The Role of the OPEC in the International Energy Market

Nika CHITADZE*

Abstract

The paper analyzes the policy of OPEC and its influence on the global prices of oil during different periods of the history of Cartel since its foundation till now. Particularly it provides information about the prehistory of the establishment of the Organization in the beginning of 60s of the last century and its First Steps. The research goes deeply through the role of the OPEC in causing the first oil shock (1973 – 1975) and the second oil shock (1979 – 1980). The paper includes the main reasons of the collapse of oil prices in the 1980s and the low prices on the “black gold” in the 1990s. Furthermore, it analyzes the role of OPEC and main reasons of the uprising prices on Oil in 2000s and policy of the cartel during International financial crises (2008 – 2010).

Keywords: Oil, Cartel, OPEC, Price, Barrel

Introduction

Oil as a “black gold” is the top ranking commodity of our modern world. Some would say that the discovery of vast reserves of oil in the Middle East, North Sea, Siberia, Latin America is one of the great ironies of history because, since the period of the World War II, oil together with the natural gas has played a major role in the international economy. Due to this fact, many events in the International economic relations are depended on the production and trade by oil. Countries, possessing the large reserves logically should have a strong bargaining tool to influence their own political and economic status in the world economy. Indeed it is commonly believed that the Organization of Petroleum Exporter Countries (OPEC) and its member states are able to influence the economically developed states through their energy policy.

Historical Development of OPEC

The Prehistory of the Establishment of the Organization and its First Steps

After World War II, oil exploration and production business in the Middle East was controlled by British company British Petroleum, French company “Compagnie Francaise de Petrole” (now Total), Royal Dutch/Shell (British-Dutch), and American Companies Standard Oil of New Jersey (now Exxon), Standard Oil of California (now Chevron) Texaco (now part of Chevron). Together they were called “Seven Sisters”. In 1959 the U.S. government established a Mandatory Oil Import Quota Program (MOIP) restricting the amount of crude oil (and refined products) that could be imported into the United States.

The MOIP gave preferential treatment to oil imports from Mexico and Canada and this step has negatively affected on the “seven sisters” business and economic development of the Middle East states. Due to the lack of technologies, those countries needed foreign investments to explore and produce the oil on their territories. In this cold war era Soviet oil production kicked up and around 1960 the Soviet Union displaced Venezuela as the second largest oil producer in the World, behind the United States.

Taking into account above-mentioned facts, oil producer states from the “third World” started the thinking about coordinative policy related to the oil production and determination the world oil prices. The first attempt towards the establishment of the Organization of the Petroleum Exporting Countries (OPEC) took place in 1949, when Venezuela conducted negotiations with the governments of Iran, Iraq, Kuwait and Saudi Arabia and suggested that they could exchange views and explore avenues for regular and closer communications between them.

The necessity for the development of closer cooperation became more apparent in 1959, when the First Arab Petroleum Congress took place in Cairo, Egypt. The Congress adopted a resolution calling to oil companies to consult with the governments of the oil-producing states before unilaterally taking any decision on oil prices. Other decision was interrelated with the signing the general agreement on the establishment of an ‘Oil Consultation Commission’.

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The next conference from 10–14 September 1960 was held in Baghdad, attended by representatives of the Governments of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. It was this First Conference which established OPEC as a permanent intergovernmental organization of oil-exporting developing nations that coordinates and unifies the petroleum policies of its Member states. Main purpose of OPEC represents to ensure the stabilization of oil prices in international oil markets, regular supply of petroleum to consuming nations, and affair return on capital to those investing in the petroleum industry.

Table 1: OPEC Member Countries (www.OPEC.org)

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<tr>
<th>Founder Members</th>
<th>Year of Accession</th>
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<tr>
<td>Iran</td>
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<td>Iraq</td>
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<td>Saudi Arabia</td>
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<td>Venezuela</td>
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<td>South America</td>
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The first location of the OPEC Secretariat was in Geneva, Switzerland, but later in April 1965, the OPEC Conference decided to move the Headquarters to Vienna, Austria. (Tedoradze, “OPEC in the World oil market”, 2011)

The First Oil Shock (1973 – 1975)

The first oil crisis started in October 1973 after the third Israeli-Arab war, when the members OPEC together with Egypt, Syria and Tunisia proclaimed an oil embargo “in response to the U.S. decision to re-supply the Israeli military” during the Yom Kippur war; it lasted until March 1974. (Hubbert, 1956). During this period, the International price of oil increased from $3 per barrel to $12 per barrel. It caused the economic crisis. (Chitadze, May, 2004). Furthermore, some European nations and Japan sought to dissociate themselves from the US Middle East policy. Arab oil producers had also linked the end of the embargo with successful US efforts to create peace in the Middle East, which complicated the situation. To address these developments, the Nixon Administration began parallel negotiations with both Arab oil producers to quit the embargo, and with Egypt, Syria, and Israel to arrange the withdrawal of the Israeli troops from the Sinai Peninsula and the Golan Heights after the fighting stopped. By January 18, 1974, Secretary of State Henry Kissinger had negotiated an Israeli armed forces withdrawal from parts of the Sinai. The promise of a negotiated settlement between Israel and Syria was sufficient to convince Arab oil producers to lift the embargo in March 1974. By May, Israel agreed to withdraw from the Golan Heights.

Independently, the OPEC members agreed to use their leverage over the world price setting mechanism for oil to stabilize their real incomes by raising world oil prices. This action followed several years of steep income declines after the recent failure of negotiations with the major Western oil companies earlier in the month.

The effects of the embargo were immediate. OPEC forced the oil companies to increase payments drastically. The price of oil quadrupled by 1974 to nearly US$12 per barrel (75 US$/m3). This increase in the price of oil had a dramatic effect on oil exporting nations, for the countries of the Middle East who had long been dominated by the industrial powers were seen to have acquired control of a vital commodity. The traditional flow of capital reversed as the oil exporting nations accumulated vast wealth.

OPEC-member states in the developing world withheld the prospect of nationalization of the companies’ holdings in their countries. Most notably, the Saudis acquired operating control of Aramco, fully nationalizing it in 1980 under the leadership of Ahmed Zaki Yamani. As other OPEC nations followed suit, the cartel’s income soared. Saudi Arabia, awash with profits, undertook a series of ambitious five-year development plans, of which the most ambitious, begun in 1980, called for the expenditure of $250 billion. Other cartel members also undertook major economic development programs.

Meanwhile, the shock produced chaos in the West. In the United States, the retail price of a gallon of gasoline (petrol) rose from a national average of 38.5 cents in May 1973 to 55.1 cents in June 1974. State governments requested citizens not put up Christmas lights, with Oregon banning Christmas as well as commercial lighting altogether. Politicians called for a national gas rationing program. Nixon requested gasoline stations to voluntarily not sell gasoline on Saturday nights or Sundays; 90% of owners complied, which resulted in lines on weekdays. (Tedoradze, OPEC in the World oil market.Master thesis., 2011).

The embargo was not uniform across Europe. Of the nine members of the European Economic Community (EEC), the Netherlands faced a complete embargo, the United Kingdom and France received almost uninterrupted supplies (having refused to allow America to use their airfields and embargoed arms and supplies to both the Arabs and the Israelis), whilst the other six faced only partial cut-backs. The UK had traditionally been an ally of Israel, and Harold Wilson’s government had supported the Israelis during the Six Day War, but his successor, Ted Heath, had reversed this policy in 1970, calling for Israel to withdraw to its pre-1967 borders. The members of the EEC had been unable to achieve a common policy during the first month of the Yom Kippur War. The Community finally issued

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a statement on November 6, after the embargo and price rises had begun; widely seen as pro-Arab, this statement supported the Franco-British line on the war, and OPEC duly lifted its embargo from all members of the EEC. The price rises had a much greater impact in Europe than the embargo, particularly in the UK (where they combined with strikes by coal miners and railroad workers to cause an energy crisis over the winter of 1973-74, a major factor in the change of government). The UK, Germany, Switzerland, and Norway banned flying, driving and boating on Sundays. Sweden rationed gasoline and heating oil. The Netherlands imposed prison sentences for those who used more than their given ration of electricity. Ted Heath asked the British to heat only one room in their houses over the winter.

Nevertheless, the 1973 oil shock provided dramatic evidence of the potential power of Third World resource suppliers in dealing with the developed world. The vast reserves of the leading Middle East producers guaranteed the region its strategic importance, but the politics of oil still proves dangerous for all concerned to this day.

Impact of the 1973-1975 oil shock on the world economy:

- The growth rate fell to 2.1% in 1974 and to 1.4 in 1975.
- The impact on worldwide trade also was tremendous: after a growth rate of 12% in 1973, growth was negative in the following two years -5.4% and -7.3% in 1975.
- Another factor which has changed significantly was the flow of Foreign Direct Investment. While the annual Foreign Direct Investment Growth reached 40% in 1973 the rate fell by half in 1974.
- The oil shock of 1973-1974 had had a big effect on the US economy; however its GDP growth fell from more than 5.7% in 1973 to -0.5% and -0.19% in 1974 and 1975.
- Another factor which was significantly affected by this oil shock is inflation, which was more than tripled from 1972 to 1974, from 3.3% to 11.1%.
- These changes also impacted upon the unemployment rate, which rose from 4.9% in 1973 to approximately 8.5% in 1975.

The Second Oil Shock (1979 – 1980)

The second oil crisis in the world occurred in the wake of the Iranian Islamic Revolution in 1979. Amid massive protests, the Shah of Iran, Mohammad Reza Pahlavi, fled his country in early 1979 and the Ayatollah Khomeini—Religious leader soon became the new leader of Iran. Massive demonstrations severely disrupted the Iranian energy sector, with production being greatly curtailed and exports suspended. When exports of the oil resources were later resumed under the new regime, they were inconsistent and at a lower volume, and this factor has effected on the situation around the international oil market and pushed prices up. Several OPEC member states increased production to offset the decline, and the overall loss in production was about 4 percent. However, a widespread panic influenced on the functioning the international stock exchanges, driving the price far higher than would be expected under normal situation.

These events were reflected on the economy and U.S. policy. American officials expressed in Richard Nixon’s administration decision to impose price controls on domestic oil, which had helped cause shortages that led to gasoline lines during the 1973 Oil Crisis. Gasoline controls were repealed, but controls on domestic US oil remained. The Jimmy Carter administration began a phased deregulation of oil prices on April 5, 1979, when the average price of crude oil was US$15.85 per barrel (42 US gallons). Over the next one year period the price of crude oil rose to $39.50 per barrel. (Licklider, 1988). Deregulating domestic oil price controls allowed domestic U.S. oil output to rise sharply from the large Prudhoe Bay fields, while oil imports fell sharply. Hence, long lines of vehicles appeared at gas stations, as they had six years earlier during the 1973 oil crisis.

Many people - U.S. officials believed that this situation had been created artificially by the Government to raise petrol prices. Some groups of politicians proposed to set the gas rationing program one such proponent was Harry Hughes, Governor of Maryland, who proposed odd-even rationing as was used during the 1973 Oil Crisis. Several states actually implemented this program. Coupons for gasoline rationing were printed but were never actually used during the 1979 crisis.

On July 15, 1979, President Jimmy Carter presented his plans before the society to reduce oil imports and improve energy efficiency in his “Crisis of Confidence” speech.

Carter’s speech argued the second oil crisis was “the moral equivalent of war”. Several months later, in January 1980, Carter adopted the Carter Doctrine, which declared that any external interference with U.S. oil interests in the Persian Gulf would be considered an attack on the vital national interests of the United States. Additionally, as part of his administration’s efforts at deregulation, Carter proposed removing price controls that had been imposed in the administration of Richard Nixon before the 1973 crisis. Carter agreed to remove price controls in phases; they were finally dismantled in 1981 under Reagan. He also said he would impose a windfall profit tax on oil companies. While the regulated price of domestic oil was kept to $6 a barrel, the world market price was $30.

In 1980, the U.S. Government established the Synthetic Fuels Corporation to produce an alternative to imported...
fossil fuels. Here is a base dates of 1979 oil crisis:

- **January**: First emergency Crude Oil Buy-Sell Program allocations.
- **January 16**: Shah leaves Iran on vacation, never to return. Bakhtiar government established by the Shah to preside until unrest subsides.
- **January 20**: Saudi Arabia announces drastic cut in first-quarter production. 9.5 MMBD ceiling imposed. Although actual cuts never reach announced levels, spot prices of Middle East light crudes rise 36 percent.
- **January 20**: One million Iranians march in Tehran in a show of support for the exiled Ayatollah Khomeini, fundamental Muslim leader.
- **February 12**: Bakhtiar resigns as prime minister of Iran after losing support of the military.
- **March 5**: Iran resumes petroleum exports.
- **Spring**: Gasoline shortage/world oil glut.
- **March 26**: OPEC makes full 14.5 percent price increase for 1979 effective on April 1. Marker crude rose to $14.56 per barrel.
- **May**: United States Department of Energy (DOE) announces $5 per barrel entitlement to importers of heating oil. Saudi Arabia announces intention to increase direct sales and to sell less through Aramco. Both announcements send prices higher.
- **June 1**: Phased oil price decontrol begins. Involves gradual 28 month increase of “old” oil price ceilings, and slower rate of increase of “new” oil price ceilings.
- **June 26-28**: OPEC raises prices average of 15 percent, effective July 1.
- **October**: Buy-Sell Program sales average more than 400,000 B/D from October 1979 through March 1980 - highest level since February 1976, due to emergency allocations.
- **October**: Canada eliminates light crude oil exports to U.S. refiners, except for those exports required by operational constraints of pipelines.
- **November 4**: Iran takes western hostages.
- **November 12**: U.S. President Jimmy Carter orders cessation of Iranian imports to U.S.
- **November 15**: Iran cancels all contracts with U.S. oil companies.
- **December 13**: Saudi Arabia raises marker crude price to $24 per barrel. (Tedoradze “OPEC in the World oil market”, 2011).

This crisis has an impact on the world economy which was emphasized in:

1. Worldwide economy growth slightly decreased from 4.7% in 1978 to 4% in 1979 to reach 0.8% in 1982.
2. Greater fluctuation in the international trade, from 5.2% to -3.1% in 1982.
3. US GDP growth fell by 0.23% in 1980 and unemployment in the US rose from 5.8% in 1979 to 7.6% in 1981 and 9.7% in 1982. Also US inflation rose from 7.6% in 1978 to 13.5% in 1980. (Tedoradze “OPEC in the World oil market”, 2011).

**The Collapse of Oil Prices in the 1980s and the Low Prices of the 1990s**

In the early 80-ies of the last century prices for oil continued to grow by inertia to a large extent. This was due to currency factors: pricing is in U.S. dollars and the rate of dollar against other currencies have increased by about 50%, which in its turn have influenced on the purchasing power of selling oil for dollars against European or Japanese export goods. But by 1983-84 the market began to dominate the hidden factors weaken OPEC.

The oil glut began in the early 1980s as a result of slowed economic activity in industrial countries and the energy conservation spurred by high fuel prices (U.S. News & World Report, 1980-08-18).

In June 1981, The New York Times stated an “Oil glut! ... is here” (Robert D Hershey, 1981-06-21) and Time Magazine stated: “the world temporarily floats in a glut of oil,” (Byron, 1981-06-22) though the next week an article in The New York Times warned that the word “glut” was misleading, and that in reality, while temporary surpluses had brought down prices somewhat, prices were still well above pre-energy crisis levels. (Yergin, 1981-06-28). This sentiment was echoed in November 1981, when the CEO of Exxon Corp also characterized the glut as a temporary surplus, and that the word “glut” was an example of “our American penchant for exaggerated language.” He wrote that the main cause of the glut was declining consumption. In the United States, Europe and Japan, oil consumption had fallen 13% from 1979 to 1981, due to “in part, in reaction to the very large increases in oil prices by the Organization of Petroleum Exporting Countries and other oil exporters,” continuing a trend begun during the 1973 price increases. (C. C. Garvin, 1981)

After 1980, reduced demand and overproduction produced a glut on the world market, causing a six-year-long decline in oil prices culminating with a 46 percent price drop in 1986.

**OPEC and the 2000-th Uprising Price Trend for Oil**

From the mid-1980s to September 2003, the inflation-adjusted price of a barrel of crude oil on NYMEX was generally under $25/barrel. During 2003, the price rose above $30, reached $60 by August 11, 2005, and peaked at $147.30 in July 2008. Commentators attributed these price increases to many factors, including reports from the United States Department of Energy and others showing a
decline in petroleum reserves, (“Record oil price sets the scene for $200 next year”, 2006) worries over peak oil, (EnergyBulletin.net), Middle East tension, and oil price speculation.

For a time, geo-political events and natural disasters indirectly related to the global oil market had strong short-term effects on oil prices, such as North Korean missile tests, the 2006 conflict between Israel and Lebanon, (BBC News, 2008) worries over Iranian nuclear program in 2006, (BBC News, 2006), Hurricane Katrina, (CRS Report for Congress) and various other factors. By 2008, such pressures appeared to have an insignificant impact on oil prices given the onset of the global recession. (Sky News, 2008). The recession caused demand for energy to shrink in late 2008 and early 2009 and the price plunged as well. However, it surged back in May 2009, bringing it back to November 2008 levels. (Lammers, 2009).


High oil prices and economic weakness contributed to a demand contraction in 2007-2008. In the United States, gasoline consumption declined by 0.4% in 2007, then fell by 0.5% in the first two months of 2008 alone. Record-setting oil prices in the first half of 2008 and economic weakness in the second half of the year prompted a 1.2 million bbl/day contraction in US consumption of petroleum products, representing 5.5% of total US consumption, the largest decline since 1980 at the climax of the 1979 energy crisis. (“Short-Term Energy Outlook”, 2009).

According to informed observers, OPEC, meeting in early December, 2007, seemed to desire a high but stable price that would deliver substantial needed income to the oil producing states, but avoid prices so high that they would negatively impact the economies of the oil consuming nations. A range of 70–80 dollars a barrel was suggested by some analysts to be OPEC’s goal. (Mouawad, 2007).

Some analysts point out that major oil exporting countries are rapidly developing; and because they are using more oil domestically, less oil may be available on the international market. This effect, outlined in the export land economic model, could significantly reduce the oil available for trade and cause prices to continue to rise. Particularly significant are Indonesia (which is now a net importer of oil), Mexico and Iran (where demand is projected to exceed production in about 5 years), and Russia (whose domestic petroleum demand is growing rapidly) (Krauss, 2007).

In May 2008, T. Boone Pickens, an influential oil investor who believes the world’s oil output is about to peak, predicted oil prices would hit $150 a barrel by the end of the year. “Eighty-five million barrels of oil a day is all the world can produce, and the demand is 87 m,” Mr. Pickens said in an interview with CNBC. “It’s just that simple.” (Pickens: Oil Going to $150, So Move to Gas).

In June 2008, Alexei Miller, head of Russian energy giant Gazprom, warned that the price of oil is likely to hit $250 a barrel sometime in 2009. Miller said that while speculation had played a role in oil prices, “this influence was not decisive.” Bloomberg reported that, as of mid-June, “At least 3,008 options contracts have been purchased giving holders the right to buy oil at $250 a barrel in December”. (“Gazprom CEO’s $250 Oil Forecast Is Doom Traders Love”, 2008).

Also in June 2008, Shukri Ghanem, head of Libya’s National Oil Corporation, said: “I think it [the oil price] will go higher. That is a trend that will continue for some time. The easy, cheap oil is over, peak oil is looming.” (Domestic energy bills expected to soar as cost of oil keeps increasing).

On June 26, 2008, OPEC President Chakib Khelil said in an interview: “I forecast prices probably between $150-170 during this summer. That will perhaps ease towards the end of the year.” Iran’s OPEC governor Mohammad-Ali Khadibi predicts that the price of oil would reach $150 a barrel by the end of this summer.

In November, as prices fell below $60 a barrel, the International Energy Agency (IEA) warned that falling prices may create both a lack of investment in new sources of oil and a fall in production of more expensive unconventional reserves such as the tar sands of Canada. The IEA’s chief economist warned, “Oil supplies in the future will come more and more from smaller and more difficult fields,” meaning that future production requires more investment every year. A lack of new investment in such projects, which had already been observed, could eventually cause new and more severe supply issues than had been experienced in the early 2000s according to the IEA. Because the sharpest production declines had been seen in developed countries, the IEA warned that the greatest growth in production was expected to come from smaller projects in OPEC states, raising their world production share from 44% in 2008 to a projected 51% in 2030. The IEA also pointed out that demand from the developed world may have also peaked, so that future demand growth was likely to come from developing nations such as China, contributing 43%, and India and the Middle East, each about 20%). (Carola Hoyos, 2008).

Timothy Kailing argued against the IEA’s earlier predictions in a 2008 Journal of Energy Security research. He pointed out the difficulty of increasing production even with vastly increased investment in exploration and pro-
duction in mature petroleum regions. By looking back at the historical response of production to variation in drilling effort, this analysis claimed that very little increase of production could be attributed to increased drilling. This was due to a tight the quantitative relationship of diminishing returns with increasing drilling effort: as drilling effort increased, the energy obtained per active drill rig was reduced according to a severely diminishing power law. This fact means that even an enormous increase of drilling effort is unlikely to lead to significantly increased oil and gas production in a mature petroleum region like the United States. (D., December, 2008).

In its 2008 World Energy Outlook, the (IEA) predicted a rate of decline in output from the world’s existing oil-fields of 6.7% a year. (George Monbiot asks Fatih Birol, chief economist of IEA, when will the oil run out?).

Within the context of this paper it might be interesting to bring the Hubbert’s “peak theory” predicted in 1956 that oil production would peak in the United States between 1965 and 1970. (Hubbert M., March 7-8-9, 1956). Hubbert further predicted a worldwide peak at “about half a century” from publication and approximately 12 gigabars (GB) a year in magnitude, though he revised this estimate in 1974 to 40-Gb/yr in 1995. (National Geographic, 1974) “if current trends continue”. In a 1976 TV interview Hubbert added that the actions of OPEC might flatten the global production curve but this would only delay the peak for perhaps 10 years.

Commodities trader Raymond Learsty, author of Over a Barrel: Breaking the Middle East Oil Cartel, contends that OPEC has trained consumers to assume that oil is a much more finite resource than it is believed. To back his argument, he points to past false alarms and apparent collusion. (National Review, 2003). He also believes that Peak Oil analysts are conspiring with OPEC and the oil companies to create a “fabricated drama of peak oil” in order to drive up oil prices and profits. It is worth noting oil had risen to a little over $30/barrel at that time. A counter-argument was given in the Huffington Post after he and Steve Andrews, co-founder of ASPO, debated on CNBC in June 2007. (Huffington Post, 2007).

In October 2007, with oil prices in the United States over $90 per barrel, the Energy Watch Group, a German research group founded by MP Hans-Josef Fell, released a report claiming that oil production peaked in 2006 and will decline by several percent annually. The authors predict negative economic effects and social unrest as a result. (Seager, 2007).

Some have argued that it will be difficult to see peak oil coming because many international actors including governments, oil producers, and other corporations have some incentives to create uncertainty regarding the amount of oil reserves that remain. This uncertainty can create inaccuracies in market prices because the markets depend on accurate and timely information. These authors suggest increased transparency of oil production in the oil producing states. (The Register-Guard, 2008).

International Financial Crises (2008 – 2010) and OPEC

Early in September 2008, prices had fallen to $110. OPEC secretary Abdalla El-Badri said that he intended to cut output by about 500,000 barrels a day, which he saw as correcting a “huge oversupply” due to declining economies and a stronger U.S. dollar. On September 10, the International Energy Agency (IEA) lowered its 2009 demand forecast by 140,000 barrels to 87.6 million barrels a day. (Kwiatkowski, September 10, 2008)

As many countries throughout the world entered economic recession in the third quarter of 2008, prices continued to slide. In November and December global demand growth fell, and U.S. demand fell 10% overall from early October to early November 2008 (accompanying a significant drop in auto sales).

In their December meeting, OPEC planned to reduce their production by 2.2 million barrels per day, though they admitted their resolution to reduce production in October had only an 85% compliance rate.

Petroleum prices had fallen to below $35 in February 2009, but on May 6, 2009 had risen back to mid-November 2008 levels at about $56. During the next years, oil price was continuing to increase. For example, the average price of oil in January of 2012 was on average about $100 per barrel. (Oil.com, 2012). The global economic downturn left oil storage facilities fuller than in any year since 1990, when Iraq’s invasion of Kuwait upset the market.

Not all non-’peakists’ believe there will be endless abundance of oil. Cambridge Energy Research Associates, for example, which counts unconventional sources in reserves while discounting EROEI, believes that global production will eventually follow an “undulating plateau” for one or more decades before declining slowly. In 2005 the group had predicted that “petroleum supplies will be expanding faster than demand over the next five years.” (Christian Science Monitor, 2005).

According to Chevron Chief Technology Officer Don Paul, it is widely believed that peak oil will happen “by 2020”. (Greentech Media, 2007).

Conclusion

From the above-mentioned the following conclusions can be drawn:

As studies revealed, Cartel is the most appropriate word to OPEC but it has an individual character. The clas-
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The classical model of cartel is not working with OPEC because the theory is oriented and developed in case of Firm Cartel.

If the wishes and aspirations of countries not OPEC members to unite they would oppose OPEC on the world market successfully but this is prevented by political factors, those countries don’t have same ideology and goals.

Production quotas are one possible response. If demand grows, or some producers supply less oil, OPEC can increase its oil production to prevent a sudden growing the prices or short fall in supply. OPEC might also reduce its oil production in response to market conditions, as a means of countering falling prices.

OPEC doesn’t have specific regulations of voting and allocation process. Neither OPEC statute nor other standing orders contain the description of this issue. That’s why we have to summarize the OPEC’s final meeting report. It seems from given examples that OPEC uses the simple majority system. It will be extremely simple to explain only with this words the system of voting if we go through the issue deeper it will be found out that this is very complicated and inexhaustible.

While in taking decision OPEC based on two backwards:

- On the one hand maximization goal of profit and
- Other hand interests of each member countries

It’s too complicated to reach balance between of these two sides. Saudi Arabia as a core producer and exporter which has main role takes the responsibility for itself.

Absence of voting rules and problems connected with it clearly revealed in OPEC’s quota system decision, where OPEC prefers to “close eye” to the cheating in order to avoid the official precedent of quoting changes. The cases of Nigeria and Iraq happen only once because these countries have their own political and economical problems.

1. Ecuador suspended its Membership in December 1992 and reactivated it in December 2007. Gabon, which became a Full Member in 1975, terminated its Membership with effect from 1 January 1995. Indonesia, which became a Full Member in 1962, suspended its Membership in December 2008.
2. The gallon is a measure of volume equal In (≈ 3.78 L)
3. The conclusions are based on IMF statistical annual publications.
4. Only people with an odd-numbered license plate could purchase gas on an odd-numbered day
5. Pennsylvania, New Jersey, and Texas
6. OPEC governor: Oil to hit $150, Press TV
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