
<td>March 1982</td>
<td>Sixty-third Meeting</td>
<td>18 mb/d</td>
</tr>
<tr>
<td>December 1982</td>
<td>Sixty-sixth Meeting</td>
<td>18.5 mb/d</td>
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<tr>
<td>March 1983</td>
<td>Sixty-seventh Meeting</td>
<td>17.5 mb/d</td>
</tr>
<tr>
<td>October 1984</td>
<td>Seventy-first Meeting</td>
<td>16 mb/d</td>
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<tr>
<td>December 1984</td>
<td>Seventy-second Meeting</td>
<td>17.5 mb/d</td>
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<tr>
<td>April 1986</td>
<td>Seventy-seventh Meeting</td>
<td>16.7 mb/d</td>
</tr>
<tr>
<td>December 1987</td>
<td>Eighty-second Meeting</td>
<td>15.06 mb/d</td>
</tr>
<tr>
<td>November 1988</td>
<td>Eighty-fourth Meeting</td>
<td>18.5 mb/d</td>
</tr>
<tr>
<td>June 1989</td>
<td>Eighty-fifth Meeting</td>
<td>19.5 mb/d</td>
</tr>
</tbody>
</table>

Source: OPEC official Resolution and press Releases 1990

As it is evident from the above table that production ceiling had varied from one meeting to another meeting of OPEC conference in eighties which reflects the fact that there were differences on OPEC's overall production ceiling among member-states. Thus it is imperative here to present a brief study of these meetings during the eighties.

The 58th conference of OPEC which was held on 17th September 1980, in Vienna. The necessity was felt for some form of production restraint in OPEC. This was indeed implicit in the long-term strategy. Saudi Arabia was however, firm in refusing to return to its 8.5 mb/d level until it had gained acceptance of $30 as the base price of reunification and rational set of differentials. This conference also stressed the need of production programme which should be derived from the pricing formula as recommended by the majority in the long term strategy report and from a fair distribution amongst OPEC members of any production cuts that might be necessary.36

The market remained in a generally depressed state during the second half of 1982, with heavy price discounts being offered by some producers in order to move oil. OPEC production fell to around 16.7 mb/d in late summer 1982. For this purpose the conference decided that total OPEC production for the year 1983 should not exceed 18.5 mb/d. It was decided to distribute the total production among the members by assigning production quotas. This led to conflict among the members (detailed are discussed in the next chapter). In all, OPEC's average annual output fell by 3-4 mb/d per year 1980, 1981 and 1982, culminating in a level of 19.0 mb/d. Its share of the world oil market, outside the centrally planned economies (CPEs) followed a similar trend, declining to 48.6 % in 1982, after being as high as 68.1 % in 1976. The first few months of 1983 were one of turmoils for the organization, underlined by the urgent need to settle the issue of individual output quotas for member countries. The question of price differentials and discounts added to the crisis. The pressure from non-OPEC producers was also mounting.37 The 67th meeting of OPEC conferences was held in


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London on March 14, 1983, where it was decided to establish a ceiling for total OPEC production of 17.5 million barrel per day, within individual member countries quotas were allocated. The ceiling was to be observed as an average for the remaining part of 1983. Once again, no quota was allocated to Saudi Arabia, which according to the meeting's press statement: "will act as swing producer to supply the balancing quantities to meet market requirement".38 The quotas of other countries totaled 12.525 mb/d, while Saudi Arabia was allocated 5 mb/d. Saudi Arabia's role as the swing producer within the organization was a significant one, because it was viewed that OPEC's de facto position in the international oil market as "supplier of the last resort". In neither case was the concept of swing producer satisfactory because it highlighted the inherent instability within the international oil market and specially in the case of this particular agreement. The 68th meeting of the OPEC Conference which was held on 18-19 July 1983, in Helsinki (Finland), had decided to maintain overall ceiling of

17.5 mb/d for the total OPEC production and national quotas. The 70th meeting of the OPEC Conference was held on 10-11 July 1984 in Vienna which had confirmed the London agreement on quotas and prices with minor alternation in favour of Nigeria, which was to receive an extra 1mb/d quota for August and 15mb/d to September 1984 at the expense of Saudi Arabia. 39

The 71st meeting of the OPEC Conference was held in Geneva from 29th to 31st October 1984 in which decision had been taken to reduce production ceiling of OPEC from 17.5 to 16 million barrel per day (mb/d) from 1st November 1984, distributed among member countries. In the 72nd meeting of the Conference which was held on 19-21 and 27-29 December 1984 in Vienna, OPEC had expressed its determination to enforce the implementation of its decision on production. This conference decided to establish a system of internal check and control on production, export and prices of oil sales of member states. For this purpose conference decided to create a ministerial executive council headed by HE Ahmad

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Zaki Yamani, minister of petroleum and mineral resources of Saudi Arabia and composed of Dr. Subroto, Indonesian Energy minister Prof. Tom David West, Nigerian Petroleum minister, Dr. Mana Saeed Otaiba, Minister of Petroleum, UAE and Arturo Hernandez Grisanti, Venezuelan Energy Minister. The 75th meeting of the OPEC conference was held in Vienna on 3rd-4th October 1985. The conference discussed the redistribution of OPEC's total production into quotas for individual member countries. This Conference decided to maintain OPEC production ceiling of 16 mb/d, however majority agreed that redistribution of that ceiling among member countries be postponed to later date. It was clear that OPEC output for the whole of 1985 had declined and the figure was around 15.4 mb/d, the lowest level since 1965. Market share was also down at 40.1% the lowest on record for the organization. As a result of this, petroleum revenues for the organization had fallen to $127 bn, the lowest for a decade.

The 76th meeting of the OPEC conference was held in


41. Ian Skeet, No. 37, p. 198.
Geneva from 7-9 December, 1985. The conference decided "to secure and defend for OPEC a fair share in the world oil market consistent with necessary income for member countries developments". For this purpose, the conference decided to form a special committee headed by Dr. Hernendez Grisanti and composed of Dr. Subroto, Indonesian Energy Minister, Mr. Qassim Taki Al Oraibi Minister for oil for Iraq, Mr. Ali Khalifah AL Sabah, Kuwait oil Minister and Dr. Mane Saeed Otaiba of U.A.E., to examine to ways and means to achieve this stated objectives and to recommend to conference the course of action to be taken in this respect. This conference had also decided that this special committee would be assisted by experts from all member countries. Thus, in a shrinking market share of OPEC, the conference had decided to break-out its closed role as the residual supplier and swing producer of the world oil and energy market. The defence of the minimum market share would for time being at least take prudence over the price maintenance as the number

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one objective of OPEC member countries. The 77th meeting of the OPEC Conference had decided with consent of only ten member countries that the average OPEC production level for 1986 had been fixed at 16.7 mb/d, and during the second and fourth of quarter of the 1986, production would be at 16.3 and 17.3 mb/d respectively. They also agreed that OPEC countries would gradually adjust their current production in order to reach the above mentioned levels. The 79th meeting of the OPEC Conference was held in Geneva, (Switzerland) from 6th-22nd October, 1986. The overall output ceiling was set-at 14.961 mb/d for November and at 15.039 mb/d for December, 1986. There were small increases in individual quotas for some countries. On the assumption that Iraq would continue producing at 1.8-1.9 mb/d. This meant an effective ceiling for the organization was around 16.8-16.9 mb/d. The Conference was agreed that the excess supplies in the market should be reduced and conference upon the suggestion of Iran, decided that the interim and temporarily action on member countries production limitation would be extended with some minor adjustments. Through the months of

November and December, 1986. The Conference extensively discussed the bases for a permanent and equitable distribution of total OPEC production among member countries. For this purpose, the Conference deliberated on the parameters to be taken as a basis for a determining member countries quotas, the definition of these parameters and the weight to be given to each.\(^44\) The Conference also discussed the mechanism of implementing of such a permanent production sharing formula. Due to the complexity of the matter, it was decided that the ministerial committee presided over by Alhaj Rilwanu Lukman, Minister of Petroleum resources of Nigeria and composed of Dr. Subroto, Indonesian Minister for Mines, and Mana Saeed Otaiba, Minister of Mines and Petroleum of the U.A.E.; would continue its effort with a view to reaching a durable and practical formula.\(^45\)

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first and second quarters of 1987 should not exceed 15.8 mb
/d, representing a cut of 7.6 % and 7.1% respectively from
the perceived demand for OPEC oil during these two quarters.
It was also agreed that "a production regulation should be
pursued throughout the remaining period of the 1986 to
ensure enough support for the new OPEC price structure."46

The 81st meeting of the OPEC Conference was held on 27-28th
June, 1987 in Geneva. This conference had examined the
supply/demand outlook for the second half of the 1987 and
decided that in order to secure firm prices in the market,
the OPEC production during the fourth quarter of 1987 would
be equal to that of the third quarter ie. 16.6 mb/d distrib-
uted into the same national production levels. The confer-
ence felt the necessity of member countries strict adheren-
ce of the agreement signed in December 1986, in terms of both
official price and national production levels. For this
purpose, the conference decided to establish a committee of
three heads of the delegation to undertake visits to member
countries in order to motivate them to comply with the term

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of agreement. The 82nd meeting of the OPEC Conference which was held on 9-14 December 1987 in Vienna in which an agreement was reached that the production level of all member countries with the exception of Iraq would be around 15.06 mb/d during the first half of 1988 distributed into national production levels.

The 84th meeting of the OPEC Conference was held in Vienna from 21-28 November 1988 in which the decision had been taken to fix total OPEC production for the first-half of the year 1989 at around 18.5 million b/d distributed among individual member countries. This Conference had also decided to reinstate of production control, as was agreed upon in OPEC resolution No. 263 adopted on 5 August 1986 concerning the monitoring of member countries production levels by setting up a group of high level marketing representation supervised by the Secretary-General under the authority of ministerial monitoring committee.

meeting of the OPEC Conference which was held in Vienna on 5-7th June, 1989, had decided to increase OPEC production ceiling from 13.5 million b/d to 19.5 mb/d during second half year and to distribute the increase among member countries on a pro-rata basis. The conference reaffirmed member countries commitment to abide by and strictly adhere to production quotas. This conference also decided that eight member monitoring committee would meet in September, 1989 with a mandate by the conference to review the market and if it was found that the demand warranted an increase in the ceiling, then this could be raised to 20 mb/d to any other level agreed upon, starting from 1st October, 1989. This committee would also prepare a long-term strategy, including allocation of permanent quotas. The production ceiling had been increased to 22 mb/d during the first-half of 1990 according to the decision taken by the 86th meeting of the conference of the OPEC.

It is therefore obvious from the above analysis that


production ceiling was dominated in the agenda of the OPEC in the eighties. The introduction of individual quota system within the OPEC production ceiling was one of the important outcome of the agenda of OPEC in the eighties. The role of Saudi Arabia as swing producer was another important result from the deliberations of OPEC agenda. Thus, these were the important developments in the agenda of OPEC in eighties.

(3) Co-operation with non-OPEC

The concept of cooperation between OPEC and non-OPEC producing countries to stabilize the oil market was recognized officially in 1980s. But its roots go back to the first meeting when OPEC was found in September, 1960 in Baghdad. The article 2 (C) of the OPEC statute clearly stated as follows: "Due regard shall be given at all times to the interest of the producing nations and to the necessity of securing a steady income to the producing countries; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on their capital to
those investing in the petroleum industry". During the 1980s and especially in the its mid, the term 'non-OPEC producers' and the concept of cooperation with OPEC to stabilize the market was increasingly felt. The communique of the 70th Conference, held on 10th July, 1984 in Vienna, acknowledged formally for the first time the need for cooperation with non-OPEC producers: "The Conference noted that the increase in production from oil exporting countries, non members of OPEC, has greatly contributed to the recent market situation and decided to establish contacts with those countries, with view to finding ways and means of enhancing cooperation between OPEC and those countries, in a joint effort to shoulder the responsibility of stabilizing the oil market and defending the oil price structure". OPEC managed to gain Mexico's support, when the latter agreed to limit its export to 1.5 mb/d and to align to prices with those of the organization as far as possible. Sheikh Ahmed Zaki Yamani visited London at the end of July, 1984.


1984 as a part of the programmes to establish contacts with non-OPEC producers, in his capacity as Minister of Petroleum of Mineral Resources of Saudi Arabia and the Chairman of OPEC's long-term strategy committee. The BNOC agreed to request the oil companies operating in the North-Sea fields not to undermine the price structure. On that day, the deputy of the U.K. Energy Minister Alick Buchanan Smith wrote a letter to U.K. oil companies in the following terms: "We believe that Oil Companies and the U.K. as a whole have a common interest in maintaining stability of World Oil Prices. A premature reduction in the BNOC prices, before it is clear that the present surplus of oil on the market is more than a temporary phenomenon, would represent an avoidable loss of income for all of us, with a risk that competitive price reduction elsewhere could lead to a collapse of the World Oil Market. For this reason, I am seeking the support of your company in avoiding pressing BNOC to cut prices during the next few weeks. The burden of doing so needs to be spread fairly". 54

This was unexpected intervention by the U.K. Government and was welcomed by OPEC. But this cooperation did not last long because in October, 1984, Statoil of Norway followed by BNOC announced new pricing practices linked to spot prices, which effectively meant reduction and undercutting of OPEC prices. This prompted OPEC to call the 71st meeting of OPEC Conference which was held on 31st October, 1984 in Geneva and decided on a ceiling of 16 mb/d and new quota allocations, coupled with reduction in the organization's marker crude price to $29/b. These measures were deemed necessary to support the price structure, in the face of increasing supplies from non-OPEC and their competitive pricing methods. Mexico again came forward to cooperate by reducing its export to 1.4 mb/d followed by Egypt cutting output by 30,000 b/d. Both countries had been invited as observers to the above mentioned Conference. This was a great boost to OPEC in its efforts to pursued other producers to similar action even though it had minimal effect upon the market.55

The price collapse of 1986 provided ultimate shock to all producers particularly those outside OPEC. At least the organization had warned of this eventually over a long period. The impact of this price collapse on non-OPEC producers proved to be more disastrous, as most of them were producing at a maximum capacity and thus had a limited means of correcting their loss of revenue.
Table 2

Non-OPEC Countries oil Dependency

(US billion dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Value of oil exports</th>
<th>% of GDP</th>
<th>% of total export</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>3.33  7.14  5.25</td>
<td>7.1 12.3 6.2</td>
<td>24.6 35.7 24.8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.83  20.76 9.92</td>
<td>2.1 4.6  1.2</td>
<td>10.2 20.5  6.8</td>
</tr>
<tr>
<td>Sub Total</td>
<td>12.17 27.90 15.47</td>
<td>2.6 5.5  1.7</td>
<td>12.2 23.0  9.2</td>
</tr>
<tr>
<td>CPES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>2.11  6.75  3.40</td>
<td>1.0 2.8  1.1</td>
<td>15.5 24.7  7.2</td>
</tr>
<tr>
<td>Soviet Union</td>
<td>22.40 32.26 32.49</td>
<td>3.3 4.9  3.2</td>
<td>34.6 37.0 29.4</td>
</tr>
<tr>
<td>Sub total</td>
<td>24.51 39.01 35.89</td>
<td>2.8 4.3  2.7</td>
<td>31.3 34.0 22.7</td>
</tr>
<tr>
<td>LDCs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Angola</td>
<td>0.84  1.91  2.13</td>
<td>28.9 39.1 43.2</td>
<td>74.7 85.1 91.4</td>
</tr>
<tr>
<td>Columbia</td>
<td>0.12  0.45  1.00</td>
<td>0.4 1.3  2.6</td>
<td>3.6 12.7 19.9</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.76  2.53  1.82</td>
<td>4.2 5.2  2.4</td>
<td>41.5 68.0 31.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.01  4.07  2.34</td>
<td>9.5 13.0 6.8</td>
<td>18.1 26.3 11.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.82 14.50 6.63</td>
<td>2.8 8.2  3.8</td>
<td>42.5 65.6 31.9</td>
</tr>
<tr>
<td>Oman</td>
<td>2.13  4.43  2.59</td>
<td>57.1 44.3 27.2</td>
<td>98.5 94.2 98.6</td>
</tr>
<tr>
<td>Sub Total</td>
<td>9.68 27.88 16.52</td>
<td>4.6 9.1  4.9</td>
<td>34.0 53.9 28.6</td>
</tr>
<tr>
<td>Grand Total of Above</td>
<td>46.36 94.79 67.88</td>
<td>3.0 5.5  2.6</td>
<td>22.4 33.0 17.7</td>
</tr>
<tr>
<td>OPEC</td>
<td>203.25 127.18 86.36</td>
<td>40.9 18.3 14.2</td>
<td>92.7 84.3 73.9</td>
</tr>
</tbody>
</table>

Source: OPEC Review, Spring 1990, OPEC Secretariat, Vienna
It is therefore evident from the above table that there was decline in exports value of non-OPEC countries between 1985 and 1988. It was basically due to price collapse of 1986. Thus, it is proved from table 2 that instable price had influenced both OPEC and non-OPEC countries. Thus cooperation between OPEC and non-OPEC became indispensable for the stable global oil market.

The devasting result of the price collapse intensified efforts to find a more workable way of cooperation among producers. The Chairman of the Special Ministerial Committee and the OPEC President Mr. Antuno Hernandez Grisanti, warned of impending instability in the oil market when he said: "I believe OPEC and non-OPEC producers make every possible effort to avoid a price war detrimental to all; but as it had been stated in the past, OPEC would not be able to avoid such a situation if non-OPEC producers do not recognize the harmful effects of a chaotic market and do not act responsibly". Countries like Angola and Oman were drawn into dialogue, in the 77th meeting of the OPEC Conference, held in Geneva in March and April, 1986, stated in its press release.

56. OPEC Statute, OPEC Secretariat, Vienna, 1993, p. 3.
release "The Conference also held fruitful and constructive discussion with certain non-OPEC oil producers, namely Angola, Egypt, Malaysia and Oman, in which both parties expressed concern about the present market situation and agreed that their common objective was to support the oil price structure with a view to gradually reaching the target of restoring the OPEC reference price to its official level of $28/b". The Conference also formed a group of five Ministers, the heads of delegation of Indonesia, Kuwait, Nigeria, Saudi Arabia and Venezuela, "in order to make necessary contacts with non-OPEC oil producing/exporting countries with a view to reaching an agreement for a joint effort to stabilize the market". The aim of non-OPEC producer was to restore the price to $28/b. But unclear was their proposed means of supporting in order to achieve such an objective, especially since the price of Arabian light for instance, had fallen by the time to $11.17/b. Differences of opinion within the organization had prevented the


58. Ian Skeet, No. 37, p. 198.
emergence of specific demands to negotiate with non-OPEC producing/exporting countries. By July, 1986, as prices fell below $10/b, promises of support began to emerge from some non-OPEC producers in the following manner: (I) Oman would reduce production by 50,000 b/d from a level of 500,000 b/d; (II) Norway would review its development programme and reduce its planned increase in oil production; (III) Malaysia would reduce export by 10% (about 35,000 b/d), if OPEC, opted for production management; (IV) Mexico would reduce exports by 150,000 b/d from a level of 1.5 mb/d. It was however also tied to production management by OPEC; (V) Egypt would reduce production by 70,000 b/d; (VI) Angola would reduce production by 20,000 b/d. 59

The decision of the 78th meeting of the conference in Geneva in July/August, 1986 was limited OPEC's ceiling to 16.0 mb/d. This was considered to be an interim action and temporary cut in OPEC production. The Conference also requested on producers outside the organization to "contribute sizeably in cutting production, with a view to shoulder---

ing together with OPEC the burden of defending market sta-

bility and expressed in this context, that failing such

contribution, OPEC will not be committed to defending the

price structure alone". 60 OPEC's position was clearly

stated in the 79th Conference in Geneva in October, 1986.

The return to a fixed pricing system at the end of 1986, 
together with the setting of a ceiling of 15.8 mb/d for the

organization coupled with continued contacts to draw better 
support from non-OPEC producers, began to show its effects 
on the oil market, with the price rising to $ 15.19/b at the

end of December, 1986. Egypt agreed to reduce its 1987 
production level by 70,000 b/d from 940,000 b/d. The Soviet 
Union would reduce its export to hard currency countries by

a minimum of 50,000 b/d and possibly by 70-100,000 b/d in 
the first quarter of 1987. Norway would reduce its produc-
tion by 7.5 % from planned maximum capacity, which amounted
to a reduction of 80,000 b/d at the time. Oman promised of
32,000 b/d cut from exports. Canada had also participated
in the discussion. 61

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Rilwanu Alhaj Lukman in his opening speech of the 81st conference in Vienna in June, 1987, when he said, "The events of the past six months have once again underlined the fact that OPEC's intervention is necessary to defend prices and restored stability to the oil market. The fact, however, does not justify non-OPEC oil producers leaving the responsibility for market stability to OPEC alone, especially when the benefits of our organizations policies are enjoyed by all producing countries. When OPEC reached its agreement last December, it was expected that non-OPEC producer would cooperate with us and similarly reduce output, because this would bring obvious benefits to all participants in the market. But the available reports for the first four months of this year appear to tell different story: That some non-OPEC countries, including some of those who had publicly supported OPEC's stand, in fact increased production, compared with the same period last year".62

It was reiterated vigorously in an Lukman's opening speach of the 82nd OPEC Conference in Vienna in December, 62. Ibid, p. 240.
1987, when he said, "The support we have received from other oil producers has been fragmented, in spite of the fact that many of them have capitalised on our organization's successes. Some countries such as United Kingdom, have publicly declared their opposition to any form of cooperation among producers to stabilise the market. Others have promised to help stabilise the market by controlling output levels, and have done so at times, but have then faltered as market conditions changed. Some countries have, on the other hand, remained true to their word; Norway and Mexico, for example, have in fact restrained their production in cooperation with OPEC". 63

The price deterioration at the end of 1987 and during 1988 intensified contacts between OPEC and non-OPEC producers. In March, 1988, a group of non-OPEC producers consisting of Angola, China, Columbia, Egypt, Malaysia, Mexico and Oman, met in London to discuss the state of oil market and possible means of supporting it. During the April 1988, it met a group of OPEC countries namely Algeria, Indonesia,

Kuwait, Nigeria, Saudi Arabia and Venezuela, in Vienna. The non-OPEC countries preferred to be called the Independent Petroleum producing exporting countries, took it upon themselves to try to secure the participation of other nations. The most important outcome of this meeting was that "Angola, China, Egypt, Malaysia, Mexico and Oman proposed to cut back their respective export volume by 5% during the crucial reminder of the second quarter, i.e., May and June, 1988. The basis for such a cut would be average export of the past six months. Implantation of such measures would be contingent upon a similar proportional response by OPEC. The cut were much less than those promised in 1986 and were also conditional upon a proportional response from OPEC". The cut was estimated to be around: Mexico 68,000 b/d, Egypt 22,500 b/d, Oman 27,000 b/d, Malaysia 15,000 b/d, Angola 20,000 b/d, China 30,000 b/d. The total was 182,000 b/d. This made it difficult for OPEC on 28th April, 1988 to make a decision on the issue. Mr. Lukman told in a Press Conference that: "The proposals made by independent producers

required more, time for clarifications of some of the points in the offer and to enable consultation with member countries governments on the form cooperation should take in future. OPEC was not interested in merely propping up the market temporarily: short-term stability was, of course, also of concern, but ultimately it was long-term stability of the market that was important to all producers, both OPEC and non-OPEC, and it was this issue, that they must address their attention. 65

But OPEC was not happy with such a proposal. If the organization was not interested in cooperating with other producers, and this was clearly contrary to what it had been trying to achieve during the 1987. Acceptance of the proposals on the other hand, would have meant a further reduction in OPEC's market share, which had been at the root of the problem behind the market collapse of 1986. Although the proposal was put to the 83rd meeting of the conference held on 11th June, 1988. It was obvious from Lukman's opening address:"While we greatly welcome the gesture these

non-OPEC producers have made to us, it should be remembered that while they are making their formal offer for the first time, we have for several years now been cutting on production to stabilise the market. We have made sacrifices for our benefits and theirs while we have been bearing the burden of market stability by limiting our production, they have been increasing theirs and almost all of them are currently producing at a maximum capacity. Their offer, therefore, should be seen in its true perspectives, and it should be noted that some of them in past offered higher percentage cuts. We must thus make it clear that such a reciprocal action would at face value, overlook the sizeable cuts and sacrifices our organization had already made the burden we have born unilaterally during the 1980's; as well as major consequence of these reductions that we are now producing at little more than half our potential. It is not just simple question of saying yes, for the sake of an agreement. We should also have to be convinced of the fact that words will be interpreted into action, since in the past, some non-OPEC producers have promised production cut-backs only to overlook these assurances almost as soon as
they have been made". 66

The 84th meeting of the OPEC conference was held in Vienna on 21st November, 1988. This conference was considered to be a great success, in the sense that it brought together all member countries under one agreement, in limiting OPEC's ceiling to 18.5 mb/d for the first half of 1989 in distributing the ceiling into national quotas and in setting the objective of achieving the $18/b reference price as soon as possible. With burgeoning demand at the time, non-OPEC production was allowed to grow, although in fact it declined because of problems in the U.K. Sector which were only partly balanced by increases in other countries. 67


Egypt, Malaysia, Mexico, Norway, Oman and former Soviet Union, U.S.A. and Yemen Arab Republic. Although the representatives from Canada, Norway, the U.S.A. and Yemen attended as observers only. The November, 1989 agreement which had taken place in Vienna as the 86th meeting of the OPEC Conference, stated that, "Independent oil producers agreed to recommend to their appropriate authorities. The necessary cooperative measures to contribute to market stability in the coming months". 68

It is therefore evident from the above study that the necessity of cooperation between OPEC and non-OPEC became indispensable in view of turmoil in the global oil market in the eighties. It was also imperative to bring price stability in the International oil market because instable market was neither in the interest of OPEC nor non-OPEC. Thus, OPEC has provided 'co-operation between OPEC and non-OPEC' a proper place in its agenda during various meetings of OPEC conferences.

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68. Ibid, p. 271.
4. **Differential Issue**: The issue of price differentials was dominated in the agenda of OPEC in the eighties. The main item of agenda of the 55th meeting of the OPEC Conference was the maintenance of uniform and stable pricing system. The OPEC focused upon the problem of differentials. Prior to this meeting Saudi Arabia had increased its price from $18 to $24 on the understanding that the U.A.E., Qatar and Venezuela would take their own decisions to unify prices at $24 level. Kuwait and Iraq were also expected to act similarly. But it did not work out this way. The U.A.E. and Qatar increased their prices by $6 instead of $4 that would have aligned them with Saudi Arabia. Iran supported by Algeria, Libya and Nigeria was even more ambitious. Iran demanded $35 and refused to accept any price less than $30. No agreement could be reached, largely because of wide difference in opinion over the relative values of the crudes. OPEC Ministers departed from the conference with prices ranging from the $24 level of some Gulf Countries to the $30 level of the African Countries. At the end of January, Saudi Arabia announced a retroactive

increase to its price as from 1st January, 1980 by $2 to $26. It was thought that this had been done, in agreement with other Gulf producers, to coordinate Gulf prices. But others promptly increased by $2 again. In May, 1980, Saudi Arabia increased the price by $2 to $28 whereupon others increased the price to $35.70

The 57th meeting of the conference of the OPEC was held in Algiers from June 9th-11th, 1980. The Conference had decided to set the level of oil price for a market crude up to a ceiling of $32.00 per barrel. The value of differentials which would be added over and above the said ceiling of the marker crude price level at U.S. $32 per barrel and on account of quality and geographical locations should not exceed in any case U.S. $5.00 per barrel. The 58th meeting of the OPEC Conference held on 17th September, 1980 in Vienna in which the decision had been taken to set the marker price at $30 and freeze all other official prices at their present level. This was a move towards price unification and Saudi Arabia increased its price to $30 from $28.

This created slight narrowing of the differential spread. But the $30 had further significance. It was now implied to the base point of the new long-term strategy. Saudi Arbia was however, firm in refusing to return to its 8.5 mb/d level until it had gained acceptance of $30 as the base price of reunification and rational set of differentials had been agreed around that price. It also insisted that any production programme must derive from the pricing formula as recommended by in the long-term strategy report and from a fair distribution amongst OPEC members of any production cuts that might be necessary. In the mean time, there was limited agreement amongst some OPEC members like Lybia, Algeria, Venezuela, Nigeria, Indonesia and Iran accepted the need for a 10% reduction in production, but the formal outbreak of Iran and Iraq had stopped them from carrying this out. In the 59th meeting of the OPEC Conference, the decision had been taken that a $5 differential between Arabian Gulf and African Crudes would be an agreed target. The 60th meeting of the OPEC Conference which was held in Geneva on 26th May, 1981, in which decision had been taken to maintain deemed market crude price at a ceiling of $36/b with a maximum OPEC price at $41/b until the end of
the year. The majority of member states decided to cut production by a minimum of 10%, effective from 1st June, 1981. The Conference decided to entrust the differential issue to long-term strategy committee under the Chairmanship of Mr. Ahmed Zaki Yamani, Minister of Petroleum and Mineral Resources of Saudi Arabia with the further review of OPEC's long-term strategy and present a report to the conference as soon as possible.71

In the 61st meeting of the OPEC conference had agreed to set the value of differentials for the pricing of all other OPEC crudes in accordance with their respective qualities and geographical locations. The conference was aware that this decision would have an evident positive effect on the economy of the world through the organisation and of the oil market which would in turn contribute to the consolidation of OPEC as the main hydrocarbon supplier to the international market, thus maintaining its relevance as an energy source. The conferences had decided that the ministerial committee on long-term strategy would continue its work and

report to the conference. In the 62nd OPEC Conference, it was decided to leave with a 50% difference between Nigeria and Libya/Algeria or African Crudes prices. Gulf heavy crudes were reduced by varying amounts. Iranian heavy and Kuwait by 70%, Arabian medium by 60% and Arabian heavy by 50%. Price was in some sense reunited in 1982. A marker existed and a set of differentials had agreed around the marker. It seemed that there was firm resolve on prices and sufficient adaptability on the differential question which was certain to need quarterly adjustments to respond to market pressures. 72

The 63rd OPEC meeting of the conference was held in Vienna on 19-20 March 1982. It was decided in this conference that the price differential for light and extra-light crudes in relation to the marker crude would be set at the same levels as in 1978. The new differential would be applicable with immediate effect. It had been decided in the 67th meeting of the OPEC conference to maintain the existing differentials among the various OPEC crudes at the same levels. 

level as agreed upon at the 63rd OPEC conference held in Vienna in March 1982, with the temporary exception that the differentials for the Nigerian crudes would be US $ 1 over the price of marker crude.73 The 71st meeting of OPEC met in Geneva from 29th-31 October 1984. This conference had discussed the report of the ministerial committee on price differentials, headed by Mr. Ahmad Zaki Yamani and agreed with the exception of Algeria and Nigeria on the following adjustment of price differentials, to be applicable temporarily and reviewed not later than the end of 1985 : (i) to keep the marker crude price at its current level of $ 29/b, (ii) to adjust the prices of heavy crudes by a premium of $ 0.50/b, (iii) to adjust the prices of extra light crudes by $ 0.25/b, (iv) to adjust the prices of extra-light crudes by $ 0.25/b. The Conference also decided to enlarge the composition of ministerial committee on price differentials under the chairmanship of Ahmad Zaki Yamani to include H.E. Belkacem Nabi minister of Energy and Petrochemical industries of Algeria, HE Ali Khalipha Al Sabah, Minister of oil and Finance of Kuwait, Tom David West, Minister of Petroleum and

73. Ibid, p. 169.
Energy of Nigeria, Abdul Aziz Bin Khalipha Al-Thani, Minister of Petroleum of Qatar besides Mr. Faurzi A. Shahshuki, Secretary of Oil of Libya and Dr. Mana Saeed Otaiba, Minister of Petroleum and Minister resources of the UAE. The 74th meeting of the OPEC conference discussed the report of the ministerial committee on price differentials under the chairmanship of Ahmad Zaki Yamani and decided by majority to adjust downward price of medium crude of 31° API by $0.20 per barrel and the Arabian heavy of 27° API by $0.50 per barrel; Algeria and Libya disagreed with the price reduction. The conference had also taken decision that the ministerial committee on price differentials would continue its work on price differentials among OPEC crudes in the light of changing market conditions.

As it is obvious from the above study that price differential was the prime item of agenda in the above mentioned meetings of the OPEC Conferences. The major finding of this analysis that price differential became major issue


of conflict within the OPEC which was caused by the rise in
prices of some quality of oil whereas decrease in price of
other quality of oil. A detailed study of intra-OPEC con-
flict on price differential will be discussed in the next
chapter entitled "Intra-OPEC conflict in the eighties".

5. Other issue in the agenda:

Some other leading issues for OPEC agenda in eighties
are given below:

(i) Guarantee of oil supply to Consumers:

The 54th meeting of the OPEC Conference which was held in
Geneva from 26th-28th June, 1979. The Conference expressed
its' great concern over prevailing abnormal conditions
in the International Oil Market. Demand that con-
tinued to be a source of pressure on the price structure
resulted in several phenomenon which generated difficulties
for both producers and consumers, especially the developing
countries. The conference asked major industrialized con-
suming countries to control their total demand, whether for
consumption or stock build-up, so that the adverse effects
of the present market situation can be avoided. The Confer-
ence also takes this opportunity to warn oil companies of the irresponsible practice of taking advantage of the present situation to reap unwarranted profits and requested them to play more constructive role in connection with guaranteeing supplies to developing countries and to prevent price speculation.76

(ii) Fluctuation in U.S. Dollar:

This Conference also expressed concern on the movement of U.S. Dollar vis-a-vis the international major currencies with a view to eroding the real price of oil and further reducing the purchasing power of the OPEC barrel and such movement indicates further erosion in the real value of OPEC revenues, as this conference decided on shifting to a basket of currencies as a means of compensating OPEC countries from resulting losses and further protecting the purchasing power.77

77. Ibid, p. 224.
(iii) OPEC aid to developing countries:

The 55th meeting of OPEC conference was held on 17th-20th December, 1979. The Conference centered its discussion on measures of cooperation with other developing countries in the areas of economic cooperation and development as a means of strengthening the solidarity among countries of the third world. For this purpose, it was decided to recommend to the Government of OPEC member states to replenish the OPEC special fund by an amount of upto $1.6 billion in addition to the $800 million. In this respect, the conference agreed in principle to convert the OPEC special fund into a development agency with its own legal personality. 78

OPEC agenda in the eighties was drawn by changing profile of the global oil market. The issues dominating the organization functioning in the eighties clearly show that OPEC had to change its strategy in favour of defending the market share to the maximum oil revenue. This was the departure from the earlier strategy of price maximization. But not being able to control leading to massive loss of

revenue, OPEC decided for production restraint. It set up production ceiling and quotas. Since the revenue needs of the members varied, most often, the members did not comply with the OPEC discipline. Consequently it could achieve neither. So OPEC in the eighties lost both the market share and the prices. As pointed out by Sheikh Yamani, "OPEC did not learn much from 1985 episode, leaving oil prices to find their own level, or it can set government selling prices. It is self evident that OPEC cannot rigidly regulate both volume and prices, it lacks the degree of monopoly power to achieve that level of market control" (MEES 18-4-1994). The point is that the changed market conditions led to decline in the initial power of the OPEC. Basically, the member state did not recognize the stark reality. The competition and conflict will be analyzed in the next chapter. It made the OPEC agenda more of an academic debate than the plan of action. The divide between 'price seekers' and 'volume chasers' quite often led to defeating the moves made by the OPEC. Summing up, it will be argued that OPEC agenda in the eighties was dictated by the changing nature of oil market, differences among the member states as well as the pressure from the rising non-OPEC exporters. It was more at the
receiving end than on the dictating term. This could be further illustrated in the next chapter on "Intra-OPEC Conflict in the Eighties".