CHAPTER SIX: MARKETS OVER POLITICS

The second oil regime was relatively short-lived. Its operation, particularly its very aggressive stance on the price front, set in motion or exacerbated certain trends, which ultimately led to its early demise. The longevity of the first oil regime and its considerable stability stemmed very largely from the fact that the regime had functioned within the framework of the market system which it had subtly manipulated to its own advantage. Although the first regime steadfastly discouraged competition, its basic strength lay in its excellent information system, which was made possible by the vast world-wide network of the multinational companies. This enabled a level of fine-tuning, such as production schedules being constantly calibrated to be in consonance with demand conditions, which was altogether missing in the second regime. By completely de-linking the oil companies from pricing decisions OPEC had shut the door on vital market information which was absolutely essential for such decisions to be realistic and sustainable. The second regime was thus reduced to a pricing cartel of producers ranged against a group of antagonistic, albeit relatively powerless, consumers, with the oil companies providing the necessary processing and
marketing links, but without the participation in the decision making process which could have provided the necessary stability to the regime.

There were four major consequences of the operation of the second oil regime which had a critical impact on its stability: (a) the impact on the demand for oil; (b) the development of the spot market; (c) the growth of non-OPEC production and (d) increased competition and entry of new players. The regime was unable to respond adequately to these developments. The attempts of OPEC to introduce and enforce production programming among its members in order to regain control of the market proved unsuccessful. By the mid-1980s, the regime was in shambles with OPEC being relegated to the role of a residual producer and the crude oil prices being set by the spot market. The inexorable logic of the market had reasserted itself and administratively determined oil prices were clearly a thing of the past. These developments will be analysed in the paragraphs that follow.

**Impact on Demand**

During the first oil regime, the real price of oil had remained virtually constant. As a consequence of this price stability, the consumption of oil had grown at compound annual growth rate of 7.5 percent in the period 1960-
1973. However as will be evident from the table given below, oil consumption during the decade 1973-1982 actually declined at an annual compound rate of 0.7 percent in response to an increase in the real prices of oil by 23 percent.

**TABLE 8: Energy Indicators For Non-Communist Countries, 1960-1982**

(Compound annual percentage change)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Energy consumption</td>
<td>5.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Oil consumption</td>
<td>7.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>Real price of crude oil</td>
<td>-0.1</td>
<td>23.0</td>
</tr>
</tbody>
</table>


Increases in the oil prices during the period commencing from the early 1970s to the early 1980s, as well as perceptions of greater future uncertainty in oil supplies prompted consumers in the major industrialized countries to diversify their mix of energy consumption in favour of non-oil sources. As will be evident from the table below, oil's market share contracted significantly between 1979 and 1984.
### TABLE 9: Composition of World Energy Consumption, 1979-1984(%)  

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil</th>
<th>N.Gas</th>
<th>Coal</th>
<th>Hydro</th>
<th>Nuclear</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>45</td>
<td>18.4</td>
<td>28.5</td>
<td>5.9</td>
<td>2.2</td>
</tr>
<tr>
<td>1981</td>
<td>42.4</td>
<td>19.3</td>
<td>29.2</td>
<td>6.2</td>
<td>2.9</td>
</tr>
<tr>
<td>1983</td>
<td>40.3</td>
<td>19.2</td>
<td>30.3</td>
<td>6.8</td>
<td>3.4</td>
</tr>
<tr>
<td>1984</td>
<td>39.3</td>
<td>19.7</td>
<td>30.3</td>
<td>6.8</td>
<td>3.9</td>
</tr>
</tbody>
</table>


The sectors most affected were manufacturing, home heating and electricity generation. Oil use in power generation, for example, fell from 25.6 percent in 1973 to 13.3 percent in 1983 in the IEA countries.\(^1\) Total energy consumption per unit of GNP fell by 25 percent between 1973 and 1984 in the major Western industrial countries implying substantial gains in energy efficiency and conservation. The gains were across a wide range of manufacturing activities as well as new technological applications.\(^2\)

Given the situation described above, it was evident that OPEC had gravely miscalculated on the price increases effected by it in the period

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\(^2\) Mikdashi, op cit, p 24.
1979-1981. To put this price increases in perspective, it may be pointed out that the average increase in world crude oil price in 1979 was 109 percent (from $13.74 to $28.84/b). The crude oil price was further increased by 23 percent to $35.49/b by January 1, 1981.\(^3\) Thus during the short gap of two years, OPEC increased its prices by 158 percent. These unrealistic price increases, which were quite out of tune with the soft demand conditions, and in fact served to exacerbate them even further, were to prove quite painful to OPEC in the coming years. OPEC was left with no choice but to cut back on production. As shown in the table below, the total production by OPEC shrank from a level of 30.9 million b/d in 1979 to 22.6 million b/d by the end of 1981, a reduction of around 27 percent. By the end of 1983, production was further down to 17.3 million b/d, which was 44 percent below the 1979 level. At the same time capacity utilisation dropped from a level of 88.3 percent in 1979 to a little less than 50 percent in 1983.

**TABLE 10: OPEC Production, 1977-1983 (Total OPEC Production capacity: 35 million b/d)**

<table>
<thead>
<tr>
<th>Year</th>
<th>1000 b/d</th>
<th>% of Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>31,278</td>
<td>89.4</td>
</tr>
</tbody>
</table>

\(^3\) Ahrari, op cit, p 164.
1978  28,805  82.3
1979  30,928  88.3
1980  26,890  76.8
1981  22,624  64.6
1982  18,660  53.0
1983  17,320  49.58


Concerning the post 1979-1980 oil price situation, a well-known oil analyst has observed:

With the shrinkage in demand following the post 1979-80 oil price increases, excess capacity spread to all stages of the petroleum industry - from production to downstream operations...Upstream, non-OPEC oil companies were protected by OPEC’s production controls and price umbrella; accordingly they managed their oilfields, outside the OPEC area, at or close to full capacity. It was the OPEC countries which supported the brunt of demand contraction to protect the world price structure of crude oil.  

Development of the Spot Market

Under the first oil regime, most of the of transnational petroleum

4 Mikdashi, op cit, p 33.
transactions were internal to the vast international network of the major integrated oil companies, or were based on long term contracts. Shortages or surpluses were very infrequent in the open market as integrated companies managed, through careful planning and logistics, to match variations in their supplies of crude oil to the effective demand for products as required to satisfy their distribution networks or small operators dependent on them. Under this regime most oil-exporting countries had accepted random variations in the crude offtakes as decided by their concessionaires, which were the major transnational oil companies.

Under the second oil regime, the nationalisation of concessions or the divestment of the vertically integrated companies in major oil-exporting countries, as well as the multiplication of operators (whether independent private companies or state-owned), contributed to the emergence of an open market in which arm’s length sales took place between unrelated companies.

The open market comprises two sub-markets: (a) the term or the contract market and (b) the spot market. The term market covers sales over a future period, which could be as long as three years, with pre-agreed quantities for delivery with pre-agreed methodology for determining prices. The spot market, on the other hand, gives price estimates of cargo-by-cargo
transactions on a daily basis, or estimates of the wishes of buyers and sellers. The open market has been particularly sensitive to the existence of excess capacity and an increase in excess capacity was bound to have a depressing effect on the market prices.\(^5\)

With the shrinkage in demand and the build-up of excess production capacity over the period from 1981 to 1985, price-cutting was fairly widespread among the oil exporting countries, both OPEC and non-OPEC. This was not limited to Iran or Iraq, which were eager to finance their economies as they were locked in a destructive war of massive proportions. Other countries too felt the brunt of shrinking demand and rising supplies. They were constrained to sell below OPEC official prices for sustaining their export proceeds to cover their import requirements as well as to meet their financial obligations.

The international spot market, which was negligible during the 1960s, rose gradually to reach the equivalent of an estimated 70 percent of internationally transacted oil in 1985.\(^6\) As will be evident from the table below, with the softening of demand in the wake of the price increases

\(^5\) ibid, p 33.
effected by OPEC in 1979-1980, spot-market prices began to decline since the last quarter of 1981 and were consistently below the official administered prices announced by OPEC during the entire period from end 1981 to 1985. It was becoming increasingly self evident that it was now the spot market which set the prices of crude oil rather than the OPEC cartel. One of the major edifices of the second oil regime had irrevocably crumbled to the logic of the market.

Table 11: Arabian Light Crude Oil Prices, 1981-1985 (US$/b)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>OPEC price</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>32.00</td>
<td>34.00</td>
<td>31.00</td>
<td>29.00</td>
<td>28.33</td>
</tr>
<tr>
<td>II</td>
<td>32.00</td>
<td>34.00</td>
<td>29.00</td>
<td>29.00</td>
<td>28.00</td>
</tr>
<tr>
<td>III</td>
<td>32.00</td>
<td>34.00</td>
<td>29.00</td>
<td>29.00</td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>34.00</td>
<td>34.00</td>
<td>29.00</td>
<td>29.00</td>
<td></td>
</tr>
<tr>
<td>Spot Market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>37.65</td>
<td>31.00</td>
<td>29.30</td>
<td>28.55</td>
<td>27.78</td>
</tr>
<tr>
<td>II</td>
<td>33.85</td>
<td>32.30</td>
<td>28.65</td>
<td>28.35</td>
<td>27.16</td>
</tr>
<tr>
<td>III</td>
<td>31.95</td>
<td>32.00</td>
<td>28.90</td>
<td>27.65</td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>33.75</td>
<td>31.75</td>
<td>28.35</td>
<td>27.74</td>
<td></td>
</tr>
</tbody>
</table>


Increased Competition

During the second oil regime, the major oil companies were still handling 80 to 90 percent of OPEC exports. As we argued earlier, this was a major factor contributing to the stability of the regime. In the early eighties, the number of players had increased exponentially resulting in a high degree of
competition. This was among the major consequences of the divestment of the transnational companies of their producing concessions and some of their downstream facilities resulting in a mushrooming of non-integrated and independent actors in the oil industry. Each petroleum exporting country was now transacting with a large number of customers, including previous concessionaires, American independents, oil companies from Japan, Europe and the Third World countries, and others. The increased number of companies operating outside the old integrated channels of the multinational oil corporations had enhanced the significance of the spot market. In the first oil regime, the frequent mismatches between oil supplies and requirements were internally rectified by vertically and horizontally integrated multinational oil corporations. In the second regime, although vertical integration had suffered a serious set back on account of the nationalisations and acquisitions of upstream operations, this crucial function continued to be performed by the horizontally integrated transnational companies. These corporations relied on techniques such as inventory changes, redirection of tankers, and changes in the refinery input mix. Since 1980, with these established channels in disarray due to the large number of players and increased competition, oil buyers had come to rely increasingly on the spot
market to correct imbalances between demand and supply. With these developments the power and the manoeuvrability of OPEC had greatly diminished. Instead it was now the market that mainly determined the structure of international oil transactions.

**Growth of Non-OPEC Production**

The price hikes initiated by OPEC between 1973 and 1980 elicited another predictable market response - they served to stimulate production in other parts of the world. As a consequence the share of OPEC in world oil production came down quite dramatically from a level of 53.5 percent in 1973 to only 29 percent in 1985, as shown in table 12. In the 1980s the major non-OPEC oil exporting countries that had a significant impact on the world oil market were Mexico, the United Kingdom, Norway and the Soviet Union.

In 1983-85, the UK, with the discovery of oil in the North Sea, became the fifth largest producer of oil in the world and the largest exporter of light, low sulphur crude oil. The UK as an industrially developed country did not share OPEC’s perceptions and refused therefore to join any scheme of price

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8 Mikdashi, op cit, p 71.
controls or price stabilisation. In fact the state owned British National Oil Corporation (BNOC) demonstrated its price cutting leadership in February 1983 by introducing a price cut of 10 percent, viz., $3 /b, reducing the price of its light quality oil to $30.50/b. This was immediately matched by Norway and even Nigeria, an OPEC member, reduced the official price of its comparable crude from $35.50 to $30/b, a day later.\(^9\) Other exporters were to follow suit soon after.

**Table 12: World Oil Production, 1973-1985 (billion barrels per day)**

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>OPEC</th>
<th>OPEC/World(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>58.5</td>
<td>31.3</td>
<td>53.5</td>
</tr>
<tr>
<td>1974</td>
<td>58.6</td>
<td>31.1</td>
<td>53.0</td>
</tr>
<tr>
<td>1975</td>
<td>55.7</td>
<td>27.5</td>
<td>49.4</td>
</tr>
<tr>
<td>1976</td>
<td>60.1</td>
<td>31.1</td>
<td>51.7</td>
</tr>
<tr>
<td>1977</td>
<td>62.6</td>
<td>31.7</td>
<td>50.7</td>
</tr>
<tr>
<td>1978</td>
<td>63.0</td>
<td>30.3</td>
<td>48.0</td>
</tr>
<tr>
<td>1979</td>
<td>65.8</td>
<td>31.5</td>
<td>47.8</td>
</tr>
<tr>
<td>1980</td>
<td>62.7</td>
<td>27.4</td>
<td>43.7</td>
</tr>
<tr>
<td>1981</td>
<td>59.4</td>
<td>23.4</td>
<td>39.4</td>
</tr>
</tbody>
</table>

\(^9\) *ibid*, p 71.
Norway similarly followed an independent policy regarding the pricing of its oil. Thus Statoil, the Norwegian national oil company, initiated price reductions in North Sea oil exports in October 1984 which was to trigger off a general reduction in prices world wide. OPEC was forced to readjust its own price structures. Among the other important non-OPEC producers, while Mexico had remained sympathetic to the OPEC perspective, the policies of the Soviet Union were guided more by that country’s need for foreign exchange since oil trade accounted for around 60 percent of foreign exchange earnings.

In sum, it was ultimately OPEC that was forced to bear the brunt of the expansion of non-OPEC oil production. As can be seen from the table above, between 1973 and 1985, while world oil production declined marginally from 58.5m b/d to 56.9m b/d, OPEC production almost halved from a level of 31.3 m b/d in 1973 to 16.5m b/d in 1985. By producing at full
capacity and selling at competitive prices below the officially announced prices of OPEC, the North Sea producers, UK and Norway had effectively whittled away the last vestiges of OPEC power to dominate the oil market.

**The Failed Cartel**

OPEC was clearly on the horns of a great dilemma. The logic of the market had posed before it a Hobbesian choice: It had to cut prices if it wanted to regain market share or cut production in order to maintain its control of prices. Both the alternatives seemed equally unpalatable. OPEC did not wish to cut prices as this would be tantamount to dismantling the very basis of the oil regime that they had set up and the loss of power and influence, not to mention the surrender of the political and economic gains that this implied. This left it with the only other choice available - to cut production levels in order to defend price.

In March 1982, OPEC which had functioned primarily as a pricing cartel thus far, attempted to transform itself into a classical cartel - managing and allocating production quotas as well as setting a price. For the first time in its history, it set a OPEC-wide production ceiling of 17.5 million b/d, a substantial come down from its production level of 31 million b/d only three years earlier in 1979. There were to be individual quotas for each member
country, except for Saudi Arabia, which would adjust its output to support the system.\(^\text{10}\)

Although the OPEC members agreed to abide by the production quotas, the prospects for the successful implementation of this ambitious enterprise in the near future seemed most bleak. Two of the members, namely Iran and Iraq, were locked in a fierce war and thus needed funds to support their war efforts as also to sustain their war-torn economies. It was highly unrealistic to expect these countries to curtail oil production and forgo their primary source of revenues. The most potent force militating against production programming was that most OPEC countries were already producing at around 50 percent of their capacity, while their capital needs were increasing rapidly because of international inflation as well as growing domestic requirements for developmental purposes. In July 1982, the combination of intra-OPEC frictions over price differentials, violation of production quotas, and the price-cutting and volume-maximising activities of non-OPEC producers brought about the collapse of the first experiment of OPEC with

\[^{10}\text{For a comprehensive account see Skeet, op cit, pp 182-186.}\]
production programming within a short period of around three months.\textsuperscript{11}

OPEC was to make another attempt at production programming when at a crucial meeting held in March 1983 in London, it again set a production ceiling for OPEC output for the remainder of 1983 at 17.5m b/d with individual quotas for the member states. Saudi Arabia was to act as the swing producer, making up the difference between the production quotas of individual member countries and 17.5m b/d or the total demand for OPEC oil.\textsuperscript{12} It was manifestly evident that the arrangement put a disproportionately high burden for its success on Saudi Arabia.\textsuperscript{13}

The second attempt at enforcing production ceilings appeared to be set for a longer tenure as expectations of an economic recovery in the industrialised economies in 1984-1985 acted as a temporary cement among the OPEC members. However the spot market prices continued to remain weak and one of the reasons for this weakness was the continued violation of the March 1983 quotas by individual members. Even as these violations were

\textsuperscript{11} ibid, pp 187-188.
\textsuperscript{12} ibid, pp 191-193.
\textsuperscript{13} Ahrani, op cit, p 170.
taking place, OPEC unrealistically further reduced the production ceiling for 1984 to 16m b/d. This only served to exacerbate intra-OPEC tensions. As in the past a disproportionate responsibility devolved upon Saudi Arabia, which absorbed the largest cutback as a swing producer. An analyst perceptively commented on the dilemma of OPEC at this time: “What OPEC was only too aware of, but was equally helpless to prevent, was a variety of cheating techniques continually used by its own members that were creating considerable downward pressure on oil prices.”

Between 1983 and 1985, the actions of North Sea producers became increasingly critical for OPEC as well as for the international oil trade as a whole. For OPEC their significance can be gauged from the fact that since 1983, Nigerian pricing policy had been determined not by OPEC decisions but by the responses of Britain and Norway. The spot market had been particularly sensitive to the large volumes of oil being unloaded by the North Sea producers and it was this market which had become the prime determinant of international oil prices. By late 1985, Saudi Arabia made it clear in no uncertain terms that it was unwilling to shoulder the heavy burden of being a swing producer (who adjusted its output to compensate for

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14 Ahrari, op cit, p 175.
over production by others) in order to protect the official price of oil.\textsuperscript{15} With this significant development, OPEC formally abandoned policies designed to protect the price of oil. Official prices thus ceased to exist.\textsuperscript{16} In December 1985, OPEC formally announced its changed role through an official communique' stating that its objective from now on was no longer to protect price, but instead to "secure and defend for OPEC a fair share in the world oil market consistent with the necessary income for member countries' development."\textsuperscript{17}

Summing up the performance of OPEC during this period, Skeet has observed:

The years 1979-85 were a period of OPEC failure punctuated by intervals during which failure was temporarily deferred by potentially decisive action. Failure had two quite different aspects: one was the failure to arrest or modify an internally destructive price increase; the other was the failure to manage price in a decreasing demand environment. In a period when joint cartel management was essential, individual interests took precedence over, and neutralized, the will and the means through which the cartel could have succeeded.\textsuperscript{18}

\textit{The Markets Take Over, 1985-1990}

\textsuperscript{15} Skeet, op cit, pp 207-208.
\textsuperscript{16} Ibid.
\textsuperscript{17} Yergin, op cit, p 750.
\textsuperscript{18} Skeet, op cit, p 209.
With the official prices gone, the spot market was now in unbridled sway. Typically a spot market is volatile since it is extremely sensitive to minor fluctuations in demand and supply and even more so to changes in expectations. Thus beyond the real changes in the balance of supply and demand for oil, the impact of speculative transactions contributes to the volatility of prices in the spot market.

With the absence of a formal price determination mechanism, probably for the first time in the history of the oil industry, the markets were plunged into chaos. The price of West Texas Intermediate, an important crude marker on the spot market, plummeted from a peak of US$ 31.75/b in end November 1985 to $10/b over the next few months sending shockwaves round the world. That this was driven almost entirely by expectations and had little to do with the realities of the demand and supply situation, can be gauged from the fact that world oil production in the first quarter of 1986 was only 3 percent higher than in 1985.\textsuperscript{19} Daniel Yergin, a brilliant chronicler of world oil affairs described the situation thus:

\begin{quote}
It was not merely that prices were collapsing; they were also out of control. For the first time in memory, there was no price-setting structure. There was not even an official OPEC price.
\end{quote}

\textsuperscript{19} Yergin, op cit, p 750.
The market was victorious, at least for the time being. Price would be set not through an arduous negotiation among OPEC countries, but through thousands and thousands of individual transactions. Net-back deals, spot deals, "spotback deals", barter deals, processing deals, "topping off" deals, this deal and that deal - there seemed to be no end to the variations and twists adopted as exporters fought to hold on to and regain markets. Not only was OPEC struggling with non-OPEC, but, the December 1985 communiqué notwithstanding, the individual OPEC countries were battling with each other over customers. And, in the fiercely competitive environment, the matter came down to offering discount after discount to assure markets...It was not the specific kind of deal - netbacks or whatever - that caused the price collapse, but rather the fundamental facts that more oil was seeking markets than there were markets for oil, and that the hand of the regulator, in this case OPEC and in particular Saudi Arabia, was removed.20

It was evident that the international petroleum system that had, over the years, evolved under regimes, which involved regulation and price setting, was totally caught unawares by the introduction of an unbridled competitive environment. While the industrialized oil consuming countries could generally be expected to welcome falling oil prices, even here there were apprehensions among countries such as the US about the need to protect the domestic oil industry. Some countries such as Japan were anxious about the impact of unduly low oil prices on their alternative energy programmes, a slackening of which would only increase their long-term energy insecurity.

20 Yergin, op cit, pp 750-751.
The oil companies were of course concerned about the impact of low oil prices on their exploration budgets and on the economics of oil production from relatively high cost fields.

The most adversely affected were of course the oil exporters and this was not confined only to the OPEC. However attempts at a possible dialogue between OPEC and non-OPEC to evolve a consensual approach out of this unprecedented situation did not yield any concrete results. Among the OPEC itself opinions were sharply divided. The two moderate Gulf states, Kuwait and Saudi Arabia, which greatly increased the volumes of oil that they sold were the least adversely affected - their oil revenues fell by 4 percent and 11 percent respectively in the first half of 1986 over the corresponding period of 1985. In stark contrast the price hawks', Libya and Iran, oil earnings fell by 42 percent over the same period and of Algeria even more. Iran was perhaps the most badly hit since it had to finance an intensifying war with Iraq with plunging oil revenues.\(^21\)

By the middle of 1986, the OPEC think-tanks had worked out a detailed rationale for a policy that aimed at maintaining the price of crude oil in the range of US$ 17-19/b. A price in this range, it was felt would stimulate

\(^{21}\) Ibid, p 760.
world demand while at the same time retard the development of alternative sources of energy and arrest fuel substitution. In the OPEC meeting held in Geneva in December 1986, a consensus was reached on a ‘reference price’ of US$ 18/b based on a composite price of a basket of several crude oils. They also agreed to a quota of 17.3 million b/d which they hoped would be able to support this price, with the proviso that Iraq would be outside this arrangement, since no agreement could be reached in view of the continuing war as to what its quota should be.22

Although most observers of the day gave this arrangement hardly any chance of survival, the basic framework that was worked out in Geneva in December 1986 survived, albeit with some modifications, till the close of the decade. The prices during the period ranged between US$ 15 - 18/b. Very surprisingly, the quota system, although often subject to considerable strain, also survived and was a stabilising factor. OPEC members were now more acutely aware that there was no real alternative to this arrangement and that the consequences persistent quota indiscipline could be disastrous for the group as a whole.

22 Skeet, op cit, p 220.
The new range of oil prices totally neutralised the price increases effected by OPEC in 1979-1980. The economic benefits to the oil consuming countries were enormous. It prolonged and stimulated the economic growth in the industrialized world, which had begun in the mid-1980s while at the same time driving down world inflation. Economics had at last triumphed over politics and the world seemed to be poised to enter an era of primarily market driven energy transactions. Oil had become just another commodity.

From the viewpoint of regime theory, it is self-evident that the demise of the second oil regime was on account of factors that were endogenous to the international petroleum system and not due to any external imperatives. These factors, such as the reduced demand for oil, growth of non-OPEC production, development of the spot market and increased competition, arose as a consequence of the operation of the second oil regime and its concomitant impact on the international oil system. This would lead us to infer that, as in the case of the first oil regime, the second oil regime also functioned as an independent variable with very tangible effects on the international petroleum system, and not merely as an intervening variable as postulated by the realist conception.
While the systemic responses to the first oil regime were largely political in nature, leading to the formation of the second regime, the latter collapsed as a result of its economic impact on the international oil system. Thus while it is true that regimes are 'nested' in a political order, for commodity regimes, such as oil, the underlying economic context seems to be equally important. In other words, such regimes can change with changes in the economic environment, even in the absence of any significant alterations in the underlying political structure. This is tantamount to standing the realist conception on its head but is nevertheless an important finding of this study.