CHAPTER III

INTERNATIONAL OIL MARKET AND THE STAGES OF ITS DEVELOPMENT

What makes oil different from other strategic commodities is that its reserves and production are concentrated in certain areas, while its consumption is widely spread all over the globe. The patterns of production and consumption are instrumental in the development of their economic and political power. Most of oil exporting countries are developing countries, while developed countries other than developing ones are the major oil consumers.

The world market of oil depends on a large number of factors which tend to provide an element of instability. A part from the fact that oil is a primary product, differences in the objectives and policies of economic powers are very important in evolving the ultimate shape of the market. Nevertheless, like other commodities, oil price is also determined by the interactions of supply of and demand for oil, which in turn is determined by the oil price and the political economy of the world market.

The increase in the demand for oil may lead to a corresponding increase in prices in the market. Though this increase may also work as an incentive to increase oil production but this may lead to concentration of efforts at reducing consumption and to finding out alternative energy resources as substitute which may finally lead to decrease of demand for oil and decrease of oil price.


The price elasticity of demand for crude oil is as low as - 0.09 and the income elasticity is as high as 1.5.
Oil market is characterized by a shortage of oil during certain periods, while there also appears a case of surplus in oil supply in other periods.

The absence of coordination and unhealthy competition between oil exporting and oil importing countries often leads to unstable situation in the market which in turn leads to substantial change in oil prices. These changes and cycles are reflected in position of the interacting powers in the market. This leads to increase in the negotiating power of the exporting countries in the times of shortage. The case is just the opposite when there is surplus in supply, the attitudes and influences of the oil importing countries are strengthened in the adverse situation of excess of oil supply.

Oil market has undergone many distinct phases since the appearance of oil as a commodity used commercially in almost all industrial and domestic enterprises. One may classify them broadly into two phases:

3.1. Pre-OPEC period (i.e. up to 1960).
3.2. Post-OPEC period (1960-onwards).

Depending on the fluctuation in the prices of crude oil (Fig. 3.1) the post OPEC period may be divided into six sub-phases.

3.2.1 1960-72
3.2.2 1973-79
3.2.3 1979-81
3.2.4 1982-86
3.2.5 1987-90
3.2.6 OPEC: Global Economic Consequences of Recent Gulf Crisis.
TEMPORAL FLUCTUATION OF AVERAGE OPEC OFFICIAL CRUDE OIL PRICES

Fig 3.1
3.1 The Period i.e. up to 1960: Pre-OPEC Phase

The oil control practised by multinational oil companies on international oil industry in the period prior to the establishment of OPEC was comprehensive. This made them the main power controllers in international oil market. They had the main role in determining the policies of oil production and price level. The oil companies aimed at increasing their profits and to serve the purposes and aims of the main developed countries possessing these monopolies, while the role of exporting countries was to implement the policies formulated by oil companies.

Since oil exporting as a commercial commodity from OPEC member countries after world war II up to OPEC establishment in 1960, the price of crude oil was kept at 1.80 US Dollars per barrel.

The concentration of privileges in the hands of major oil companies provided a high degree of horizontal integration through property ownership. The procurement of various crude oil supply resources in addition to perpendicular integration through control over the operations that follow production, such as marketing and distribution, boosted tight control of the companies over the market. The co-ordination among companies in this oil control was very close. This enabled such companies to exercise substantial influence over contracts signed by the oil exporting countries' governments and subsequently over negotiations in case of any dispute. The oil companies were able to transfer crude oil reserve supply from the

* The five major oil companies namely: Exxon, Gulf, Mobil, Socal and Texaco are American; BP is British; and the other one namely Royal Dutch/Shell group belongs to the main three countries; The United States, Britain and Netherlands.

** This means that multinational oil companies dominated world oil industry beginning with exploration, drilling, exploitation, production, oil refining and gas processing, in addition to transport and ending with the marketing of oil and gas and their products.
governments oil for which the dispute arises to oil of other more subjected areas. Accordingly, they forced these governments to be subjected to their own wishes and purposes.

What happened in Mexico or in Iran clear examples of the extent of control and pressure power which were possessed by major oil companies. Moreover they obtained a large political force from their mother government: in particular, Britain and the United States. The Mexican government in the era of President Lazaro Cardenas nationalized oil industry on March 18, 1938, after a lengthy unresolved dispute between workers and 17 foreign oil companies. Then the oil industry was taken over by the national oil company named petroleos Mexicanos (Mexican petroleum-PEMEX) which was created along with another distributing company.²

Also in Iran in 1951 during Mossadegh era, when the Venezuela and Saudi Arabia made agreement of 1947 and 1949, with multinational companies of 50-50 profit sharing between them which have had an adverse effect on the companies profit. But it could not in fact turn out to be less costly for the United States and the United Kingdom agreed to allow the payments to the producing countries to be credited against the companies domestic tax liabilities. Again due to fear of nationalization of oil companies, the United States companies with anglo-Iranian oil company (AIOC) refused to handle the nationalized Iranian oil.³

Oil prices were determined by the companies keeping in view opinions of the oil producing governments but without paying attention to the fluctuations of supply

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and demand. This was achieved through "Aknacarry Treaty" among "three largest international oil companies, anglo-iranian oil company (AIOC), Shell, and Exxon", which met at Aknacarry and signed the 1928 "As Is" agreement. The main objective of the agreement was to maintain status quo and to avoid price wars.  

3.2 Post OPEC Period (1960 - Onwards)

The price regime of oil after the establishment of OPEC has experienced a variety of trends. Depending on the magnitude and the direction of price movement, this period (1960-90) has been studied for six sub-periods.

3.2.1 The Period 1960-72: Post OPEC Establishment

The sixties is known for increase of influence of governments of the oil exporting countries despite continuity of control of the monopolistic oil companies. OPEC, after its foundation, succeeded in fixing a minimum limit for crude oil prices in weak markets due to the increase of oil supply. But the price of crude oil was kept fixed at 1.80 US dollars per barrel since the establishment of OPEC in 1960 up to 1971.

Likewise, the role of the national and independent oil companies has increased and these companies have competed with the major oil companies due to increase in the importance of oil for both the exporting and the importing countries. In 1970, the tide tended to favour the exporting countries due to a number of economic and political factors: growth of world demand for oil at a high rate, disappearance of the surplus producing capacity in the United States, delay in developing alternative energy resources—all this had increased OPEC's production.

4. F. Fesharaki, op. cit., p.45.
very substantially. This drew the attention of the producing governments to reducing
of acuteness of the problem of exhaustion of reserves as OPEC's production had
increased from 8.475 m. b/d in 1960\(^6\) to 23.413 m.b/d in 1970.\(^6\)

3.2.2 The Period 1973-79: The Seventies When OPEC Has Pricing Responsibility

Major countries' reliance on OPEC's oil increased especially after the
governments of OPEC member countries had increased substantially their control in
directly marketing considerable quantities of their oil, particularly after
nationalization on oil companies in some of OPEC member countries or
joint-venture agreements. This enlarged the role of the exporting countries'
governments in determining oil production and pricing policies, especially in 1973-74,
when OPEC assumed oil pricing responsibility and had in one way or another
resumed its control over oil extraction by its member countries.

In the light of such a framework of developments, the role of the monopolistic
companies in the ownership of oil and their marketing decreased. The flexibility of
the importing countries deteriorated in confronting oil exporting countries after the
role and capacity of the exporting countries and their governments had increased in
the market.

It is natural that the consuming countries try to gain time to raise their


* Control over oil industry developed by OPEC member countries according to different oil
treaties and contracts beginning with traditional privileges contracts: Foreign oil companies had
the right to practice state sovereignty over hydrocarbonic resources of the oil countries. The
companies had to pay taxes in turn, partnerships, services, direct investment, and nationalization
of oil.
flexibility, minimise OPEC's role and weaken its members through reducing their reliance on OPEC's oils in particular and the imported oils in general. In addition they tried to widen the base of their oils supplies and build up a strategic oil storage endeavour to have a re-control over the producing sector indirectly by obliging the producing countries to follow producing and pricing policies that were largely determined by the aims of the developed countries and their welfare. In order to coordinate these aims the international energy agency (IEA) was founded in 1974 to form a forum of the consuming western countries.

During the period 1973-74 to 1979 the control of producing countries increased in determining their production and pricing policies. Accordingly, the negotiative force of OPEC member countries had increased and likewise that of the developing countries as was clear in the negotiations of North-South in Paris. The number of the nationalized companies increased and their role in oil market trade has grown whether in the producing countries or consuming countries. This resulted in minimising to a great extent the role of the monopolistic oil companies in the supply and marketing operations in addition to the total termination of the privileges under law. The tangible pricing amendments in 1973-74 and subsequent partial amendments has led to compensating the effect of inflation and dollar exchange rate decline which took place in 1975 and 1976. This led to saving of tangible material gains for the exporting countries and enabled them to increase their oil revenues.

The pattern of expenditure that was followed by these oil exporting countries and the increase in their financial requirements to import the needed commodities

and the services have reduced their flexibility in facing the demand fluctuation. The increased reliance on oil revenues is in particular responsible for this. Due to the policies of the major consuming countries that centre round reducing their reliance on imported oil in general, and OPEC's oil in particular, OPEC's production became stable and its production remained at about 30 m.b/d except during the stagnation period in 1975 when it was reduced to 27.155 m.b/d. Accordingly, the period dominated by OPEC's oil production increase at high rates has ended this reflects success of the consuming countries in increasing the efficiency in oil manipulation and in the operations for using alternative energy resources instead of oil in the areas of its usage and this is shown by the changing energy consumption patterns.

Measures to promote minimum oil and energy consumption has led to reducing the volume of demand from 3.36 barrels (b) in 1973 to 2.69 b. in 1979, required to save 1000 Us Dollar of GDP. Required volume of energy went down from 5.79 b. of oils coefficient to 5.02 b. during the same period. Accordingly, the reduction of oil volume was about 20 per cent while reduction in energy volume was about 13 per cent. In the process of substitution coal and nuclear energy have replaced oil in producing electricity, and gas and electrical energy have replaced it in heating and boiling water. Accordingly, fuel oil consumption went down about a million barrels a day during the same period.

Increase in that energy usage but stability in oil consumption in the major countries, led to reduction in oil's share in energy consumption. This pattern was in great contract to what existed in the past and has negatively influenced OPEC's

production. Whereas OPEC's production increased from 18.785 m. b/d in 1968\textsuperscript{9} to 30.988 m. b/d in 1973, it became 30.928 m. b/d in 1979.\textsuperscript{10} Moreover, 1979 production was at the highest level during the period from 1974 to 1979. These developments, in addition to the success of the developed countries in building up a large oil storage, have greatly raised its flexibility in facing any fluctuations in their oil supplies.

3.2.3 The Period 1979-81: The Oil Price Revolution

The consuming countries and their partners played an important role in raising oil prices, making use of the Iranian riots in the late 1978 and the Iranian exports were stopped during January and February 1979. The oil prices were raised in the free markets during 1979, though the international oil supply was much more than consumption. This allowed for the storage of oil in substantial volumes. In addition, the OPEC supply was higher than its level before 1978\textsuperscript{11} in spite of Iran's low production. This encouraged some of the OPEC member countries to increase their oil prices and charge different prices for oil. This in turn forced OPEC to raise the official standard price of oil in an attempt to unity the prices, but this did not succeed until october 1981 when there was an agreement on a unified price of 34 US dollar per barrel as a standard price. So, the market oil prices were varying and the OPEC revenues increased from 133 million US Dollars in 1978 to 286 million US Dollars in 1980. However, the OPEC control of the oil market was reduced and the unity of OPEC member countries was weakened due to differences of interest among

\textsuperscript{9} OPEC, \textit{op. cit.}, p.14, Table 13.
\textsuperscript{10} OPEC, \textit{Ibid.}, p.14, Table 13.
\textsuperscript{11} OPEC, \textit{Ibid.}, p.14, Table 13.
its member countries. At the same time, the role of importing countries increased in international oil trade as a result of reducing their dependence on OPEC's oil and the scale of their oil storage increased. Moreover, the OPEC quota out of the world production was lowered from 49 per cent in 1979 to 40.2 per cent in 1981. The power of monopolistic companies increased and they were able to control supply.

3.2.4 The Period 1982-86: Downfall in the Prices of Oil Market

The period 1982-85 was characterized by a continuous period of depression in oil market, attributed to decrease of demands for OPEC's oil and the energy policy followed by developed countries. Although OPEC has defended the framework of its oil prices and got back its control over the oil market through limiting its production and the shares of OPEC member countries within the limited quota, yet in spite of reduction in oil prices, the oil market continued to influenced by buyers. The role of buyers was increased, the OPEC control of oil prices was decreased and its unity was disrupted because of the falling demand for its oil. This led to a downfall of oil prices and consequently the sharp downfall in oil revenues. Some of OPEC member countries prefered their personal interests at the cost of common interest of OPEC member countries. These countries didn't commit themselves to the decisions of the OPEC concerning prices and production.

The total demand for OPEC oil continuously declined till it reached 15.447 m. b/d in 1985. OPEC was forced to lower its oil prices twice. The prices were lowered from 34 to 28 US Dollars per barrel. Consequently, oil revenues fell

12. OPEC, op. cit., p.15, Table 14.
down from 131.967 in in 1985 to 67.073 million US Dollars in 1986.\textsuperscript{15} OPEC oil production got reduced to only 29 per cent of the world's oil production in 1985.\textsuperscript{16} There was also competition from producers and exporters from non-OPEC\textsuperscript{'} oil which constituted a substantial percentage of the total oil production. This has led to the increase of exchange controls, the role of mediators and free markets in oil. All these contributed to the confused situation in oil markets. Moreover, the decrease in oil revenues has adversely affected balance of payments. OPCE's balance of payments was enjoying a remarkable surplus before that, in spite of the efforts exerted to reduce oil imports. As a result, this has imposed a great strain on the OPEC member governments and reduced their flexibility and dependence on foreign companies to sell their oils.

The downfall in the market increased in November 1985 after the decision of OPEC to get a fair share in the oil market through competition. The decision included giving up the policy of supporting prices through limiting oil production. The prices were lowered till they reached 6.9 US Dollars per barrel in July 1986\textsuperscript{17} because of increasing volume of oil surplus consequent upon the slackness of demand from the developed countries due to rationing in their oil consumption. In addition to that increasing scope of nuclear based energy also compelled the OPEC to lower the oil prices. Moreover, major factor responsible for affecting oil prices so


\textsuperscript{16} OPEC, op. cit., p.54, Table 39.

\textsuperscript{*} i.e., Angola, China, Columbia, Egypt, Malaysia, Mexico, Norway, Oman, former Soviet Union, Yemen, Alaska and west Texas of the United States, Province of Alberta of Canada and North sea of Britain.

\textsuperscript{17} M. Al-Dabbagh, "Fact and Folklore About the Current Oil Prices and Their Stability", in OPEC bulletin, Vol. 19, No.4, May, 1988, p.14.
drastically was "great fluctuation in Dollar exchange rate vis-a-vis other major world currencies between 1985-87".  

Though nominal price was averaged 17.5 US Dollars per barrel, in real terms it was around 9.60 US Dollars per barrel to those western nations and Japan whose currencies had been appreciating since 1985 vis-a-vis the US Dollar. Cheaper oil will not affect trade balances; it will also affect international capital flows.

Later OPEC decided upon rationing of oil production and allotted quotas which were less than the existing level of production keeping in view the glut in international oil market.

This cartel behaviour of OPEC has been continuing sometimes on quarterly basis or half yearly basis to regulate the supply of market of oil to insure stability in oil prices. Oil price reached 13 US Dollars per barrel in September 1986 and continued at those levels with some fluctuation even after OPEC's decision to set oil prices at 18 US Dollars per barrel as a standard for OPEC basket in December 1986.

3.2.5 The Period 1987-90 : Oil Market Stability

Downfall of oil prices in 1986 had resulted in materialistic motive of production and explorative operations in areas in involving high costs which were ignored. This reduction of exploitation in the oil fields in turn resulted in constraints on oil supply and therefore the prices rose to 18 US Dollars per barrel, i.e. up to official level announced by OPEC. It has raised the quota of oil production of its

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members to 19.5 and 20.5 m.b/d for the third and fourth quarter of 1989 respectively, and OPEC's oil prices reached 19.99 US Dollars per barrel in January 1990 which enhanced OPEC position in the market. Although, some of OPEC member countries have power to produce more, especially those member countries which have great oil reserves, they did not do so due to fixed quota.

It is obvious from the development which the oil market has undergone and especially since OPEC began to fix the prices of its oil that the role and position of oil producers in the international oil market is determined by the following factors:

(i) World demand for oil, also fluctuations in oil supply lead to instability in oil price.

(ii) Producers' participation in the international oil trade and their capabilities, which are linked to their proved oil reserves, available production power, the types of oil available for export, geographical position in relation to oil consumption markets, and the future of these development issues.

(iii) The degree to which the producer depend on oil revenues for their economic performance, development plans, and their flexibility in facing the changes in oil supplies and demands, or in determining their production policies according to their interests.

(iv) Prices and production policies of producers within OPEC, which are related international oil market.

(v) Energy policy in the major oil importing countries and their aims and the extent to which these countries depend on the oil exports.

(vi) The factors influencing marketing flexibility of exporters and their competition with other exporters to sell their oil.
The market stability is the responsibility of all the organizations in this field, namely OPEC, organization of the Arab petroleum exporting countries (OAPEC), and organization of Latin America for the development of energy (OLADE), in addition to all other non-OPEC exporting oil countries. Consequently the burden should be shared.

3.2.6 OPEC: Global Economic Consequences of the Recent Gulf Crisis

During the last decade and half, world economy has witnessed three major shocks in oil price. The first shock was in 1973-74 during the Arab-Israel war in October, 1973. In this war, Arab countries used oil as a weapon to achieve their goal. The second shock occurred in 1979-80 at the onset of the Iranian turmoil and later on the breakout of the Iran-Iraq war in September 4, 1980. The recent shock was in August 2, 1990 after the annexation of Kuwait to Iraq. In this section we are basically interested in the recent oil price shock and will discussed its impact on world economy.

Economists around the globe argued that even if prices were to rise to 30 US Dollars per barrel-up by about 60 per cent. From last year average of 18 US Dollars per barrel, it would make only a small dent on economic growth. This is so when we compare it with the two oil price changes which quadrupled of oil prices in 1973-74 and doubled in 1979-80 over a night. This is not the position this time. In fact, present oil change looks likely to be smaller than those of 1970s as industrial economies are in far better shape to absorb it. Industrial world has comfortable to replace all of Iraqi and Kuwaiti oil for more than two years.

In support of the above propositions economists have put forward the following arguments:
Firstly, in order to produce a Dollar of real GNP, industrial economics now use 40 per cent\(^\text{21}\) less oil than they did in 1973. This reduction occurred due to search for alternative source of energy. The late 1970s and early 1980s witnessed a switch to alternative sources of energy, such as Nuclear, Coal, and Hydro. Again, now energy sources are not used more efficiently. Moreover, the high revenues from crude oil production provide an economic justification for the exploration and development of oil fields in remote areas, most notably North Sea and Alaska.\(^\text{22}\)

"Oil meets more than 50 per cent of the total energy demand in the world outside the former centrally planned economies (CPEs). Oil constituted more than 20 per cent of total world trade at the beginning of this decade.\(^\text{23}\)

Secondly, in most economies, the nominal value of GDP grows at an average of 7 per cent which is split between real growth of 3 per cent and price inflation of 4 per cent. As a result of rise in oil price, price inflation will be 5 per cent and real growth 2 per cent only. The remedy lies in achieving a growth rate of GDP up to 5 per cent which would maintain real growth at 3 per cent.\(^\text{24}\) However, this argument is weak. Firstly, governments have not the power to dictate an economy's real rate of growth. Secondly, adoption of fiscal and monetary policies cannot accommodate dearer oil.


\(^{22}\) Subroto, "Oil in the 1990s: another challenge to international security", in OPEC bulletin, vol.20, No. 7, July/August, 1989, p.11.


Thirdly, in the two oil price changes of the 1970s the impact in terms of loss of real income was exaggerated because some of OPEC member countries could not spend all their oil revenues immediately on imports. This time round OPEC member countries are likely to spend extra cash much more quickly. Again, this argument is also not very sound. No doubt all OPEC member countries benefitted from the recent crisis, but most of them suffered in terms of oil revenue also as their oil production got a severe jolt, particularly in case of the economy of Iraq and Kuwait. Hence, there is little chance that after the recent crisis end's OPEC member countries will import heavily from the developed countries.

Fourthly, often officials said that there was no reason to panic even if oil price rose up to 40 US Dollars per barrel. However, financial markets did panic: the Tokyo stock market, London market, and New York market had fallen by 25, 15, and 14 per cent respectively between September 20 and August Ist, 1990.²⁵

No doubt, economic consequence of the recent Gulf crisis (August, 1990) is smaller as compared to the previous ones: Firstly, this time inflation rate is at a much lower level compared to 1973 or 1979. And industrial economies are in a far better shape. Even if above proposition were true, the economic consequence of recent crisis is not less severe for the third world countries importing oil, particularly for India. Due to this, the Iraqi government led by the President, Saddam Hussein has decided to offer crude oil free of charge to all third world countries that needed it, and has decided to make special exception for India, not only for 1990, but even for 1991. Increase in oil price rise even to the extent of 3 US Dollars per barrel would make a considerable dent in India's balance of payments position. With the world

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oil prices touching the level of 25 US Dollars per barrel, the impact of this crisis on India’s balance of payments during the period October 1990 to September 1991 has been estimated to be around 4 billion US Dollars.26

Secondly, India’s oil import suffered heavily due to the United Nations embargo against Iraq and India was compelled to buy oil from the spot market where oil price is expected to shoot up to 45 US Dollars per barrel in case of an outbreak of hostilities in the region.

Thirdly, about 172,000 Indian workers and their dependents in Kuwait and about 10,000 in Iraq at the beginning of the crisis, had to return back only to face the problem of unemployment.27

We, therefore, conclude that the recent Gulf crisis is expected to deal a double blow to the Indian economy, due to rise in oil price and loss of foreign earnings as a large number of workers have left Gulf countries.

Future Expectations of International Oil Market

Before dealing with future position of OPEC in the international oil market, it is appropriate to throw some light on the expected market conditions and the role of the influencing forces during the said period. despite the success of the developed countries and the major international forces to weaken the oil negotiation force and despite giving the impression that oil has become like any other commodity governed


by market conditions, they know that this view is a fabricated one and that oil shall resume its pioneering role and shall remain a strategic commodity occupying a pivotal position having the assurance of its in the policies of the main importing countries.

Importance of oil for international relations stems from its continuing ability to meet a considerable percentage of the total world. Energy consumption and demands in the visible range of time. All expectations, even those that aim at reducing the importance of oil, accept that oil shall meeting about 40-50 per cent of the world demand for energy outside the former CPEs till the end of the present century. Its consumption will be around 58-60 m.b/d by the year 2000 showing an increase of 6-8 m.b/d in comparison to 1990. These estimations depend upon projected growth of various groups of economies in the world and expected increase in the world's population, in addition to the technical, environmental and economical limitations in the efforts put in for saving oil consumption and the operations to replace oil by various other energy sources. The appearance of new processes and increased use of oil and its derivatives in usages other than energy such as in petrochemicals and other related products, will undoubtedly lead to increase of oil consumption. From another, angle, some of the non-OPEC countries with limited oil reserves follow production policies that are characterized by speeding exhaustion of reserves, as in Britain and the United States. In addition to that, development of some new oil fields would beat very high costs that may exceed in some cases even the prevailing prices and the expected price of oil in the world market during the coming years. All this shall have a negative impact on the levels of their production which would lead to the inability of these areas to compensate for their exhaustible reserves. Accordingly, their production shall gradually decrease with the lapse of
time, for the remaining reserves cannot support current production levels. Despite that, some countries - the developing countries of the non-OPEC group, in particular - may continue to make available the present requirements to develop its oil alternative in payment to imports, or that part of the cost is a local cost, the prevailing prices have deduced the material initiative for the foreign oil companies operations in these countries as it negatively influences its marginal profit.

In view of increase in local consumption in the former CPEs in light of the recent developments and their opening the doors to the outside world, as well as on account of production problems in the former Soviet Union, it is expected that the former CPEs net exports of oil may decrease despite the flexibility that the former Soviet Union has in the matter of energy consumption. Accordingly, most scholars expect that countries which supply oil from the non-OPEC bloc shall in the short run stagnate. This may be followed by a further deterioration that may increase with time. What confirms this trend is the decrease of production levels in the United States since 1986 and decrease in face of expansion of oil supply from the non-OPEC countries. Accordingly, the expected increase in the demand for oil shall be, in a large measure, transmitted to that owns more than 85 per cent of world's proven crude oil reserves outside the former CPEs. It has the production capacity required to confront such as increase in demand, especially in light of the fact that most of non-OPEC are already producing up to the maximum available production capacity.

Based on these expectations, the expected demand for OPEC oils will increase to about 29-30 m. b/d in the year 2000, which would increase OPEC's share in the world's supply outside the former CPEs, and decrease consumption need from about 45 per cent in 1989 to about 55 per cent by the year 2000. Likewise role of OPEC oil in the international's oil market shall increase accordingly so as to
occupy a dominant position. This shall reinforce OPEC's status and reinforce our efforts in stabilizing the market, of the major developed countries shall rely increasingly on OPEC's oils despite the fact that most of the expected increase in volume of world's demand for oil shall be that of the developing countries.

What supports OPEC's role status is that its decisions in the recent years were moderate and reasonable in light of its applied experience which shall surely have a bearing on its production and pricing policies and the extent of recognition of all the dealers about the importance of OPEC for market stability has widened in addition to the feeling about cooperating with OPEC. From another angle, the increase of OPEC member countries' participation in the forthcoming operations and in particular in the consuming market shall inevitably have a positive on the OPEC's capability to reinforce its control over market developments and on various factors that usually tend to be changeable, unstable and minimize the negative influences of these variables.

Consumers' and producers' recognition of the damages resulting from following a confrontational attitude, shall increase the comprehension of all parties in the market about the necessity of cooperation and coordination to enable humanity to manipulate as perfectly as possible the various energy resources and to place the solutions and plans necessary to shift quietly and thoroughly from the exhaustible resources to others in such a way that ensures the common and lawful welfare for all people. Accordingly, it is expected that oil market in the future shall have more stability and cooperation among the reacting forces and that role and status of OPEC in the international's oil market shall get reinforced.

Based on the existing knowledge, the period of exhaustion of oil reserves is
39 years for OPEC, and that for other major non-OPEC countries' it is 10 years from the end of 1987 (see Table 2.2). There is expectation that under those circumstances during first decade of 21st century, pressure for increasing oil production on OPEC shall rise substantially because at that time non-OPEC countries which are presently exporting oil will also start importing oil.** Consequently international oil price of OPEC will become much higher. One of the very dangerous possibilities is that oil reserves of OPEC might exhaust rapidly even before the expected period. But to the extent possible, such an eventuality should be postponed through adoption of appropriate oil policies both in the oil producing and oil consuming countries.

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** Major non-OPEC countries are the former Soviet Union, the United States, Mexico, China, and Norway.

** Hence, they are in a better bargaining position in international market as far as oil is concerned.