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OPEC: A HISTORY

With the end of World War II, the world economy boomed. This sparked a technology explosion that would continue on until the present day. Society was becoming more reliant upon modern-day wonders such as cars, air-planes, washing machines and other electrical appliances. As this dependence on technology increased, so did the demand for energy. Gone were the days of self-sufficiency and global isolation. Western society needed energy as quickly and cheaply as they could find it. Cars were rapidly becoming more affordable and gave Americans the freedom of the road; but something was needed to power these vehicles. Fossil fuels were plentiful and cheaply produced. While the U.S. and Europe had large reserves at their disposal, the need for more fuel reserves became apparent towards the end of the 1950s. Five undeveloped nations with significant oil reserves noticed this trend and formed the Organization of Petroleum Exporting Countries (OPEC) at a conference in Baghdad, Iraq on September 14, 1960 (official OPEC website).

These five nations consisted of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. In addition to the founding members OPEC has grown over the years to include Qatar (1961), Indonesia and Libya (1962), the United Arab Emirates (1967), Algeria (1969) and Nigeria (1971). Ecuador (1973-1992) and the West African nation of Gabon (1975-1994) were members of OPEC, but left because of the high membership dues (EIA website). The purpose of the founding conference was to put in place an intergovernmental organization that would regulate the petroleum policies of OPEC

member states in order to create fair and stable prices for oil producers. OPEC's headquarters is located in Vienna, Austria and bi-annual meetings regarding the future policies of OPEC are held there (official OPEC website).

The eleven member states of OPEC produce around 40 percent of the world's oil output and account for more than three-fourths of the world's crude oil reserves. There are seven OPEC nations in the list of the top 14 oil producers in the world, according to 2002 statistics. They are Saudi Arabia with 8.54 million barrels per day, Iran with 3.54 million barrels per day, Venezuela with 2.91 million barrels per day, the United Arab Emirates with 2.38 million barrels per day, Nigeria with 2.12 million barrels per day, Iraq with 2.04 million barrels per day and Kuwait with 2.02 million barrels per day (EIA website). In addition, there are seven OPEC nations in the top ten oil net exporters in the world. They are Saudi Arabia with 7.00 million barrels per day, Venezuela with 2.46 million barrels per day, Iran with 2.26 million barrels per day, the United Arab Emirates with 2.07 million barrels per day, Nigeria with 1.85 million barrels per day, Kuwait with 1.73 million barrels per day and Iraq with 1.58 million barrels per day (EIA website).

In spite of these statistics, OPEC did not become an important economic player on the world stage until the 1970s. At the 35th conference in Vienna in October of 1973, OPEC created the first energy crisis in the U.S. OPEC imposed the Arab Oil Embargo against the West because of the U.S.'s financial support of Israel during the Yom Kippur War (Encyclopedia Britannica). This embargo began on October 17, 1973 and caused oil prices to increase 70 percent. In December of 1973 OPEC raised its oil prices again by 130 percent (Wikipedia Online Encyclopedia). The cost of oil went from under \$3.00 per barrel to just under \$12.00 per barrel, quadrupling the price. This had devastating effects

on western nations, in particular the U.S. This energy crisis triggered automakers to produce smaller, more efficient vehicles and research was begun on renewable energy. The crisis came to an end when the Arab Oil Embargo was lifted on March 18, 1974 at the Washington Conference (EIA website).

During the 1973 energy crisis both Europe and the U.S. experienced a phenomenon called stagflation which is extremely high inflation combined with an economic recession (Wikipedia Online Encyclopedia). As a result of this gas and petroleum was rationed which caused long lines at gas pumps. OPEC contributed to the stagflation by withholding oil from western nations, thus creating an artificial energy shortage. There was no actual shortage of petroleum or petroleum products, only an artificial shortage of energy (Randall Baker, "Energy Policy"). As a direct result of stagflation President Nixon imposed price controls during the crisis on imported petroleum.

By the mid-1970s the world economy had recovered from the energy crisis of 1973, but another energy crisis loomed ahead at the end of the decade. Although Nixon announced in 1972 that in theory the U.S. would decrease its dependence on foreign oil, the exact opposite happened in reality. As the decade of the 1970s came to a close, the United States and Europe still had the same problem of foreign energy dependence which had gotten them into trouble at the beginning of the decade.

The deposition of the Iranian Shah Mohammed Reza Pahlavi by the exiled Shi'ite Muslim cleric Ayatollah Khomeini started the Iranian Revolution in the spring of 1979 (Wikipedia Online Encyclopedia). The revolution caused a momentary cessation of Iranian oil production which dramatically drove OPEC oil prices upwards at an

astronomical rate similar to that of the Arab Oil Embargo of 1973. When the Khomeini regime eventually resumed oil production it was at a lower volume and a less consistent production rate than before the revolution. This caused the price of OPEC oil to jump dramatically from around \$15 per barrel to \$30 per barrel.

Like the 1973 energy crisis, the 1979 crisis created long lines at the gas pump again and a system of rationing was necessary. President Carter made a big push for energy conservation by endorsing the incorporation of solar panels in home design and wearing a sweater rather than turning on the heat. Americans dealt with the fuel crunch by decreasing their demand by mid-summer of 1979 (EIA timeline). President Carter also proposed removing the price controls that were set in place by Richard Nixon during the first energy crisis. However, the high oil prices lingered until the major fighting broke out in the Iran-Iraq War in the fall of 1981 (EIA timeline).

Although the economy of the 1970s worked in favor of OPEC member states, the 1980s were not so nice. The cost of petroleum lost its stability and varied wildly throughout the decade. For the time being, the cost of energy nose-dived. As the 1970s ended, the cost of OPEC oil was around \$34 per barrel. Due to the high prices from the 1979 energy crisis the U.S. and Europe reduced their demand for oil and began looking for other sources of energy. With the West's decreased demand and OPEC reserve of oil and political instability in the Middle East, OPEC prices dropped for dramatically for the first time in its existence (EIA timeline).

The emergence of an oil glut became apparent in 1982 and fully took hold of OPEC prices in 1983. As the vicious Iran-Iraq War raged throughout the early 1980s demand for OPEC oil drastically fell due to conservation in the United States and Europe

(EIA timeline). In 1983 OPEC oil prices fell to \$29 per barrel while the member-states agreed to limit their oil production according to individual output quotas (EIA timeline). Despite having these quotas a number of member states continued to overproduce thus causing the continuation of the oil glut. Saudi Arabia had to limit its oil production in response to other member-states over producing. In June of 1985 total OPEC production had fallen to a 20-year low of 13.7 million barrels per day and the cost was cut by \$1 to \$28 per barrel. Throughout the summer, OPEC was rapidly losing customers to North Sea oil and other petroleum producers in Europe and the Americas (EIA timeline). By December OPEC output had hit 18 million barrels per day increasing the glut of oil and causing a price war.

In 1986 the average world oil prices fell by over 50 percent causing OPEC to have the lowest cost per barrel within the last twelve years. OPEC production of oil reached 20 million barrels per day in July of 1986 as the price of oil continued to plummet. Near the end of the 1980s OPEC oil prices began to stabilize as fixed prices began to be implemented, however smaller fluctuations still occurred. As the Iran-Iraq War drew to a close in 1988, Saddam Hussein and his Republican Guard were eyeing the oil fields of neighboring Kuwait.

In August of 1990 Iraq invaded Kuwait causing OPEC oil prices to momentarily jump from around \$15 per barrel up to \$33 per barrel during Operation Desert Storm (EIA timeline). The sudden price spike was caused by Iraqis setting fire to Kuwaiti oil fields and the hostile takeover of Kuwait by Iraq. When the Gulf War ended with the conclusion of Operation Desert Storm in late February of 1991, OPEC oil prices had fallen again to around \$19 per barrel (EIA timeline).

Post-war OPEC prices generally stayed in between \$15 and \$20 per barrel until the Iraqi supported invasion of the Kurdish safe have in Northern Iraq in September of 1996. The U.S. launched cruise missiles in response to the Iraqi invasion, temporarily raising the price of OPEC oil to \$25 per barrel. This price increase did not last long as OPEC overproduced again causing a second price glut in the late 1990s. Also, less oil was consumed worldwide because of two unnaturally warm winters during the years of 1997 and 1998 in addition to an Asian economic crisis. This caused OPEC prices to drop as low as \$10 per barrel. During these two years Iraq increased production of oil while there was a lack of economic growth, thus furthering the glut.

From March of 1998 until January of 1999 OPEC cut production by 4.3 million barrels per day. OPEC's decreases in production became noticeable as the price per barrel of petroleum tripled, going from \$10 per barrel to \$30 per barrel between January of 1999 and September of 2000. However, this increase did not last long. Near the end of his presidency in 2000 President Clinton authorized the release of 30 million barrels of oil from the Strategic Petroleum Reserve (EIA timeline) which decreased the demand and price of OPEC oil.

The September 11 attacks in 2001 also hurt OPEC. The attacks furthered the economic recession already in existence since the uncertainty of the 2000 Presidential Election. OPEC prices fell from around \$25 per barrel to \$15 per barrel (EIA timeline). Yet this dip did not last long as conflicts reignited in the Middle East and Venezuela. Between January and June of 2002 OPEC oil prices recovered from the drop they had directly after September 11. Prices in 2002 returned to around \$26 per barrel from \$15 per barrel (EIA timeline).

The increased amount of world unrest in recent years coupled with a decrease in OPEC production has caused the price of crude OPEC oil to stay between \$25 and \$30 per barrel. OPEC's prices continue to stay around this general area in 2004. As of March 5, 2004 the current price of OPEC oil is \$32.75 per barrel (official OPEC website). The price of OPEC oil has stabilized around this price due to more decreases in production and the continued stagnation of the U.S. economy. OPEC's existence has been relatively hard lived but necessary. As long as Western demand for oil is great, OPEC's existence will be ensured.

Joel – You write well, and since your paper is largely historical fact, I don't have anything to say by way of criticism of the paper. What I particularly liked was the way you brought it to life in your presentation, which was helped a lot by the map and your World Oil Price Chronology. If you don't mind, I would like to keep the latter. You might have expanded a bit on your conclusions and revealed a little more about how you feel personally about these matters. That might have made your presentation even more interesting – even if you were wrong. You may know the story of Wolfgang Pauli who once said after a physics colloquium, "It wasn't even wrong."

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