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ROLE OF ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC)

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ABSTRACT

OPEC is an intergovernmental organization of Petroleum exporting countries created at Baghdad conference on September 1960. It was founded by five member nations i.e. Venezuela, Saudi Arabia, Kuwait, Iran and Iraq. There were some other members who join this organization as Qatar (1961), Libya (1962), UAE (1967), Algeria (1969), Nigeria (1971), Ecuador (1973) etc. OPEC was formed to control and regulate the oil market of member countries. OPEC makes and implements the policies to co-ordinate and unifies the petroleum policies of member nations.This organization is working in two ways: as the regular supply of oil to consuming economies and getting return on investment of member nations. According to recent data, OPEC member countries have 81.5% of the world's proven crude oil. They have made important additions to their reserve of crude oil by contribution and adopting best practices in this industry. It is estimated that OPEC's proven oil reserves currently stands at more than 1200 billion barrels.

I.INTRODUCTION

There is probably not another commodity more essential to our modern, industrialized and technologically advanced society than petroleum—oil. Unfortunately, it's a rather scarce nonrenewable resource. This makes it a source of great power and potential conflict, as those states that are fortunate enough to possess oil reserves know. In fact, some oil producing states have teamed up by forming the **Organization of Petroleum Exporting Countries**, commonly referred to as OPEC. OPEC is a 12-member-state intergovernmental organization of petroleum oil producing states that is currently headquartered in Vienna, Austria. Its members consist of states in Africa, the Middle East, Southeast Asia and South America.

OPEC is considered a cartel. A **cartel** is an organization of producers of goods or services that collectively agree to regulate their respective output in an attempt to control the price of the good or service. Reducing the supply of oil, for example, tends to increase its price, while increasing the supply will tend to reduce its price.

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III.REVIEW OF LITERATURE

Rasool, Shahid (2013) in the study entitled, "Crisis and conflict in OPEC in the nineteen eighties" analyzed that the oil wells became cost effective all over the globe once the prices touched the figure of $ 39/b. No wonder that by the beginning of the eighties, the non-OPEC supply became critical enough to defy the oil prices determined by OPEC. It is pointed out that "During six years (1979-85) of very high prices OPEC was forced to shut in almost 10 mb/d of production market of OPEC was being eaten away at the rate of 2.5 mb/d in each year. That trend if continued, the price might still have been $28-29 /b but OPEC's revenue would have been much reduced since output would have dwindled". 2 OPEC lost c~ntrol over prices and its share as well. Its share in production share came down to 30 %· from SO%, and ~xport share from 60 % to SO %. OPEC thus in the eighties had to face a different market, a market where oil was flowing outside the OPEC channel, where technological innovations had brought some basic changes in the industry, where the leading consumer from the West had prepared a more

Gaskari, Rejhaneh (2015), in his study titles, "Export Instability and Growth of OPEC" reviewed that the instability of oil export value and the fall of oil price in world markets have considerable adverse effects on the economic and social conditions in oil exporting countries. In times when oil export revenue has increased, many of the oil exporting countries had an opportunity to spend more. Sometimes, this extra money in government spending resulted for higher inflation rate and reduced their growth. In many of these countries, rise of oil export revenue has not always been a blessing. Therefore, we have chosen this topic to find out whether the changes in demand for oil or its revenue, have a positive or negative effect on economic growth of oil exporting countries.

OBJECTIVE OF STUDY

- To study the conceptual framework regarding Organization of Petroleum Exporting Countries (OPEC) with its history and purpose.
- To Study the Policy framework of the OPEC.
- To study the year wise performance of OPEC Since 1960.
- To study the Role of OPEC in World Petrol Market as well as Relation with India.

GOALS OF OPEC

OPEC's first goal is to **keep prices stable**. It wants to make sure its members get what a good price for their oil. Since oil is a fairly uniform commodity, most consumers base their buying decisions on nothing other than price.

What's a good price? OPEC has traditionally said it was between $70 and $80 per barrel. At those prices, OPEC countries have enough oil to last 113 years. If prices drop below that target, OPEC members agree to restrict supply to push prices higher.

Without this agreement, individual oil-exporting countries would wind up increasing the supply to make more national revenue. By competing with each other, they would drive prices even lower. That would stimulate even more global demand. OPEC countries would run out of their most precious resource that much faster. Instead, OPEC members agree to produce only enough to keep the price high for all members.

When prices are higher than $80 a barrel, other countries have the incentive to drill more expensive oil fields. Sure enough, once oil prices got closer to $100 a barrel, it became cost effective for Canada to explore its shale oil fields. U.S. companies generally used to open up the Bakken oil fields for production.

PERFORMANCE OF OPEC SINCE 1960

The 1960s

OPEC's formation by five oil-producing developing countries in Baghdad in September 1960 occurred at a time of transition in the international economic and political landscape, with extensive decolonization and the birth of many new independent states in the developing world. The international oil market was dominated by the "Seven Sisters" multinational companies and was largely separate from that of the former Soviet Union (FSU) and other centrally planned economies (CPEs). OPEC developed its collective vision, set up its objectives and established its Secretariat, first in Geneva and then, in 1965, in Vienna. It adopted a 'Declaratory Statement of Petroleum Policy in Member Countries' in 1968, which emphasized the inalienable right of all countries to exercise permanent sovereignty over their natural resources in the interest of their national development. Membership grew to ten by 1969.

The 1970s

OPEC rose to international prominence during this decade, as its Member Countries took control of their domestic petroleum industries and acquired a major say in the pricing of crude oil on world markets. On two occasions, oil prices rose steeply in a volatile market, triggered by the Arab oil embargo in 1973 and the outbreak of the Iranian Revolution in 1979. OPEC broadened its mandate with the first Summit of Heads of State and Government in Algiers in 1975, which addressed the plight of the poorer nations and called for a new era of cooperation in international relations, in the interests of world economic development and stability. This led to the establishment of the OPEC Fund for International Development in 1976. Member Countries embarked on ambitious socio-economic development schemes. Membership grew to 13 by 1975.

The 1980s

After reaching record levels early in the decade, prices began to weaken, before crashing in 1986, responding to a big oil glut and consumer shift away from this hydrocarbon. OPEC's share of the smaller oil market fell heavily and its total petroleum revenue dropped below a third of earlier peaks, causing severe economic hardship for many Member Countries. Prices rallied in the final part of the decade, but to around half the levels of the early part, and OPEC's share of newly growing world output began to recover. This was supported by OPEC introducing a group production ceiling divided among Member Countries and a Reference Basket for pricing, as well as significant progress with OPEC/non-OPEC dialogue and cooperation, seen as essential for market stability and reasonable prices. Environmental issues emerged on the international energy agenda.

The 1990s

Prices moved less dramatically than in the 1970s and 1980s, and timely OPEC action reduced the market impact of Middle East hostilities in 1990–91. But excessive volatility and general price weakness dominated the decade, and the South-East Asian economic downturn and mild Northern Hemisphere winter of 1998–99 saw prices back at 1986 levels. However, a solid recovery followed in a more integrated oil market, which was adjusting to the post-Soviet world, greater regionalism, globalization, the communications revolution and other high-tech trends. Breakthroughs in producer-consumer dialogue matched continued advances in OPEC/non-OPEC relations. As the United Nations-sponsored climate change negotiations gathered momentum, after the Earth Summit of 1992, OPEC sought fairness, balance and realism in the treatment of oil supply. One country left OPEC, while another suspended its Membership.

The 2000s

An innovative OPEC oil price band mechanism helped strengthen and stabilize crude prices in the early years of the decade. But a combination of market forces, speculation and other factors transformed the situation in 2004, pushing up prices and increasing volatility in a well-supplied crude market. Oil was used increasingly as an asset class. Prices soared to record levels in mid-2008, before collapsing in the emerging global financial turmoil and economic recession. OPEC became prominent in supporting the oil sector, as part of global efforts to address the economic crisis. OPEC's second and third summits in Caracas and Riyadh in 2000 and 2007 established stable energy markets, sustainable development and the environment as three guiding themes, and it adopted a comprehensive long-term strategy in 2005. One country joined OPEC, another reactivated its Membership
anda third suspended it.

2010 Onwards

The global economy represented the main risk to the oil market early in the decade, as global macroeconomic uncertainties and heightened risks surrounding the international financial system weighed on economies. Escalating social unrest in many parts of the world affected both supply and demand throughout the first half of the decade, although the market remained relatively balanced. Prices were stable between 2011 and mid-2014, before a combination of speculation and oversupply caused them to fall in 2014. Trade patterns continued to shift, with demand growing further in Asian countries and generally shrinking in the OECD. The world's focus on multilateral environmental matters began to sharpen, with expectations for a new UN-led climate change agreement. OPEC continued to seek stability in the market, and looked to further enhance its dialogue and cooperation with consumers, and non-OPEC producers.

POLICY FRAMEWORK OF OPEC

Officially, OPEC's 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

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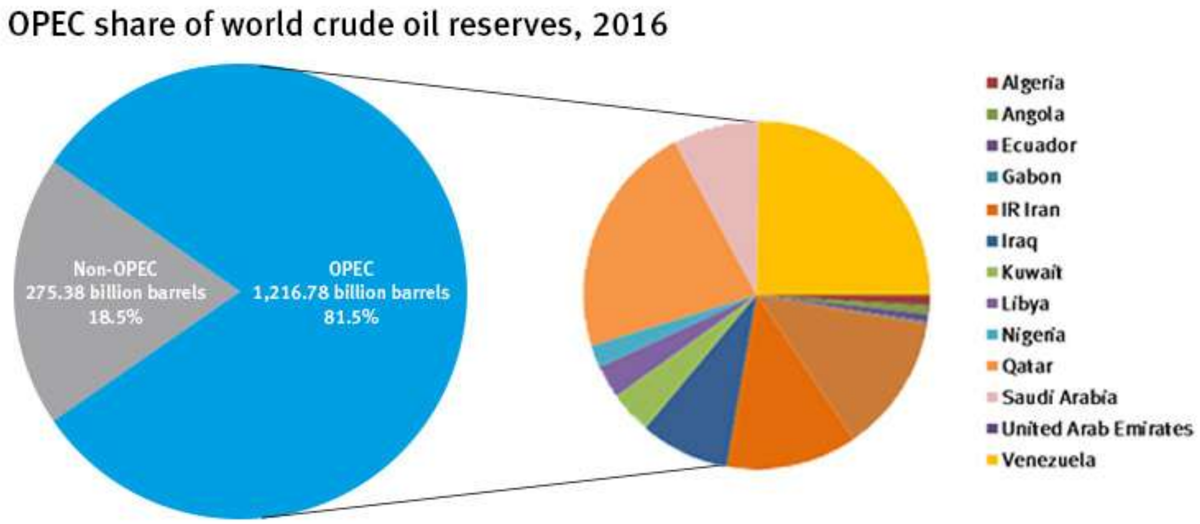
to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry."

OPEC's influence on the market has been widely criticized. Because its member countries hold the vast majority of crude oil reserves (about 80%) and nearly half of natural gas reserves in the world, the organization has considerable power in these markets. As a cartel, OPEC members have a strong incentive to keep oil prices as high as possible, while maintaining their shares of the global market.

The advent of new technology, especially frocking in the United States, has had a major effect on worldwide oil prices and has lessened OPEC's influence on the markets. As a result, worldwide oil production has increased and prices have dropped significantly, leaving OPEC in a delicate position. As late as June 2016, OPEC decided to maintain high production levels, and consequently low prices, in an attempt to push higher-cost producers out of the market and regain market share.

ROLE OF OPEC IN WORLD MARKET OF OIL



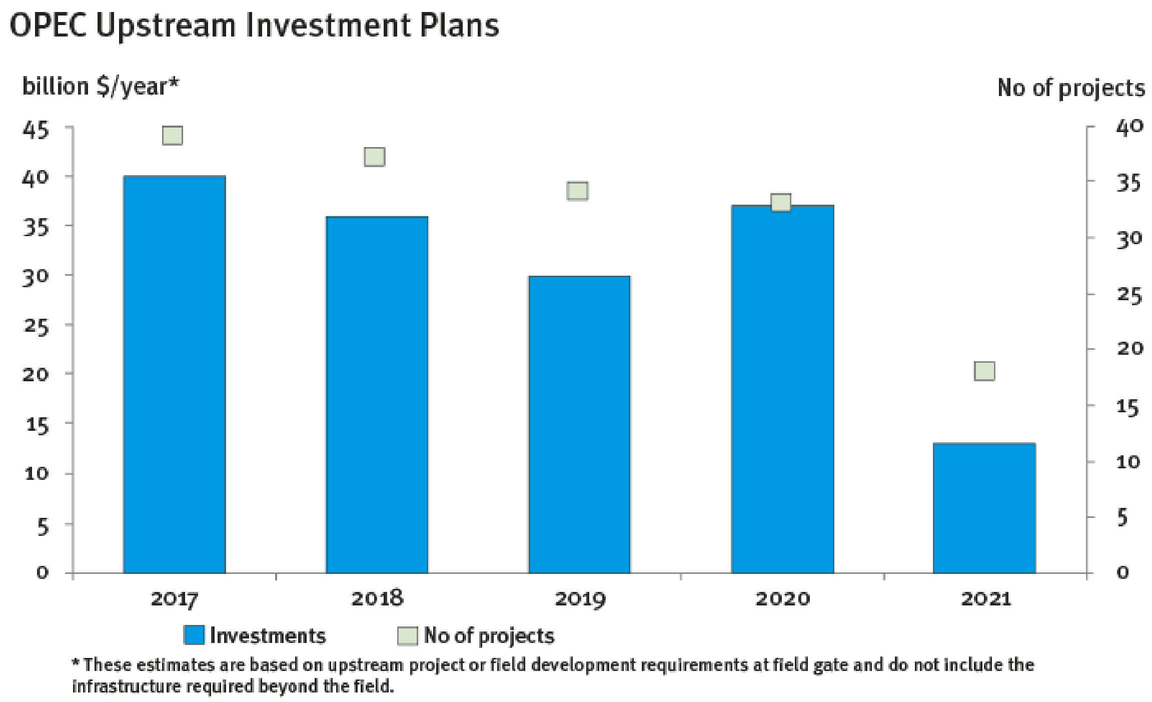
OPEC proven crude oil reserves , at end 2016 *(billion barrels, OPEC share)*

Venezuela	302.25	24.8%	Kuwait	101.50	8.3%	Qatar	25.24	2.1%	Gabon	2.00	0.2%
Saudi Arabia	266.21	21.9%	United Arab Emirates	97.80	8.0%	Algeria	12.20	1.0%			
IR Iran	157.20	12.9%	Libya	48.36	4.0%	Angola	9.52	0.8%			
Iraq	148.77	12.2%	Nigeria	37.45	3.1%	Ecuador	8.27	0.7%			

Source: OPEC Annual Statistical Bulletin 2017.

According to current estimates, more than 80% of the world's proven crude oil reserves are located in OPEC Member Countries, with the bulk of OPEC oil reserves in the Middle East, amounting to 65% of the OPEC total.

OPEC Member Countries have made significant additions to their oil reserves in recent years, for example, by adopting best practices in the industry, realizing intensive explorations and enhanced recoveries. As a result, OPEC's proven oil reserves currently stand at 1,213.43 billion barrels.



Regardless of all the challenges and uncertainties, OPEC Member Countries continue to invest in additional upstream capacities. On top of the huge capacity maintenance costs that Member Countries are faced with, they continue to invest in new projects and reinforce their commitment to the oil and gas market as well as to the security of supply for all consumers. Needless to say, this is only a reflection of OPEC’s well-known policy that is clearly stated in its Long-Term Strategy and its Statute. In the medium-term, about 160 projects, with an overall estimated cost of some $156 billion, are being undertaken by OPEC Member Countries.

OPEC AND ITS RELATION WITH INDIA

India imports three quarters of its annual oil and gas requirements, with the Middle East and North Africa regions contributing to a substantial chunk of it. India's import bills amount to $18 billion. India is now a huge importer of energy, and its dependence on imported energy will rise further in coming years. It is India’s Rs2 lakh crore problem and is called crude oil.

As Indian crude oil import is the part of bulk imports in the balance of payments (BoP), the fluctuations in international crude oil prices tends to fluctuate the domestic economy’s current account balance, foreign exchange reserves, inflation etc. Since international oil prices are controlled by OPEC, any price rise has its impact on Indian economy. In 1973, after first oil shock and in 1980 after the second oil shock Indian economy went into crisis.

According to Goldman Sachs report, a rise in global oil prices by $10 a barrel would reduce India's economic growth by 0.2 percentage points and also affect the country's current account deficit. Global oil prices have almost doubled in the past one year. In 2011, the political unrest in Libya, a major oil exporter and OPEC member, had disrupted supplies and pushed up crude prices further.

Rising crude oil prices will impact the inflation whether the government absorbs the burden or pass it to the consumer by increasing the prices of petroleum products. If the government acts as buffer between international prices and domestic prices by absorbing the extra cost, oil subsidy bill will rise and will affect fiscal deficit. The recent strengthening of crude oil prices could impact economic growth momentum.

Prices are fore-casted to rise due to global economic recovery (leading to increased oil demand), and slower growth in non-OPEC oil supply and continuous production restraint by members of OPEC. Despite environmental concerns and various conservation policies, the energy demand is bound to grow due to economic growth, expanding population and higher standards of living. Energy growth can be expected to grow by more than 40% by 2030.

As it is being believed that demand for oil is going to rise faster than its supply, the prices are unlikely to come down in future on a sustainable basis except for a few aberrations. In such a situation, in order to ensure sustainable growth for the country's economy, dependence on fossil fuel had to be reduced and alternate source of energy are needed to be developed. Yet, Fossil fuels, oil and natural gas will continue to meet most of the world's energy needs and thus OPEC having the maximum oil reserves will remain the leading player in the world oil scenario.

Meeting the demand of oil consumers, being mindful of the major global climate change challenges, as well as oil capacity investment needs, are likely to be the predominant issues facing this large organization going forward

IV.CONCLUSION

OPEC is a dominant cartel which affects the prices of crude oil in the whole world market. It still has major influences in determining the price per barrel of petroleum by setting quotas, but now days; other countries are also becoming the major sources of crude oil like Russia, United States and Canada etc. The world has benefited by these Non - OPEC producers, Countries are reducing the oil imports from these OPEC nations in recent years.

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