OPEC

A cartel is a group of apparently independent producers whose goal is to increase their collective profits by means of price fixing, limiting supply, or other restrictive practices. Cartels typically control selling prices, but some are organized to control the prices of purchased inputs. Cartels usually occur in oligopolies, where there are a small number of sellers and usually involve homogeneous products.

Organization of the Petroleum Exporting Countries (OPEC) is an intergovernmental organization of 14 nations as of May 2017, founded in 1960 in Baghdad by the first five members (Iran, Iraq, Kuwait, Saudi Arabia, Venezuela), and headquartered since 1965 in Vienna. As of 2016, the 14 countries accounted for an estimated 44 percent of global oil production and 73 percent of the world's "proven" oil reserves, giving OPEC a major influence on global oil prices that were previously determined by American-dominated multinational oil companies.

OPEC's stated mission is "to coordinate and unify the petroleum policies of its member countries and ensure the stabilization of oil markets, in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry. The organization is also a significant provider of information about the international oil market.

The formation of OPEC marked a turning point toward national sovereignty over natural resources, and OPEC decisions have come to play a prominent role in the global oil market and international relations. The effect can be particularly strong when wars or civil disorders lead to extended interruptions in supply. In the 1970s, restrictions on oil production led to a dramatic rise in oil prices and OPEC's revenue and wealth, with long-lasting and far-reaching consequences for the global economy. In the 1980s, OPEC started setting production targets for its member nations; and generally, when the production targets are reduced, oil prices increase, most recently from the organization's 2008 and 2016 decisions to trim oversupply.

Current member countries

As of May 2017, OPEC has 14 member countries: six in the Middle East (Western Asia), six in Africa, and two in South America. According to the US Energy Information Administration, OPEC's combined rate of oil production (including gas condensate) represented 44 percent of the world's total in 2016 and OPEC accounted for 73 percent of the world's "proven" oil reserves, including 48 percent from just the six Middle Eastern members.

Approval of a new member country requires agreement by three-quarters of OPEC's existing members, including all five of the founders. In October 2015, Sudan formally submitted an application to join, but it is not yet a member.

Lapsed members

For countries that export petroleum at relatively low volume, their limited negotiating power as OPEC members would not necessarily justify the burdens imposed by OPEC production quotas and membership costs. Ecuador withdrew from OPEC in December 1992, because it was unwilling to pay the annual US$2 million membership fee and felt that it needed to produce more oil than it was allowed under its OPEC quota at the time, although it rejoined in October 2007. Similar concerns prompted Gabon and Indonesia to suspend membership and rejoin.

Observers

Since the 1980s, representatives from Egypt, Mexico, Norway, Oman, Russia, and other oil-exporting nations have attended many OPEC meetings as observers. This arrangement serves as an informal mechanism for coordinating policies.

Leadership and decision-making

The OPEC Conference is the supreme authority of the organization and consists of delegations normally headed by the oil ministers of member countries. The chief executive of the organization is the OPEC Secretary General. The Conference ordinarily meets at the Vienna headquarters, at least twice a year and in additional extraordinary sessions when necessary. It generally operates on the principles of unanimity and "one member, one vote", with each country paying an equal membership fee into the annual budget. However, since Saudi Arabia is by far the largest and most-profitable oil exporter in the world, with enough capacity to function as the traditional swing producer to balance the global market, it serves as "OPEC's de facto leader".

International cartel

At various times, OPEC members have displayed apparent anti-competitive cartel behavior through the organization's agreements about oil production and price levels. In fact, economists often cite OPEC as an example of a cartel that cooperates to reduce market competition.

OPEC members strongly prefer to describe their organization as a modest force for market stabilization, rather than a powerful anti-competitive cartel. In its defense, the organization was founded as a counterweight against the previous "Seven Sisters" cartel of multinational oil companies, and non-OPEC energy suppliers have maintained enough market shares for a substantial degree of worldwide competition. Moreover, because of an economic "prisoner's dilemma" that encourages each member nation individually to discount its price and exceed its production quota, widespread cheating within OPEC often erodes its ability to influence global oil prices through collective action.

OPEC has not been involved in any disputes related to the competition rules of the World Trade Organization, even though the objectives, actions, and principles of the two organizations diverge considerably.[28] A key US District Court decision held that OPEC consultations are protected as "governmental" acts of the state by the Foreign Sovereign Immunities Act, and are therefore beyond the legal reach of US competition law governing "commercial" acts. Despite popular sentiment against OPEC, legislative proposals to limit the organization's sovereign immunity, such as the NOPEC Act, have so far been unsuccessful.

Conflicts

OPEC often has difficulty agreeing on policy decisions because its member countries differ widely in their oil export capacities, production costs, reserves, geological features, population, economic development, budgetary situations, and political circumstances. Indeed, over the course of market cycles, oil reserves can themselves become a source of serious conflict, instability, and imbalances, in what economists call the "natural resource curse".

A further complication is that religion-linked conflicts in the Middle East are recurring features of the geopolitical landscape for this oil-rich region. Internationally important conflicts in OPEC's history have included the Six-Day War (1967), Yom Kippur War (1973), a hostage siege directed by Palestinian militants (1975), the Iranian Revolution (1979), Iran–Iraq War (1980–1988), Iraqi occupation of Kuwait (1990–1991), September 11 attacks by mostly Saudi hijackers (2001), American occupation of Iraq (2003–2011), Conflict in the Niger Delta (2004–present), Arab Spring (2010–2012), Libyan Crisis (2011–present), and international Embargo against Iran (2012–2016). Although events such as these can temporarily disrupt oil supplies and elevate prices, the frequent disputes and instabilities tend to limit OPEC's long-term cohesion and effectiveness.

Market information

As one area in which OPEC members have been able to cooperate productively over the decades, the organization has significantly improved the quality and quantity of information available about the international oil market. This is especially helpful for a natural-resource industry whose smooth functioning requires months and years of careful planning. Publications and research

In April 2001, OPEC collaborated with five other international organizations (APEC, Eurostat, IEA, OLADE, UNSD) to improve the availability and reliability of oil data. They launched the Joint Oil Data Exercise, which in 2005 was joined by IEF and renamed the Joint Organisations Data Initiative (JODI), covering more than 90 percent of the global oil market. GECF joined as an eighth partner in 2014, enabling JODI also to cover nearly 90 percent of the global market for natural gas.

Since 2007, OPEC has published the "World Oil Outlook" (WOO) annually, in which it presents a comprehensive analysis of the global oil industry including medium- and long-term projections for supply and demand. OPEC also produces an "Annual Statistical Bulletin" (ASB), and publishes more-frequent updates in its "Monthly Oil Market Report" (MOMR) and "OPEC Bulletin".

Crude oil benchmarks

A "crude oil benchmark" is a standardized petroleum product that serves as a convenient reference price for buyers and sellers of crude oil, including standardized contracts in major futures markets since 1983. Benchmarks are used because oil prices differ (usually by a few dollars per barrel) based on variety, grade, delivery date and location, and other legal requirements.

The OPEC Reference Basket of Crudes has been an important benchmark for oil prices since 2000. It is calculated as a weighted average of prices for petroleum blends from the OPEC member countries: Saharan Blend (Algeria), Girassol (Angola), Oriente (Ecuador), Rabi Light (Gabon), Iran Heavy (Islamic Republic of Iran), Basra Light (Iraq), Kuwait Export (Kuwait), Es Sider (Libya), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia), Murban (UAE), and Merey (Venezuela).

North Sea Brent Crude Oil is the leading benchmark for Atlantic basin crude oils and is used to price approximately two-thirds of the world's traded crude oil. Other well-known benchmarks are West Texas Intermediate (WTI), Dubai Crude, Oman Crude, and Urals oil.

Spare capacity

The US Energy Information Administration, the statistical arm of the US Department of Energy, defines the spare capacity for crude oil market management "as the volume of production that can be brought on within 30 days and sustained for at least 90 days... OPEC spare capacity provides an indicator of the world oil market's ability to respond to potential crises that reduce oil supplies."

In November 2014, the International Energy Agency (IEA) estimated that OPEC's "effective" spare capacity, adjusted for ongoing disruptions in countries like Libya and Nigeria, was 3.5 million barrels per day (560,000 m3/d) and that this number would increase to a peak in 2017 of 4.6 million barrels per day (730,000 m3/d). By November 2015, the IEA changed its assessment "with OPEC's spare production buffer stretched thin, as Saudi Arabia – which holds the lion's share of excess capacity – and its [Persian] Gulf neighbors pump at near-record rates."

History

In the 1960s, OPEC did not have much power. This changed in 1973 when the third Arab-Israeli war started. The United States and a few European countries supported Israel. As a form of punishment, OPEC nations, influenced by the Arab countries, stopped selling oil to the West. Within the next six years, oil prices rose to ten times the price of the early 1970s. OPEC countries became rich with so-called petrodollars; the West sank into a deep recession because they needed OPEC's oil.

In the aftermath of the energy crisis of the 1970s, western countries started looking for alternative forms of energy in order to become more independent from OPEC and the oil-producing nations. In 1986, oil prices dropped to the lowest rate in history. Oil-producing nations lost much of their income. In the 80s and 90s, OPEC's power diminished, often because of conflicts and internal arguments and because member states could not agree on production quotas. Some OPEC countries did not keep agreements and produced more oil, thus lowering prices.

After 2000, oil prices began to rise again and reached an all-time high in 2007. The financial crisis of 2007 and 2008 hit world economy hard and oil prices fell once again. Since the Arab Spring of 2011, prices have gone up and down several times.

Today OPEC still controls about 60% of the world's oil reserves and produces 40% of the world's oil. Saudi Arabia is the most powerful member of the group because it has the largest reserves. Even though there have been quarrels in the cartel in the last 5 decades it remains a powerful organization.

Current situation (2010-now)

This statistic depicts the average annual oil price for selected OPEC crude oils in 1960 and 2017. In 2016, the average annual oil price per barrel was 40.68 U.S. dollars. The OPEC crude oil price is defined by the price of the so-called OPEC (Reference) Basket. This basket is an average of prices of the various petroleum blends that are produced by the OPEC members. Some of these oil blends are, for example, Saharan Blend from Algeria, Basra Light from Iraq, Arab Light from Saudi Arabia, BCF 17 from Venezuela, et cetera. By increasing and decreasing its oil production, OPEC tries to keep the price between given maxima and minima.

The latest projections from the OPEC World Energy Model, OWEM, indicate that fossil fuels will remain the world's dominant energy source in the next two decades and that they will meet more than 90 percent of world energy requirements. As for non-fossil fuels, nuclear energy is forecast to continue its decline, while hydropower is expected to grow rapidly in developing countries. Renewable energy will also increase from its very low base, although at rates lower than those set out in the EU green paper on energy security.

Among the fossil fuels, oil and gas, in particular, will continue to play the leading roles in meeting world energy demand. OWEM predicts that world oil demand will rise to 89 mb/d in 2010, compared with around 76 mb/d in 2000, and to 107 mb/d in 2020. As non-OPEC oil production reaches a plateau in the first two decades of the century, OPEC Member Countries — with more than 75 percent of global proven crude oil reserves — are expected to be called on to satisfy most of the new demand. Our projections see OPEC producing 36 mb/d of crude in 2010, which is more than 40 percent of global supply, rising to over 52 mb/d in 2020, when OPEC's share will exceed 48 percent.

Of course, with the projected expansion in both oil and gas use, there is a constant need for producers to not only replace depleted reserves but also expand production to meet the world's increasing energy needs. The level of investment our Member Countries alone will need to make is enormous. Our projections estimate a figure of nearly $100 billion by 2010 and a substantial $209 bn by 2020. However, for the high-cost, non-OPEC producers, investment forecasts are much greater than this — around $600 bn by 2010 and over $860 bn ten years later.

In speaking of the future, it is also necessary to dispel another common, but mistaken notion that fossil fuels are a dirty form of energy. Possibly this can be traced to the old days of coal. However, the situation has improved greatly in recent years and this will continue into the future. Currently, natural gas is a well-used, cleaner-burning form of energy, while new technologies, such as CO2 sequestration, will allow gas and other hydrocarbons, such as oil, to be burned at even the zero emissions level. It is important to remember that fossil fuels are a product — and gift — of nature. Technical advances are allowing us to use this gift without damaging nature in return. Today, it is only a question of cost.