# The Role of OPEC in the 21st Century

by Dr. Rilwanu Lukman
Secretary General
Organization of the Petroleum Exporting Countries


When the Organization of Petroleum Exporting Countries (OPEC) was established on September 14, 1960, it consisted of just five developing countries. Who would have expected this small organization to soar to prominence on the world stage little more than a decade later, and to retain a high profile into the new millennium?

This article seeks to explain why it was possible for a small group of developing countries, with all the odds stacked against them in a world dominated by the established industrial powers, to achieve this success.

## OPEC's Role

The answer clearly lies in OPEC's role in the international oil market. This role is as valid today as it was four decades ago. Further, it appears likely that this will remain the case for decades to come. We will now examine this role more closely and then address the issue as to whether OPEC should seek to revise it for the new millennium.

The founding members of the Organization of the Oil Exporting Countries are Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. OPEC's six other members are Qatar (which joined in 1961), Indonesia (joined in 1962), Libya (joined in 1962), the United Arab Emirates (which took over the membership of Abu Dhabi in 1974), Algeria (joined in 1969) and Nigeria (joined in 1971).

This membership provides a geographical spread from Latin America in the west to Southeast Asia in the east, with Africa and the Middle East in between. The total population of the OPEC members is nearly half a billion, and there is a rich diversity of cultures, religions and languages. However, the eleven members are united by their common status as oil-producing developing countries.

OPEC's objectives are spelled out in the OPEC Statute, which dates from the earliest days of the organization: "OPEC's principal aims are the coordination and unification of the petroleum policies of Member Countries and the determination of the best means for safeguarding their

**Put together, the Statute and Declaratory Statement meant that OPEC should focus its activities on ensuring order and stability in the international oil market, with reasonable prices, secure supply and fair returns to investors, and that oil producers themselves should have the right to determine the destiny of their indigenous crude oil reserves.**

interest, individually and collectively. The Organization shall devise ways and means of ensuring the stabilization of prices in international oil markets, with a view of eliminating harmful and unnecessary fluctuations. Due regard shall be given at all times to the interest of the producing nations and to the necessity of securing a steady income to the producing countries, an efficient, economic and regular supply of petroleum to consuming nations and a fair return on their capital to those investing in the petroleum industry."

In addition to this, OPEC issued a Declaratory Statement of Petroleum Policy in Member Countries in 1968. This referred to the inalienable right, as expressed by the United Nations, of all countries to exercise permanent sovereignty over their natural resources in the interest of their national development. Accordingly, it claimed that the exploitation of OPEC's indigenous, exhaustible resources should be aimed at securing the greatest possible benefit for its Member Countries.

Put together, the Statute and Declaratory Statement meant that OPEC should focus its activities on ensuring order and stability in the international oil market, with reasonable prices, secure supply and fair returns to investors, and that oil producers themselves should have the right to determine the destiny of their indigenous crude oil reserves.

## Early OPEC Activities

These documents were adopted in the 1960s, when the world oil industry, outside the former centrally planned economies, was dominated by the "The Seven Sisters" multinational oil companies. In such an environment, oil prices were at extremely low levels, with minimal returns for those countries within whose borders the crude reserves lay.

OPEC asserted its role in the 1970s, supporting its member countries as they took control of their domestic oil industries and acquired a major say in the pricing of oil on world markets. While the situation has moved on since then, with a broadening of the power base in a more i ntegrated and consensual global industry, OPEC is nevertheless envisaged today as a major player in the world oil market.

There is one other important early document of relevance to OPEC's role – the "Solemn Declaration" adopted by a conference of OPEC sovereigns and heads of state in Algiers in 1975. This declaration carried a proposal for a "New International Economic Order" aimed at promoting a more equitable global economic system, with particular emphasis on alleviating poverty and other injustices affecting developing countries by encouraging greater interdependence among nations from the north and south.

The proposal for a new international economic order led to the establishment of the OPEC Fund for International Development, which is a multilateral development finance institution seeking to promote co-operation between OPEC members and other developing countries. Over the years, the OPEC Fund has distributed loans and grants to 104 countries located in Africa, Asia, Latin America, the Caribbean and Europe. Including grants and contributions to other institutions, the Fund's total approved commitments, as of the end of September 1999, stood at $5.4 billion (U.S.), with disbursements reaching $3.7 billion.

## A New Summit

The 1975 Conference in Algiers is commonly referred to as the "OPEC Summit." The second such meeting is due to take place this year, as a landmark event commemorating OPEC's 40th anniversary.

**The second summit will concern itself with the present condition of the oil industry (which is very different from that of 1975), the outlook for the new century and the challenges that are likely to present themselves.**

The second summit will concern itself with the present condition of the oil industry (which is very different from that of 1975), the outlook for the new century and the challenges that are likely to present themselves. The

**In order to tackle this disturbing situation, a decision was taken by our member countries at the OPEC conference in March 1999 to join forces with four front-line non-OPEC producers – Mexico, Norway, Oman and Russia – in reducing output by a total of 2.104 million barrels a day, to go into effect on April 1, 1999.**

heads of state will examine OPEC's objectives to see whether they require amendment in the light of today's market realities. The idea is to start OPEC off on a fresh new footing in the new millennium.

Although the agenda had not been finalized at the time of writing this article, it is likely to include topics that have aroused much interest in OPEC circles in recent years. Possible topics include pricing and production agreements, cooperation with non-OPEC producers, a dialogue with consumers, the provision of adequate future production capacity, the role of natural gas as a "sister export" to crude oil, the impact of the technology and communications revolutions, the not-too-distant depletion of crude oil reserves for some member countries, intensified diversification, the drive for a cleaner and safer environment and, finally, the ongoing negotiations under the umbrella of the United Nations Framework Convention on Climate Change (UNFCCC).

Two of these items – pricing and production agreements and climate change – warrant special attention in this article because of their topicality and because they relate directly to OPEC's ability to shift its oil on world markets both now and in the future. However, this is not to diminish the importance of the other items.

### Pricing and Production Agreements

Let us first look at OPEC's pricing and production agreements. The events of the final two years of the 20th century have reminded us once again how inherently fragile the oil price structure is, how market psychology can grossly exaggerate initial impulses, and how disorder can prevail until collective action reverses the trend and returns the market to an orderly state.

Within the space of 20 months, from December 1997 to July 1999, crude oil prices fell heavily, remained for an apparent eternity at critically low levels, and then recovered to more or less their starting point, principally as a result of the responsible collective action of OPEC and some leading non-OPEC producers.

In figures, the average price of OPEC's spot reference basket in 1998 was $12.27 (U.S.) per barrel, which ompared with an average of well over $18/b across the previous eight years of the decade, 1990-97. The average fell below $10/b for December 1998 and was just over $11/b for the first quarter of 1999.

In order to tackle this disturbing situation, a decision was taken by our member countries at the OPEC conference in March 1999 to join forces with four front-line non-OPEC producers – Mexico, Norway, Oman and Russia – in reducing output by a total of 2.104 million barrels a day, to go into effect on April 1, 1999.

This quickly had the desired effect. By the end of April, the first month of the agreement, the weekly average basket price had reached almost $16/b. As OPEC's producers demonstrated a high level of compliance with the voluntary agreement during the summer, the price continued to rise, averaging well over $18/b for July, to complete the 20-month period to which I referred earlier.

Maintaining the upward trend, the basket price pushed past the $20/b mark in the middle of August. By then, prices had reached levels considered by many market analysts and operators as being consistent with long-term equilibrium in the market. Such prices allow sufficient returns for producers to obtain a reasonable economic return from their finite resources, as well as assure a secure supply for the future.

### The Need for Cooperation

This all demonstrates the importance of broad-based cooperation in the international oil market, reinforced by the agreements reached at the meetings of the OPEC conference. The market will not look after itself. If OPEC acts alone, it can only do so with a limited degree of success. Although OPEC is responsible for nearly 60 percent of the world's crude oil exports, it is obviously preferable that we receive the support and commitment of other major producers to ensure that market-stabilizing measures succeed.

It is up to all of us to see that the market functions effectively in the new millennium. OPEC has been greatly heartened by the new spirit of cooperation in the market and this gives something for all of us to build upon for the future.

But the achievement of an orderly market must be sustainable. What we have witnessed over the past two years is reaction to a crisis. What the market requires is "pro-action." Damaging situations should not be allowed to arise in the first place. If one does arise, then there should be a means available at all times of nipping it in the bud. This is an issue that requires examination in re-appraising OPEC's role for the future.

### Climate Change

This leads me onto the second item that warrants special attention in this article – the climate change negotiations. This is a phenomenon that could greatly dominate the future performance of the international oil market. The negotiations, which have been pursued relentlessly since the early 1990s, may eventually result in response measures to the supposed threat of global warming that will do enormous damage to the vulnerable economies of oil-producing countries.

Our calculations show losses in annual oil export revenue of tens of billions of U.S. dollars for OPEC's member countries, compared with reference-case levels, if OECD countries impose carbon taxes of sufficient levels to achieve their emissions targets by 2010, as set out be the Kyoto Protocol of December 1997.

While OPEC and its member countries already are presenting the oil producers' case in the negotiations and seeking to defend their legitimate interests, it is, at the same time, clear that any reassessment of OPEC's role in the 21st century should be able to accommodate all the likely outcomes of the negotiations, so as to prevent the feared occurrence of dramatic revenue losses.

**The important thing is to ensure that OPEC moves with the times, and the organization already has a proven record of doing this in the international oil market during its 40-year history.**

Whether all of this may require revision to the OPEC Statute is difficult to ascertain at the present time. As was implied earlier, the OPEC Statute so succinctly captures the spirit of our organization's *raison d'être* that it is probably already compatible with the emerging realities of the 21st century international oil market. The important thing is to ensure that OPEC moves with the times, and the organization already has a proven record of doing this in the international oil market during its 40-year history. ■

**Dr. Rilwanu Lukman became Secretary General of OPEC in January 1995. Additionally, since mid-1999 he has served as Presidential Adviser on Petroleum and Energy in Nigeria. His energy industry career began as an Assistant Mining Engineer with A B Statsgruvor of Sweden. He subsequently returned to Nigeria as Inspector of Mines and later Senior Inspector, Mines Division, in the Federal Ministry of Mines & Power, Jos, Plateau State. After also serving as Acting Assistant Chief Inspector of Mines, Mines Division, with the Federal Ministry of Mines & Power, Jos, he was General Manager of the Cement Company of Northern Nigeria. After being named Chief Executive Officer of the Nigerian Mining Corporation, Jos, he became Federal Minister of Mines, Power and Stell for Nigeria. He was Federal Minister of Petroleum Resources of Nigeria and President of the OPEC Conference for eight consecutive terms. Then he became Minister of Foreign Affairs of Nigeria. He was also Chairman of the Board of Directors for the National Electric Power Authority, Lagos. A native of Nigeria, he received a bachelor of science degree in Engineering from the University of London's Royal School of Mines. At the University, he was the first African to be honored with a Fellowship of the Imperial College. Later, he received a Post-Graduate Certificate in Mining and Mineral Exploration from the Institute of Prospecting and Mineral Deposits of the University of Mining & Metallurgy at Leoben, Austria, and a Ph.D. in Chemical Engineering from the University of Bologna, Italy. A Knight of the British Empire (KBE), Dr. Lukman has received honors from around the world, including being made an Officer of the Legion d'Honneur of France.**