OPEC and Its Role in Regulating Price of Petroleum

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Abstract

The present paper offers a short history of the Organization of Petroleum Exporting Countries (OPEC) together with a brief account of its goals, operational structure, membership requirements and its role in regulating oil prices. Studying oil price developments and OPEC's role since its foundation shows that OPEC has reacted sensitively to oil price volatilities and attempted to stabilize oil prices. In fact, the organization has played an effective role through different crises.

Keywords: OPEC, Crude Oil Prices, Oil Market, Oil Companies, Energy policy

JEL Classification: D40, Q30, Q40

Introduction

Oil and oil revenues are considered a vital factor influencing economic behavior and developments of oil-rich and oil exporting nations. Today, more than 50% of the major oil producing countries, directly or indirectly, rely on oil revenues income and any fluctuation in oil prices is reflected in their economies.

The fact that crude oil has not been substituted by any form of

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energy throughout the 20th century is indicative of the importance of this energy carrier in terms of cost-effectiveness as well as preferable value-added index in contrast to other forms of energy. While mankind has made substantial progress in making use of alternative energy resources, oil is still at the focal point of the measures for creating value-added indexes and maximizing profit[1].

The history of oil industry shows that, in certain periods, major oil companies held monopoly on the industry, however, since the foundation of OPEC, oil exporting countries have managed to gain a partial control over the market.

The oil prices have long been the most pivotal issue in the industry. The main reason for creation of OPEC was the debates between oil exporters and oil companies over oil prices as well as the companies' unilateral measures to reduce oil prices. The truth is that establishment of the Organization of Petroleum Exporting Countries (OPEC) was a political and, in the meantime, anti-colonial reaction by the developing oil exporter countries against the policies and stratagems of the international oil companies.

Therefore, this research paper attempts to, firstly, review the short history of the organization and, secondly, introduce its members, operational units and vision of organization. The paper finally examines OPEC performance during different crises and its role in regulating oil prices.

Short History of OPEC

Generally, factors leading to the formation of OPEC fall into five categories:

1. Oil Companies

Before 1960, oil market was under the monopoly of seven major oil

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1. Enav, 2000

companies known as "The Seven Oil Sisters[1]": five American companies, an English company and an English-Dutch company. These Sisters had monopoly on almost all discovered oil reserves of the world at the global oil market was entirely dependent on their decisions[2].

The scope of the dominance of the Sisters was so vast and deep that in the 1950s, 90% of the production and sales of crude oil as well as oil products from outside of the United States and about half of the oil reserves inside the US were held under control of the Sisters[3]. These companies had control, on the one hand, over exploration and production of oil in oil-rich countries and, on the other hand, over refineries and distribution networks in other parts of the world. Consequently, they had all the exported oil of Iran, Iraq, Saudi Arabia, Kuwait and Venezuela equal to some 86% of the world's crude oil export then[4]. They also held licenses for oil production in other oil-rich countries like Indonesia, Qatar, Libya and the AUE. Not only did they ignore the exporters' rights to increase royalties, taxes, and oil revenues in general, but they also weakened the global oil market so badly that the Persian Gulf oil prices, which were considered a basis for calculating taxes and oil revenues levied by oil-rich countries, plummeted down to 18 cents in 1959 and eventually 10 cents in 1960.

2. Venezuela's oil-related activities

The Venezuelan government started a revolutionary movement against the Sisters by increasing oil taxes. In September1949, the country sent a delegation to Iran, Iraq, Saudi Arabia and Kuwait to prepare the grounds for cooperation and mutual advancements. In fact, Venezuela was the first country to step towards creating OPEC by starting negotiations with the mentioned countries.

1. Shell, Exxon, B.P, Gulf, Texaco, Mobil, Chevron
2. Al – Sowayegh, 1984
3. Mash'al, 2003
4. Hosseinian, 1991

3. Movements for nationalization of oil industry

The anti-colonialism movements which began in Mexico (1930s) and in Venezuela (1940s) found their way into the Middle East. Since the 1950s, the host countries began to feel sensitized to the political and economical supremacy of the international companies and realized that the credit pacts are pure colonial rights that the countries had offered the strangers. Therefore, the host countries began their campaign with the Seven Sisters and led to the emergence of agreements based of 50-50 profits[1].

Nationalization of Iranian oil industry in 1951 and consequently nationalization of Suez Canal by Egypt in 1956 disclosed the significance of oil supply for the westerners and Arab states learned about the capabilities of the oil weapon. Consequent attempts made by other oil-rich countries, namely Iraq in 1958, accelerated the trend.

4. Reduction of oil prices

In the 1950s, several American companies managed to gain a foothold in Venezuela and the Middle East. Emergence of the newcomers to the Middle East resulted in the rise of oil production in the region. With exports to Europe on the rise, oil price start sliding in the market. In 1959, international oil companies unilaterally reduced royalty by 18 cents/b and 25 cents/b in the Middle East and Venezuela respectively. In the meantime, new oil discoveries in the Middle East and Africa leading to oversupply of oil supply in 1960, enabled the Sisters to cut oil prices further[2].

5. Arab countries' insistence: Cooperation on creating an organization for protecting the interests

Subsequent to the reduction in oil prices followed by the decrease in

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1. Al atbie, 1997
2. Marques, 1985

the exporters' income, oil-rich Arab states invited Iranian and Venezuelan delegations to the first oil conference to draw up an oil policy. The conference was held in Cairo in 1959 and laid the foundations for the project of a permanent organization for unifying the policies of the oil-exporting countries. Saudi Arabia, Iraq and Kuwait supplied almost 40% of the world demand at that time. However, the amount hiked to 90% when Iran and Venezuela joined the club.

The Arab Union endeavors to hold sessions and conferences, to carry out studies and to establish the experts committees together with efforts by Iraqi government in the form of proposals to the Economic Council of the Arab Union in 1959 on unifying their oil policies and finally and establishment of the Arab Oil Congress can be seen as some of the initial steps towards the emergence of OPEC. On the pretext of the $93bn loss allegedly imposed by the Sisters on oil exporting countries through dumping oil prices in August 1960, Iraq invited delegations from Iran, Saudi Arabia, Venezuela and Kuwait to a summit.

The Baghdad Conference was a four day summit (10-14 September 1960) where the grounds were paved for the creation of a permanent petroleum organization (OPEC). At birth, the organization accounted for 67% of the world's oil reserves and 38% of the global oil production[1].

Organization's ultimate goals

1. Unification and coordination of the petroleum policies of the member states and determining the best means for safeguarding their interests, individually and collectively.

2. Devising ways and means on ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations.

1. OPEC website

3. Giving due regard at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries; and efficient, economic and regular supply of petroleum to consuming nations; and a fair return on their capital to those investing in the petroleum industry.

Operational structure of the organization

OPEC is composed of four main parts: the Conference, the Board of Governors, the Secretariat and the Economic Commission.

1. OPEC Conference

OPEC Conference (the organization's highest reference) is made up of delegations representing the member states. The delegations are headed by the Petroleum, Mines and Energy ministers of the member states. OPEC has two meetings every year (in the middle and end of the year), however, it may, when necessary, call for emergency meetings. Public strategies, appropriate means of accomplishing the goals, new membership applications and the reports prepared by the Board of Governors are discussed in the meetings.

2. The Board of Governors

Managers and undersecretaries of the ministries of the member states represent the Board of Governors. The Board of Governors are composed by the Member Countries and confirmed by the for a period of two years. The Board of Governors shall meet no les than twice each year, at suitable intervals to be determined by the Chairman of the Board, after consultation with the Secretary General. The Board of Governors shall:

- direct the management of the affairs of the Organization and the implementation of the decisions of the Conference;
- consider and decide upon any reports submitted by the Secretary General;
- submit reports and make recommendations to the

Conference on the affairs of the Organization;4. draw up the Budget of the Organization for each calendar year and submit it to the Conference for approval;

- nominate the Auditor of the Organization for a duration of one year;
- consider the Statement of Accounts and the Auditor's Report and submit them to the Conference for approval;
- approve the appointment of Directors of Divisions and Heads of Departments, upon nomination by Member Countries, due consideration being given to the recommendations of the Secretary General;
- convene an Extraordinary Meeting of the Conference; and
- prepare the Agenda for the Conference.

3. Secretariat

The Secretariat shall carry out the executive functions of the Organization in accordance with the provisions of this Statute under the direction of the Board of Governors. The OPEC secretariat is composed of the following:

3-1. Secretary General

The Secretary General shall be the chief officer of the Secretariat, and in that capacity shall have the authority to direct the affairs of the Organization, in accordance with directions of the Board of Governors. The Conference shall appoint the Secretary General for a period of three years, which term of office may be renewed once for the same period of time. This appointment shall take place upon nomination by Member Countries and after a comparative study of the nominees' qualifications [1].

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1. There is no specification of the choice in OPEC statute.

3-2. The Secretariat

The Secretariat carries out the executive functions of the Organization in accordance with the provisions of the OPEC Statute and under the direction of the Board of Governors. The Secretariat of the organization shall consist of the Secretary General and such Staff as may be required.

3-3. Division of Research and Study

The member countries of the Organization are also members of this division. In its meetings the needs of the organization and the member stated are discussed with putting emphasis on oil and related matters. The Division is composed of three subdivisions: Energy Studies, Oil market and Statistical Service divisions.

3-4. The Administration and Human Resource Department

It shall be responsible for:

- The provision of administrative services for all meetings, personal matters and budgets.
- Study and review general administrative policies and industrial relations methods used in the oil industry in Member and other countries, and advise Member Countries of any possible improvements

3-5. The Public Relations and Information Department

The department shall be responsible for presenting OPEC objectives, decisions and actions in their true and most desirable perspective; OPEC News Agency with more than 3000 news agencies, magazines, radio and TV stations disseminates news of general interest regarding the Organization and the Member Countries on energy and related matters; and its journals are placed in more than 80 different parts of the world.

4. The Economic Commission Board (ECB)

Based on its activities, the ECB is a specialized body that operates within the framework of the Secretariat. In 1964, ECB was established to examine oil price developments and supervise production and export of the member countries. Its performance relies on the Secretariat research results and analytic bases. ECB is responsible for reviewing of all analytic affairs of the organization before each conference. The Board is also responsible for conducting conference decisions, setting budgets for every year, introducing an auditor and admission of the managers of different units[1].

Membership

Members are of three types with reference to OPEC statute; founder members, new members and Associate members.

1. Founder Members of the Organization are those countries which were represented at the First Conference, held in Baghdad, and which signed the original agreement of the establishment of the Organization.

2. New members: Any other country with a substantial net export of crude petroleum, which has fundamentally similar interests to those of Member Countries, may become a Full Member of the Organization, if accepted by a majority of three-fourths of Full Members, including the concurrent vote of all Founder Members. Qatar, Libya and Indonesia are considered new members

3. Associate members: A net petroleum-exporting country may be admitted as an Associate Member by the Conference under such special conditions as may be prescribed by the Conference, if accepted by a majority of three-fourths, including the concurrent vote of all Founder Members.

As it is noted above, Iran, Iraq, Kuwait, Saudi Arabia and Venezuela are the founder members of the Organization. Ecuador in December 1992 and Gabon in January 1995 terminated their

1. OPEC website

Founder Members Year of accession Location

Country	Date of Accession	Region
IR Iran	1960	Middle East
Iraq	1960	Middle East
Kuwait	1960	Middle East
Saudi Arabia	1960	Middle East
Venezuela	1960	Middle East
Full Members		
Algeria	1969	Africa
Angola	2007	Africa
Indonesia	1962	Africa
Libya	1962	Africa
Nigeria	1971	Africa
Qatar	1961	Middle East
United Arab Emirates	1967	Middle East
Gabon 1975	1975	Africa

membership. However, Ecuador is planning to renew its membership in now and the country's Energy Minster is optimistic to join OPEC in the second quarter of 2007. Iraq's production has not been included in OPEC production reports since 1998, although the country is still considered a full member of the Organization.

Saudi Arabia with the daily production of 261.5 billion barrels is the biggest oil producer and exporter in the world. Following Saudi Arabia lie Iran, Iraq, the United Arab Emirates and Kuwait.

OPEC Performance in the 1960s

OPEC came into existence when the ownership of oil reserves as well as the upstream and downstream of the industry was totally controlled by the Seven Sisters. International associations were counting down the collapse of the newborn Organization. This was never materialized, rather the Organization managed to have a word in the international arena. In addition, OPEC let the small producers join in to improve its bargaining position against the Sisters. Consequently, at the end of the 1960s, Qatar, Indonesia, Libya, the UAE and Algeria

joined the Organization and the number of the member states reached 10, two times the first five members, helping the Organization gain necessary leverage to influence oil pricing in the global markets.
In the period of 1960-1970, the organization achieved goals as follows:

- Inclusion of royalty in total costs calculations
- Reduction of marketing costs of oil companies
- Participation of the member states in the licenses awarded to the Sisters

Oil price regulation in 1973
Since crude oil is sold in dollars, any fluctuation in dollar exchange rate will influence OPEC decisions regarding oil production and price. When dollar depreciates against other currencies, oil income of OPEC members will drop resulting in their decreased purchase power.

Following depreciation of dollar against other dominant currencies and the US government declaration of dollar as a floating currency, oil revenues of oil exporting countries fell in 1971. This encouraged the countries to hike oil prices up by 8.4% through an agreement signed in Geneva in 1972. However, with the consecutive depreciations of dollar in the same year, OPEC's analysis revealed that the Geneva agreement was not efficient enough to compensate for the losses resulted from dollar depreciation. Therefore, it was decided in a secondary agreement in Geneva that the prices should be raised further by 11.9%.

Under such circumstances, in a conference held in Kuwait in 1973, OPEC member states decided to make a 70% increase in oil prices and put it up to $5.12 per barrel.

The out break of war between Egypt and Israel, just a month after the rise in oil prices, led to the oil embargo imposed on the US and other supporters of Israel (except for Iraq). This resulted in a withdrawal of 4.5mb/d from the global oil markets, culminating in an unprecedented concern among industrial countries about oil supply and as a result oil prices hit a historical record. This trend continued for five consecutive months form October 17, 1973 to March 18, 1974. In this period, price of oil for each barrel reached $12.35, so the first oil Shock was marked.

The first oil shock, on the one hand, increased oil revenues of oil-rich countries from $23bn to $95bn in 1974 and, on the other hand, helped the US achieve its goals since the surge in oil prices ousted the rivals, namely Japan and Germany with no considerable oil reserves at hand from the international oil markets. The shock also led to ascending trend of exports from the United States to the countries of the region. Increased purchase power intensified the import of food and other consuming goods to the oil-rich countries. Consequently, oil exporting countries became increasingly reliant on the imports of foreign goods.

Mismanagement together with a heavy reliance on the industrial countries gave rise to the return of a large portion of oil revenues to the foreign countries, particularly Britain and the United States, while the revenue could play an important role in the development of the oil exporting countries. In return, the industrial countries, particularly the United States, gained a lot of benefits by overcharging their customers and, to a great extent, managed to compensate for their loss caused by oil price surges.

Following the first oil crisis, OPEC, in an attempt to develop a policy to guarantee annual rises of oil prices with the aim of maintaining real term oil prices, introduced gradual increases in oil prices in 1975 and decided to increase oil prices by 10% on an annual basis. The policy proved to be effective and oil prices were acceptably hiked up[1].

Oil price regulation in 1979

In the conclusion of 1978 and the beginning of 1979, following Iran's

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1. Barrel and Knut, 1996

political developments and extensive strikes in the industry to support the revolution, Iran's oil export of 5 million b/d[1] to the international markets was halted and the stage was set for the second oil shock.

The psychological pressure resulted from such tense atmosphere made the oil companies and oil consuming countries build up oil inventories so that they imposed an excess production of 3 million b/d on OPEC state members. Since the futures market was unable to meet the needs of the consumers, highly industrialized countries found no way but to appeal to spot markets where oil was able to be traded immediately and in cash. Consequently, spot markets become responsible for more than 30% of the global oil trade[2]. As a result an increasing gap between the OPEC official prices, as a basis for oil trade in official markets, and prices in free markets was created.

The second oil shock of 1979 gave rise to a hike of oil prices from $15.12 to around $30 for each barrel in spot markets and to $45 per barrel in the free market. Under current conditions, OPEC set its prices on basis of the prices in free markets and called on the member states to charge their customers a price differential while maintaining OPEC official prices. However, in numerous conferences held on oil prices, the base price of $18 per barrel of oil was approved while the members were allowed to charge higher prices proportionate to the market conditions, proviso that the prices do not exceed $23.5 bbl.

Thus, average price of OPEC crude oil in 1980 rose by 65% compared with the previous year. Generally due to unique political and economic developments happened in 1970's, OPEC member states succeeded to put an end to the policies pursued by the industrialized countries to obtain cheap oil.

The significant drop of oil prices in 1986

With the outbreak of war between Iran and Iraq (with the second and

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1. Mir Jalili, 1993
2. Under normal conditions, the percentage is only 5% in such markets

the third biggest oil reserves respectively) in 1980, the global market encountered new changes and the lingering anxiety over disruptions in oil supplies caused another rise of oil prices. However, this surge of prices did not last more than two months because some other OPEC member states, especially Saudi Arabia, decided to compensate for the shortage oil supply in the market through producing at full flange. Moreover, adopting policies and measures by the International Energy Agency (IEA) obliging all its member states to initially hold strategic oil stocks equivalent to 3 months of their prior year's net imports, imposing limitations on oil consumption in the consumer countries, replacing oil with natural gas, coal, etc., expanding exploration operations beyond OPEC regions led to the decrease of industrial countries' reliance on OPEC oil. Also, with the entrance of non-OPEC oil producers like Norway into the market and the excess production capacity maintained by OPEC members an extra pressure was put on oil prices and pulled them down in the official markets.

To change the imposed critical conditions in the market, OPEC introduced a price ceiling as well as a quota system for the members, aiming at stopping the price reduction. In 1981, the organization ratified the price decrease to $34 and approved the quota policy to control the production of the member states. This heralded OPEC's new policy to take measures against the saturated market.

The policies of the non-OPEC producers aggravated the fall of prices. In 1983, for instance, the British National Oil Company reduced the price of North Sea oil by $3/bbl in a rough competition with Nigerian oil and dragged the prices to $30/bbl. The shock was so hard for Nigeria's too-dependent-on-oil economy that its oil export was put to a halt completely. Consequently, OPEC member states reduced oil prices to $29/bbl from $34/bbl to confront the crisis.

In 1984 and 1985, the non-OPEC producers still followed their policies of supplying the market with abundant oil so the prices kept sliding. The organization, aiming at defending its crude oil prices, reduced its production ceiling from 17.5million b/d to 16 million b/d.

In early 1986, the main exporters of the North Sea, namely Britain and Norway, (of course with some help and support from western industrial countries) succeeded to reduce oil prices to around $10/bbbl just in the period of less than 5 months. At the same time, they put their production and export on the rise which exacerbated the instability of the markets.

Non-OPEC producers' tendency to increase their oil supply coupled with OPEC member states' desperate need to oil revenues led to a competitive increase in oil production and export, leading to the third oil crisis. In 1986, oil prices in spot markets fell from $23.65/bbl in January to $10.67/bbl in June and $8.63/bbl in July.

Through numerous conferences, the organization managed to alleviate instability in the markets by insisting on the necessity of production cuts by the members and defending its prior 18-dollar basis.

The global oil markets were strengthened following the critical period in 1986 and the oil prices followed an ascending trend afterwards in 1987, and in the middle of 1987, it was believed that they could survived the impacts of the third Shocks. In 1988 and 1989, the organization, with the aim of stabilizing its position in the global markets, kept on trying to improve the production of the members and achieve ideal oil prices. The adopted policies led to the better and stronger position for the organization in 1989.

Increased production ceiling and base price of $18/bbl of OPEC oil and consequently improved oil revenues of the members are some of the achievements made by the organization.

The substantial depreciation of prices in 1998

In 1990, oil reserves mainly located in the five biggest oil producing countries in the Persian Gulf and Venezuela increased while the Persian Gulf countries held two thirds of the world's oil reserves. But Iraqi invasion of Kuwait and the consequent crisis in the region made OPEC encounter a new arrangement where western troops were present in the region and oil production of two major producers was. Therefore, due to lingering concerns over oil supply the price of oil began skyrocketed in beginning month of the Iraq-Kuwait war from \$30/bbl to \$40/bbl.

The organization increased its export to adjust oil prices and compensate for the absence of Iraq and Kuwait in the oil market. The action led to a slowdown of the rising trend of the prices at the end of 1990.

Kuwait's return to the oil market in 1992 and its production growth of two million barrels in 1994 was materialized by the surge of the global demands for oil. Furthermore, OPEC's share of production and export rose with the UN resolution allowing Iraq to return to the market at the end of 1996.

In the meantime, in the 103rd and 104th OPEC Meetings both held in Jakarta in November 1997 and March 1998, OPEC's production ceiling was announced rising from 25.03 million b/d to 27.5 million b/d to satisfy the needs of the lucrative market at that time, but the rise coincided with the economic crisis in the Southeast Asia which had a very profound impact on oil demands. Oil inventory build ups as well as milder-than-expected weather aggravated the problem. As a result, oil prices fell from \$18.84/bbl in November 1997 to as low as \$12.41/bbl in March 1998 and \$7.9/bbl in December 1998. This was the climax of the fourth oil shock.

With falling oil prices, OPEC member states stressed the importance of a shared and long-term policy to strengthen the prices and defuse the crises. They agreed to cut their production in three phases. Based on the agreement, the organization reduced its production by 1.240 million b/d in the first phase. Such non-OPEC producers as Mexico, Russia, Norway and Oman agreed to reduce a sum of 391 thousand b/d concurrently. Such measures led the prices to stand at \$11.67/bbl.

In the second phase, the Organization reduced 1.350mb/d of its production, but the market did not react as it was expected and reduced the average prices to $11.19pb. In the third phase, however, OPEC cut 1.7mb/d of its production ceiling and this time received a positive reaction from the market. Consequently, crude oil prices reached $21.67pb in 1999. In the 108 Summit, it was decided that the current production ceiling remains at the same level until March 2000 and consequently the price of oil increased to $26.71/bbl in March. In June 2000, due to shortage of light distillates in the US markets, crude oil prices rose to $21.12/bbl.

OPEC member states who had encountered numerous difficult situations and crises during preceding 46 years, in the OPEC Meeting held in Karakas in 2000, decided to develop oil pricing policies in such a way that they can not only provide more stability profitability for the member states but also materialize a fair market share for OPEC producers at the global markets. Therefore, the 109th OPEC Meeting succeeded to introduce the 22-28 dollar price band for OPEC crude basket aiming at providing an automatic mechanism to adjust supply and price in the market.

While 2001 was about to over with the OPEC crude basket prices almost within the range of 22-28 dollar price band, 9/11 terrorist attacks set the stage for another skyrocketing oil prices. However, decline of demand for oil in coming months checked OPEC attempts to maintain oil prices above $22/bbl. As a result, OPEC cut its production by 3.5 million b/d in order to contain the prices within the price band. But with worsening the economic recession in the world and oil prices falling to less than $18/bbl in late 2001, OPEC again decided to have another cut in its member state production by 1.5 million b/d as January 1, 2002.

The beginning of 2002 marked OPEC basket prices sliding below the 22-28 dollar price band and declining global demand for oil coupled with increasing oil supply from non-OPEC producers caused the organization's production to fall by 1.8 million b/d. But in the second half of the year oil prices started rising because firstly, lingering worries over the United States' military attack on Iraq (not only leading to the withdrawal of Iraqi oil from the global markets in the short run but also could be viewed as a potential threat to oil production in other countries in the region) and secondly, overwhelming strikes in Venezuela's oil industry affecting oil markets in the country and has led the oil exports to decrease to some one million b/d from 2.9 million b/d.

In the wake of the shortage of oil supply and consequent rise of oil prices, OPEC members agreed upon increasing their oil production by 2 million b/d as of January 1, 2003. One month later, while oil prices were still hovering above $ 28/bbl, they announced a further increase of 1.5 million b/d in their production. Ascending oil prices in early 2003 due to lingering uncertainties about the US military attack on Iraq reached their peak ($30.55/bbl)[1].

From early 2004, such factors as draw downs in crude oil inventories, growing demand, existing tensions and unrests in Saudi Arabia and Iraq pushed oil prices up and OPEC, with the aim of weakening the market tried to increase the member states production quotas in 5 steps.

In 2005, high growth rate of the economies of the world, especially China, India and the United States caused the global demand for oil to grow by 1.23 million b/d. Rita and Katrina hurricanes in September 2005 revealed the lack of sufficient refining capacity in this sector. The aforementioned factors coupled tensions in Venezuela and Nigeria led to unprecedented high oil prices so that OPEC basket price reached a historical record high of $50.64/bbl.

Since early 2006, oil prices rose to $66.3/bbl due to rising tensions in Nigeria. Oil prices kept on rising so that they reached $79/bbl in the midst of the year mainly due to the missile tests by North Korea and the Israeli invasion of Lebanon. In September 2006, oil prices started declining and in October they fell to $59/bbl. Such a decline was mainly due to several factors like growing oil supply and slowed

1. Global Oil Market Developments, 2003

down growth of the world economy and subsidence of local storms in the Golf of Mexico.

The OPEC Ministerial Meeting held in Qatar in 4Q 2006 decided to cut the members' production by 1.2 million b/d since such factors as existing excess production capacity maintained by some non-OPEC producers and declining rate of oil consumption had contributed to falling oil prices in September and October[1].

Conclusion

Considering intervening policies adopted and pursued by the industrialized countries to the detriment of oil producing countries interests, convergence of oil producing countries and establishment of OPEC was regarded the first step collectively taken to secure their interests and reclaim the ownership of their natural resources.

Recent developments of the global oil markets are indicative of the crucial role of OPEC in avoiding volatile oil prices since the organization have always tried to provide costumers with the needed oil at rational and fair prices by such different means as voluntary production cuts or increases at different times (like the Persian Gulf War in 1990's when several million barrels of oil was taken from the market on a daily basis).

Oil price is a decisive factor determining the destiny of OPEC. If OPEC can maintain oil prices at acceptable levels using existing mechanisms, it can survive as an important international economic organization and it can also increase its economic leverage over the market through getting new members. If oil prices increase gradually and rationally under the influence of market fundamentals, OPEC members can make best of that but sudden and sharp rises of oil prices caused by non-fundamental factors may have negative impacts on the economy of the members. It is self-evident that many OPEC members

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1. Oil Price Developments, 2006

and even non-OPEC producers expect the organization to defend fair and rational oil prices.

Adopting more active and planned behavior and policies by OPEC can improve the position of the organization in the global oil markets. Therefore, OPEC should reinforce loyalty of its members to the cause of the organization and prepare the ground for more extensive cooperation with non-OPEC producers. It is also wise that OPEC member states spend some portion of their surplus oil revenues on creating new production capacity so that the organization can react to the market fluctuations with more flexibility.

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