

A Japanese Perspective on the International Energy Landscape (11)

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OPEC's 50th Anniversary

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On September 14, 1960, representatives of Saudi Arabia, Venezuela, Iraq, Iran and Kuwait met in Baghdad to create the Organization of Petroleum Exporting Countries as an organization for oil producing nations' cooperation in countering international oil majors, in protest to a unilateral notice of cuts in posted oil prices from these oil multinationals called the "Seven Sisters." Then, OPEC, nicknamed "the most powerful cartel in history" in the 1970s, came into being. As described above, OPEC was first designed to enhance oil producing nations' bargaining power against international oil majors and start their efforts to restore their rights to set prices for oil as their strategic resource in opposition to the system for outsiders (international oil majors) to unilaterally fix "posted oil prices" that were vitally important as standards for oil tax revenues for these countries.

Over the 50 years since the OPEC creation, the market environment surrounding OPEC has changed dramatically on various oil market changes. OPEC's power peaked around the first and second oil crises, as symbolized by sharp crude oil price hikes, and national oil companies' participation in and nationalization of international oil majors' concessions (to directly control oil resources). In the 1980s when the oil supply/demand balance eased, however, OPEC was forced to introduce country-by-country oil production quotas to adjust production. Furthermore, the oil pricing power shifted from OPEC to markets. Particularly, oil futures markets began to play a key role in pricing oil. Then, OPEC's influences declined substantially. The situation changed rapidly again when oil prices soared sharply in and after 2000. OPEC decisions and OPEC leaders' remarks attracted global attention, restoring their heavy media exposure. But OPEC watchers are divided over whether OPEC's resurgence in the 2000s was essential. Undoubtedly, OPEC has begun to attract global attention again. But oil futures markets now price oil. Many oil market watchers doubt if OPEC's oil production policies can influence actual oil prices. They suspect that other factors such as financial ones might have played relatively more important roles in pricing oil.

As far as indicated by objective oil supply/demand data, no one can doubt the fact that OPEC is one of the most influential actors in the world. In 2009, OPEC posted 1,029.4 billion barrels in proven oil deposits (77% of the global total), 33.08 million barrels per day in oil output (41%) and 24.19 million bpd in oil exports (60%). These data indicate that OPEC has great influences on the global oil supply/demand balance. In the future, OPEC has the potential to expand oil production in response to a global demand increase. As a result, its share of global oil production is expected to rise close to or exceed the past peak of 51% recorded in 1973.

Another of OPEC's strengths may be that the cartel has survived turbulences over the past 50 years. OPEC might have been transformed into an organization that has acquired abundant knowledge and experiences through these turbulences. When OPEC was touted as "the most powerful cartel in history," countries rich with copper, bauxite, iron and other resources formed resource cartels in a manner to capitalize on OPEC's powerfulness. But most of these resource cartels have effectively disappeared or ceased to work in response to changes in international resources/commodity markets. Why OPEC alone has survived may be an issue that is worthy of being analyzed in detail. But I here would like to refrain from asking the question and focus on its successful survival as a fact. I believe that OPEC through its survival has deepened its understanding about realities of international oil markets, improved its analytical capacity, and has begun to implement fine-tuned market approaches giving considerations to announcement effects on markets. (As a matter of course, we should remember that OPEC is a cartel of sovereign states and put under relevant constraints, that OPEC, though having learned lessons from past problems or failures, could have similar problems or make similar failures, and that OPEC has no choice but to face new problems or challenges in line with changes in international oil markets.)

After having deepened its understanding and knowledge about international energy markets over its 50-year history, OPEC is certain to face various future challenges. Over a short term, a challenge for OPEC is how OPEC should approach the stabilization of oil prices (through which OPEC aims to stabilize oil revenues) as the most fundamental issue at a time when the crude oil pricing mechanism is complicated by influences of the world economic and financial situations and various investment funds. The challenge means that OPEC must ask the question of what specific price level should be chosen for market stabilization.

Problems with the cartel of sovereign states include a challenge linked to the establishment and observation of appropriate production quotas as an old but new problem. In this respect, Iraq's oil production expansion will become the largest factor to affect the future global oil supply/demand balance. Iraq's oil production is now put out of OPEC production quotas and estimated to reach 12 million bpd in seven to 10 years (although most of the more realistic estimates put the production range at between 5 million and 7 million bpd). How OPEC would incorporate Iraq into its production quotas may attract much attention in connection with politics within OPEC.

Over a long term, one problem is how global oil demand will change. Particularly, oil demand over an extra-long term through 2030 or 2050 is very uncertain along with potentials and effects of enhanced global warming measures. Because of its huge oil resources, a matter of grave concern to OPEC is how to secure oil's competitiveness and markets from the long-term perspective. The solution to this problem is the key to the cartel's survival. At a time when international debates over the global warming problem are very uncertain, it is difficult to anticipate the future course of these debates and its effects on energy markets. The situation is not easy for OPEC. The cartel may have to make utmost efforts to analyze markets and work out a long-term strategy based on the analysis.

In Vienna where OPEC is headquartered, various events are being implemented to

celebrate the 50th anniversary of OPEC. Behind such events, OPEC is required to launch and enhance efforts to tackle important and urgent problems. How would the next 50 years be for OPEC? The future strategies and actions of OPEC as one of the major actors in international markets will attract attention.

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