
The October 1973 War

As the discussion in the preceding chapter will make amply clear, the old oil regime was in its last throes. The outlines of the new order, though clearly visible, had still not taken firm shape. It was without doubt the Arab-Israeli war of October 1973, which finally dealt a death blow to the old order and brought into existence the Second Oil Regime.

The ink on the Geneva II Agreement was barely dry when OPEC made evident its intentions to raise the prices of crude again. Their main contention was that the continuing currency instability and rising levels of world inflation had seriously eroded their earnings. Negotiations with the oil industry were started against the backdrop of the October war and were never concluded. Instead, taking advantage of the disruption in supply caused by the hostilities, on October 16, the Persian Gulf members of OPEC announced a unilateral increase in posted prices which raised the price of Arabian Light, the key crude in the Gulf region, from $3.11 to $5.119/b, an unprecedented increase of 170 percent.1 The oil states also declared that, in

1 Skeet, op cit, pp 89-90.
future, posted prices were to be determined by actual market prices in the
Gulf as well as in other areas and that the relationship between the two
prices was to be the same as the one that had prevailed before the Tehran
agreement.

The October 16 announcement signalled the establishment of a new
petroleum order as it established OPEC as the sole arbiter of oil prices,
finally breaking the long established tradition of consultation and negotiation
between the producer states and the oil companies prior to any upward
revision in crude oil prices.²

The unilateral increase in crude oil prices by OPEC in October 1973 was
to set the ball rolling for further such revisions. On the conclusion of their
Tehran meeting on December 23, 1973, the Gulf members of OPEC again
raised the posted prices of the Arabian Light marker crude from $5.119 to
$11.651/b effective January 1, 1974.³ This constituted an increase of 227
percent, making the cumulative increase from October through December
1973, more than 384 percent. These increases were sought to be justified on

² Ghanem, op cit, p 148. See also Skeet, op cit, pp 91-92
³ Skeet, op cit, p 102.
the basis of comparative costs of alternative forms of energy as also the need to preserve the purchasing power of the oil producers from the ravages of rising world inflation.\(^4\)

The impunity with which such massive increases in prices had been effected, indicated quite clearly that OPEC had established itself as a cartel of autonomous petroleum producers who were accountable to no one but themselves. With the increasing levels of national participation in the concessions and the growing involvement of the national oil companies, the international oil companies had been effectively reduced to the role of technician-managers with regard to upstream operations, although in the downstream business their control remained relatively unaffected. Nevertheless, this marked a radical point of departure from the pattern, which existed under the first oil regime.

Yet another significant point of departure was that prior to the unilateral price increases of October 1973 and January 1974, the oil companies had performed the role of moderators of OPEC’s pricing behaviour. Now that the pricing was being done by OPEC alone, this important role was taken over by Saudi Arabia by virtue of the simple fact that it had the largest

\(^4\) *Middle East Economic Survey*, Dec 28, 1973, pp 1-4 (supplement)
volume of proven oil reserves and was therefore cognisant of the fact that its economic prosperity was inextricably linked to the economic stability and health of the Western industrial world.\(^5\)

Despite the huge magnitude of the price increases, the impact on the demand for oil was not felt immediately. In fact as the table below will indicate, there was only an insignificant decline in OPEC production in 1974 over 1973 of the order of 0.8 percent. However, total OPEC production took a substantial plunge in 1975, from 30.73 million to 27.19 million b/d, a reduction of 13.1 percent. This was directly related to the decline in demand for oil stemming from the decline in economic activity in the industrialised world - the growth of real GNP in the OECD countries which had averaged around 5.4 percent per annum between 1959 and 1972, plummeted close to zero during 1974-1975.\(^6\)

**TABLE 5: Crude Oil Production in OPEC Member Countries, 1972-1977**

(1000 b/d)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>1062.3</td>
<td>1097.3</td>
<td>1008.6</td>
<td>1020.3</td>
<td>1075.1</td>
<td>1152.3</td>
</tr>
<tr>
<td>Ecuador</td>
<td>78.1</td>
<td>208.8</td>
<td>177.0</td>
<td>160.9</td>
<td>187.8</td>
<td>183.4</td>
</tr>
<tr>
<td>Gabon</td>
<td>125.2</td>
<td>150.2</td>
<td>201.5</td>
<td>223.0</td>
<td>222.8</td>
<td>222.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1080.8</td>
<td>1338.5</td>
<td>1374.5</td>
<td>1306.5</td>
<td>1503.6</td>
<td>1686.1</td>
</tr>
</tbody>
</table>

\(^5\) Ahrari, op cit, pp 76-77.
\(^6\) Ahrari, op cit, p 83.
As the economic downturn intensified in the non-communist economies, OPEC members found it increasingly difficult to raise oil prices not only because of a slump in oil demand but also because of Saudi opposition to any such, in the circumstances, imprudent action. The manifest decline in oil consumption in the industrialised world during the period 1973-1975, in the wake of the 'oil crisis' can be seen from following table:

**TABLE 6: Oil Consumption, 1973 - 1975 (million barrels per day)**

<table>
<thead>
<tr>
<th>Country</th>
<th>1973</th>
<th>1974</th>
<th>1975</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>16.9</td>
<td>16.2</td>
<td>15.9</td>
<td>-6</td>
</tr>
<tr>
<td>W.Europe</td>
<td>14.9</td>
<td>13.9</td>
<td>13.2</td>
<td>-11</td>
</tr>
<tr>
<td>Japan</td>
<td>5.5</td>
<td>5.3</td>
<td>5.0</td>
<td>-9</td>
</tr>
<tr>
<td>NCW</td>
<td>47.4</td>
<td>45.8</td>
<td>44.6</td>
<td>-6</td>
</tr>
</tbody>
</table>

The excess supply situation naturally exacerbated existing tensions within OPEC. It was quite apparent that OPEC would need to evolve some system of production programming and allocate production quotas among its members if it was to maintain a reasonable control over prices. However, this was fraught with obvious difficulties and even if it had been possible to evolve some rational system which satisfied all the members (Saudi Arabia, the member with the largest oil reserves, was strongly opposed to any such step), it would have required an elaborate policing system to actually enforce such a programme.\(^7\) However, despite such internal differences, OPEC was able to persuade its members to adopt voluntary production cutbacks. As will be evident from the table above, OPEC output declined by around 13 percent in 1975 over the production level in 1974.\(^8\)

As the table given below will indicate, the price hikes of October and December 1973 were in a sense the peak performance of OPEC until 1979. The organisation was able to introduce only token increments in royalties and tax rates during 1974 and 1975 while the price of oil remained frozen. Considering that during these years the world inflation rates continued to

\(^7\) Ahrari, op cit, p 81.  
\(^8\) Ibid, p 83.
rise, the real price of oil during these years could have in fact actually declined.

**TABLE 7: Prices of Light Arabian Marker Crude Oil, 1971-1981**

<table>
<thead>
<tr>
<th>Selected Dates</th>
<th>Price per Barrel ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 1971</td>
<td>1.80</td>
</tr>
<tr>
<td>January 1973</td>
<td>2.59</td>
</tr>
<tr>
<td>October 1973</td>
<td>5.12</td>
</tr>
<tr>
<td>January 1974</td>
<td>11.65</td>
</tr>
<tr>
<td>December 1977</td>
<td>12.70</td>
</tr>
<tr>
<td>July 1979</td>
<td>18.00</td>
</tr>
<tr>
<td>December 1979</td>
<td>24.00</td>
</tr>
<tr>
<td>July 1980</td>
<td>28.00</td>
</tr>
<tr>
<td>January 1981</td>
<td>32.00</td>
</tr>
<tr>
<td>November 1981</td>
<td>34.00</td>
</tr>
</tbody>
</table>

Source: OPEC Bulletins, 1971-1981 (various issues)

The price of OPEC oil remained static in 1976. By the end of 1977 a ten percent increase over the 1974 price was made possible by the economic recovery that was underway in the industrialised world. However the
demand for crude oil started to build up by the end of 1978 in the wake of strong economic recovery in the Western economies.

The loss of Iranian exports preceding and following the fall of the Shah of Iran provided the setting for the ‘second oil crisis’ of 1979-1980.\footnote{For a competent analysis of the ‘second oil crisis’, see Hartshorn, J.E. “Two Crisis compared: OPEC pricing in 1973-75 and 1978-80” in Mallakh, R.E.(ed) OPEC: Twenty Years and Beyond (Westview Press 1982), pp 17-32. See also, Terzian, op cit, ch 13, pp 257-277.} The revolution in Iran had begun to affect the oil production in the country when the oil workers went on strike - Iranian oil production fell to a low of 2.3 million barrels a day in December 1978 from a level of 6 million barrels a day of a few months earlier.\footnote{Ghanem, op cit, p 151.} Although Saudi Arabia and Iraq increased their production, it did not help in the face of rapidly rising world demand. The events of 1979-1980 gave OPEC a new lease of life as it continued to be the sole determinant of crude prices.

The years 1974-1980 were a period of relatively unqualified OPEC dominance and, as we shall argue, this was also the period of operation of the second oil regime. During this period the oil exporting countries were able to determine the price of crude oil, the royalty rate, the rates of income tax as well as the percentage of their participation in the oil concessions being operated in their countries, which included 100 percent acquisition as
well as outright nationalisation.\textsuperscript{11}

\textit{Response of the Consuming Countries}

The ‘oil shock’ of 1973-1974 caught the industrialised consuming countries quite unprepared. Their initial response was to develop elaborate energy policies and this marked the beginning of the growing activism of governments in energy affairs. The end of 1974 adopted a variety of conservation-oriented measures adopted by the OECD countries. These measures included lower thermostat settings, reductions in motor vehicle speed limits, rationalisation of airline schedules, and a general emphasis on conservation of fuels.

At the behest of the United States an energy conference was organised in Washington in February 1974 with the objective of evolving a comprehensive co-operative programme to meet the energy crisis. The Washington energy conference was to prepare the ground for the systematic co-operation on energy issues among the Western industrialised countries. The specifics of an oil-sharing plan in the wake of an emergency was one of

\textsuperscript{11} Ghanem, \textit{op cit}, p 161.
the most contentious issues among the industrialised consumers. At the conference the United States made a major concession by agreeing to share oil produced within the US in times of emergency and severe shortages. The energy conference also established a twelve-nation Energy Co-ordination Group (ECG) which was entrusted with the task of developing international co-operative arrangements among the industrialised consumers.\(^\text{12}\) France because of its consistent opposition to any co-operative arrangements that might intimidate the oil producing states decided not to join the ECG.

Intensive and frequent consultations between the ECG member countries produced a ten-year blueprint for a new ‘international energy programme’ (IEP). An International Energy Agency (IEA) was to be set up as a separate entity to administer this programme within the OECD and was to replace the ECG. The IEP contained short-term programmes as well as long range policies. The short-term programmes were aimed at protecting the oil consumers, discouraging them from bidding competitively for available oil supplies, establishing stockpiling requirements and stockpile draw down rules for all participants, and spelling out a variety of measures

\(^{12}\) Noreng O, "Friends or Fellow Travellers? The Relationship on Non-OPEC Exporters with OPEC" In Malakh (ed), op cit, pp 204-205.
aimed at mandatory demand constraints on specified levels of supply shortfalls.

The objective of the long range policies was threefold: (1) to develop among the oil importers long-term co-operative mechanisms aimed at reducing dependency on imported oil; (2) to create an oil market information system aimed at improving knowledge of the functioning of the world oil market and to create a framework for consultations with individual oil companies; and (3) to develop a framework for co-ordinating relationships among industrial consumers, oil exporters, and the Third World countries, and to elaborate a common strategy for the eventual dialogue with the oil states.

The short-term programmes included emergency stockpiling, intended to serve as a deterrent to future supply disruptions; emergency demand restraint, aimed at substantially improving participants' ability to withstand the economic impact of an embargo; and emergency oil sharing, intended to serve as an assurance that all member countries come to the assistance of any partner whose oil imports were reduced by more than 7 percent on account of selective embargo. The long-range policies included energy
conservation policies aimed at reducing excessive dependence on imported oil; demand restraint with targeted reduction of oil imports of the member countries as whole by 2 million b/d by 1975 end and by 4 million b/d by 1977 end; alternative energy development and the creation of a co-ordinated system of co-operation in the accelerated development of new sources of energy.¹³

With the setting up of the IEA in November 1974, the IEP was formally institutionalised and a firm foundation laid for the process of energy co-operation among the oil consuming nations of the OECD. The world was now divided into two polar blocs as far as the international petroleum system was concerned: the oil producers represented by OPEC and the major industrialised oil consumers (with the notable exception of France) represented by the IEA.¹⁴ Though in the circumstances, overt and formal co-operation between the two blocs was scarcely feasible, nevertheless important, underlying linkages between the two, ostensibly antagonistic groups were provided by:


(a) The activities of the multinational companies who, although having lost most of their upstream operations to the national governments / national oil companies of the oil producing states, nevertheless had most of their downstream world-wide operations intact. According to one estimate, international oil companies were still marketing over 75 percent of all internationally traded oil in 1976.\textsuperscript{15} It would not be an exaggeration to state that the new oil regime established by OPEC could scarcely have survived without the crucial functions relating to the processing, transportation and distribution of oil and petroleum products being performed by the oil companies and their networks;

(b) trade linkages - the almost total dependence of the oil producers on imports of goods and technology from the industrialised oil consuming nations; and

(c) the ‘special relationship’ between Saudi Arabia, the leader of the oil producers, and the United States, the leader of the industrialised consuming nations which provided the necessary moderation and

restraint to ensure the survival of the second oil regime.\textsuperscript{16} As Noreng has observed in this context:

At present, the dominance of the United States and Saudi Arabia on either side of the market creates a system of 'oil superpower' dominance that, in the short run, stabilises the Second Oil Regime. Today the Second Oil Regime succeeds, to a considerable extent, in reconciling the interests of the United States and Saudi Arabia. The United States' desire for greater supplies on the world oil market at moderately increasing prices and the Saudi interest in a stable world economy and a rather moderate rise in the price of oil are complementary. In this sense, the United States-Saudi bilateral link provides the source of stability in the Second Oil Regime.\textsuperscript{17}

\textit{OPEC as a Cartel}

OPEC's behaviour during the duration of the second oil regime established by it could best be modelled in terms of a classical producers' cartel, with the very important qualification that the members of the cartel were national governments rather than private entities. The objectives of the cartel, therefore, could not always be defined in terms of economic profit. The distinguishing feature of OPEC which set it apart from other resource

\textsuperscript{16} For an interesting account of the 'special relationship' see Terzian, op cit, pp 199-201.

cartels is that it pursued both economic as well as political goals.¹⁸

Economic theory defines a cartel as an agreement about price or price structure and output by firms in an industry. The success of a cartel is a function of the ability of a small number of producers to dominate a market and regulate it on the strength of their oligopolistic power instead of the market operating on the basis of the interplay of competitive supply and demand. For maintaining internal cohesion in a cartel, it would normally be essential for it to establish policies on price, production schedules and the allocation of market shares. It has been argued by economists, both on empirical as well as analytical grounds that the most important conditions that are conducive to the functioning of a producers’ cartel include:¹⁹(a) the existence of a few sellers; (b) the dominance of one seller; (c) an agreement about market shares; (d) a similarity in production costs of the sellers; and (e) a shared perception among the sellers about the demand for their product, including the stability of that demand.

During the period of the second oil regime, OPEC satisfied most of these conditions. Although the international oil companies remained the actual

¹⁸ Choucri, op. cit, p 43.
sellers of petroleum under this regime, the 13 OPEC member states, in 1970, controlled around 67 percent of the world's proven crude oil reserves, over 51 percent of the world's crude oil production and accounted for over 86 percent of the world's export of oil. Of the thirteen, however, just three, namely Saudi Arabia, Kuwait and Iran controlled 48 percent of the world's reserves, 29 percent of the crude oil production and 43 percent of the total world exports. These three states constituted, for all practical purposes, the core group. Two of them, namely Kuwait and Saudi Arabia, had common political objectives, which they employed to reinforce economic linkages. The concentration of oil in the Middle East gave the oil producers considerable strength.

For the success of the cartel, thirteen was a relatively large number, especially given the fact that there were only five major consumers. However, with the exception of the US, virtually all the major oil-consuming countries were heavily dependent on OPEC oil. This concentration of consumer needs provided the cartel a greater significance than might have been warranted on the basis of market size alone. Further the presence of

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Saudi Arabia with the largest known oil reserves, as the dominant producer added strength to the cartel.

Regarding the important issue concerning agreement on market shares, as already mentioned earlier, the international oil companies continued to perform this allocative function in the world petroleum market by regulating market shares, thereby relieving OPEC of a potentially destabilising problem.

There were virtually no similarities in the cost of production profiles of the exporting members - there were different qualities of crude oil, different transportation costs, in addition to the vast variations in extraction costs (production costs in Indonesia, Nigeria and Venezuela were substantially higher than in the Middle East). One of the theoretical conditions for the success of a cartel was thus not met. However, given the fact that the costs of production was only a small proportion of the price of crude oil, this factor did not prove to be of any significance.

Finally, there was undoubtedly a shared perception among the OPEC members that the demand for oil as the major source of energy would not slacken in the foreseeable future. Between 1960-1973, world oil
consumption had grown at an astonishing rate of 7.5 percent per annum.\textsuperscript{21} As long as the demand for oil continued to grow at a rapid rate, the incentives for potentially destabilising behaviour among the cartel members, such as price-cutting, increasing production beyond agreed limits and competition for market shares would be greatly reduced.

The above mentioned factors were primarily responsible for the cohesiveness of the producers' cartel managed by OPEC during the second oil regime. In fact it was the flexibility of approach adopted by OPEC, in concerning itself primarily with the issue of price fixation, while leaving the thorny and contentious issues of production and export levels to member countries and market shares to the oil companies, that ensured the stability of the cartel and, in turn of the oil regime, during this period.\textsuperscript{22}

\textit{US Policy during the Second Oil Regime}

Any discussion of the oil transactions during the 'oil decade', 1970-1980 would be incomplete without a brief mention of the US attitude towards the second oil regime. All regimes are in a sense 'nested' in a socio-political framework and, as we have mentioned in the opening chapter, in the realist

\textsuperscript{22} This argument has been made persuasively by Moran (1987) op cit, see pp 596-606.
conception of the world, it is this underlying framework which is more important than the regime itself.

The post World War II world had witnessed the dramatic rise of US power and the stability of the first oil regime without doubt rested on this foundation. However, the Iranian episode of 1954 involving the overthrow of Mossadeq marked the end of direct US interventionism in oil transactions for two decades. Instead it adopted a laissez-faire oriented policy in which the oil companies were allowed to manage the international oil regime without interference.

The ‘oil crisis’ of 1973-1974 caught the US administration completely off guard. It was unable to come up with a clear-cut or decisive policy response towards the newly established oil regime on account of conflicting pulls and pressures as well as multiple policy objectives, both domestic as well as international, resulting in what many analysts have termed as a “faltering and incoherent”\(^\text{23}\) response to the OPEC challenge. Among the important factors affecting the US policy response to the second oil regime were:

(a) Prior to the oil price increases of 1973-1974, the US government had

imposed import quotas in order to protect its domestic oil industry from cheap Middle Eastern oil and consequently domestic US oil prices were higher than in the world market. This resulted in a major competitive disadvantage for the US industry vis-à-vis its counterparts in W.Europe or Japan. As one US oil policy analyst has observed in this context: "[It is] true [that] the long-term competitiveness of United States industry was threatened by the artificially high energy prices in America. It is also correct that the international United States oil companies would benefit from orderly rising prices."24 The levelling of the competitive field in the wake of the oil price may not, therefore, have been entirely unwelcome.25

(b) The 'oil crisis' affected the developed industrial world differentially because their patterns of oil import dependence were radically dissimilar. In 1973 in the US, oil imports as a percentage of energy supply were only of the order of 17.4 percent as compared to a figure of 62.9 percent for W.Europe and 85.4 percent for Japan.26 These

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24 ibid, p 164.
25 Noreng, op cit, p 50.
26 Waltz Kenneth N. Theory of International Politics, (Addison – Wesley, Ma, 1979) Appendix Table x, p.22.
significant differences in import dependence implied that the US economy was hurt much less by the oil price than those of the more import dependent nations. According to one estimate, between 1972-73 and 1973-74 the current account of the US declined by $3.8 billion as compared to a corresponding decline by $24 billion for W.Europe and Japan.\(^{27}\)

(c) The OPEC had made clear its preference for bilateral deals involving the exchange of manufactured goods and technology from W.Europe and Japan for oil. The US, aware that bilateral deals would mean the end of consumer solidarity and concomitant bargaining power, was strongly opposed to such deals. One of the primary motives behind the US initiative to establish the IEA was to assert US leadership and maintain control over the flock of the industrialised oil importing

nations.\textsuperscript{28}

(d) The establishment of the IEA, however, did not prevent the US from pursuing its own bilateral relationship with Saudi Arabia, the largest Arab oil producer. The objectives of, what came to be termed as ‘the special relationship’, were threefold: (i) to drive a wedge among the OPEC leading, hopefully to its ultimate break-up; (ii) to enhance the oil security of the US through bilateral agreements; and finally (iii) to weave Saudi Arabia into a network of long-term interdependence with the United States so as to open up new markets for US goods while at the same time creating a demand for US financial assets.\textsuperscript{29}

(e) Another important foreign policy consideration for the US in dealing with OPEC was its strategic relationship with Iran, the third largest oil producer. Iran, under the Shah, was regarded as a crucial strategic ally and an important bulwark against the Soviet Union, with which it shared a border. Although Iran was regarded as a ‘price hawk’ in OPEC, the US was quite firm in its commitment to preserve and

\textsuperscript{28} Noreng, op cit, p 51
\textsuperscript{29} Bull-Berg (1984), op cit, p 159.
support the Shah’s regime.\textsuperscript{30}

All this added up to a US response that was at best, ambiguous and Janus-faced, and at worst, vacillating and confused. The ultimate ‘American Dilemma’, which could not be resolved, was the necessity of supporting the Jewish state of Israel because of domestic compulsions while at the same time preserving the strategic security interests of the U.S. which dictated a friendly engagement of the Arab world.

**Conclusion**

Let us now set out the main conclusions emerging from the discussions in this chapter. The first oil regime which was in a process of decay since the 1960s went into its death throes during the early 1970s as market conditions changed and the producer countries began to assert their rights more vigorously on the fundamental issue of having effective control over the petroleum resources that existed within their territorial domains. The October war of 1973 marked the turning point as far as the establishment of a new petroleum order is concerned. With the unprecedented and unilateral price escalations announced by OPEC in 1973-1974 and its grudging

\textsuperscript{30} Yergin. op cit, pp 642-646.
acceptance by the oil consuming nations, the second oil regime was born. This new regime had the following salient characteristics:

(a) In the absence of any treaty or formal agreement, the regime can be said to have been informal and non-contractual.

(b) The regime comprised both state as well as non-state actors, with the state actors playing a far more significant role than in the first regime. The production of oil was now under the control of the producer states and the once mighty international oil companies were relegated to the relatively more subordinate role of processing and distribution.

(c) There was a far greater degree of institutionalization in the second regime with the producers being organized under the umbrella of OPEC and the major consumers being represented by the IEA. Both the OPEC and the IEA were international organizations with a formal charter of functions, clearly defined organizational structure and a permanent secretariat.

The second oil regime was based on the following dominant norms and principles:

(1) The producer countries should have effective control of their own resources. This norm was established by the producing countries taking effective control of the production of oil in their countries
through the mechanism of participation agreements, 100 percent acquisition and in other cases through outright nationalization. This norm marked a radical departure from the concession agreements under the first oil regime.

(2) Cartelisation of oil production through a cartel of oil producing nations was best suited to provide both equity and stability in international petroleum transactions. This norm was established when in 1973-1974 OPEC took over the functions of price fixation of crude oil, which was earlier done through a process of negotiations with the oil companies. This norm was the least acceptable to the oil consuming nations who were adversely affected by the price increases effected by OPEC. However, given the dependence of W. Europe and Japan on Middle Eastern oil and the policy ambivalence of the US, there was little option with the industrialized consumers but to function within these parameters.

(3) Petroleum was strategically much too important a commodity for production, pricing as well as consumption decisions to be left to the market. State intervention in the market was thus desirable and necessary.
On the production side we have seen, complete control of the decision making process was established by the producer states. In most of these states national oil companies were established for this purpose. Pricing decisions in the second oil regime were taken by the OPEC cartel and were not through the market prices. Even in the industrialized world where state intervention in energy markets was generally frowned upon, governments intervened in a significant way to influence consumption patterns and to formulate short and long term policies designed to enhance their energy security.

(4) With oil production being controlled by the producer states, the function of processing, transportation and distribution of petroleum and petroleum products should be performed by the international oil companies. This was an extremely important norm, which provided the vital link between the two fairly antagonistic groups of producers and consumers. In the absence of these crucial functions being performed by the oil companies, it is difficult to conceive as to how the second oil regime could at all have become functional. As one perceptive oil analyst has observed: "...one of the reasons that OPEC
has been so successful and other attempts to form raw material cartels were a failure is the fact that crude oil is mainly processed and distributed by a few large multinational companies whereas production and marketing of other raw materials are done by a multitude of firms and individual farmers."³¹ It would also be relevant to mention in this context that with the production of crude oil now firmly under the control of the producer states or their agencies, the large vertically integrated international oil firm no longer remained the norm of industrial organization under the second oil regime.