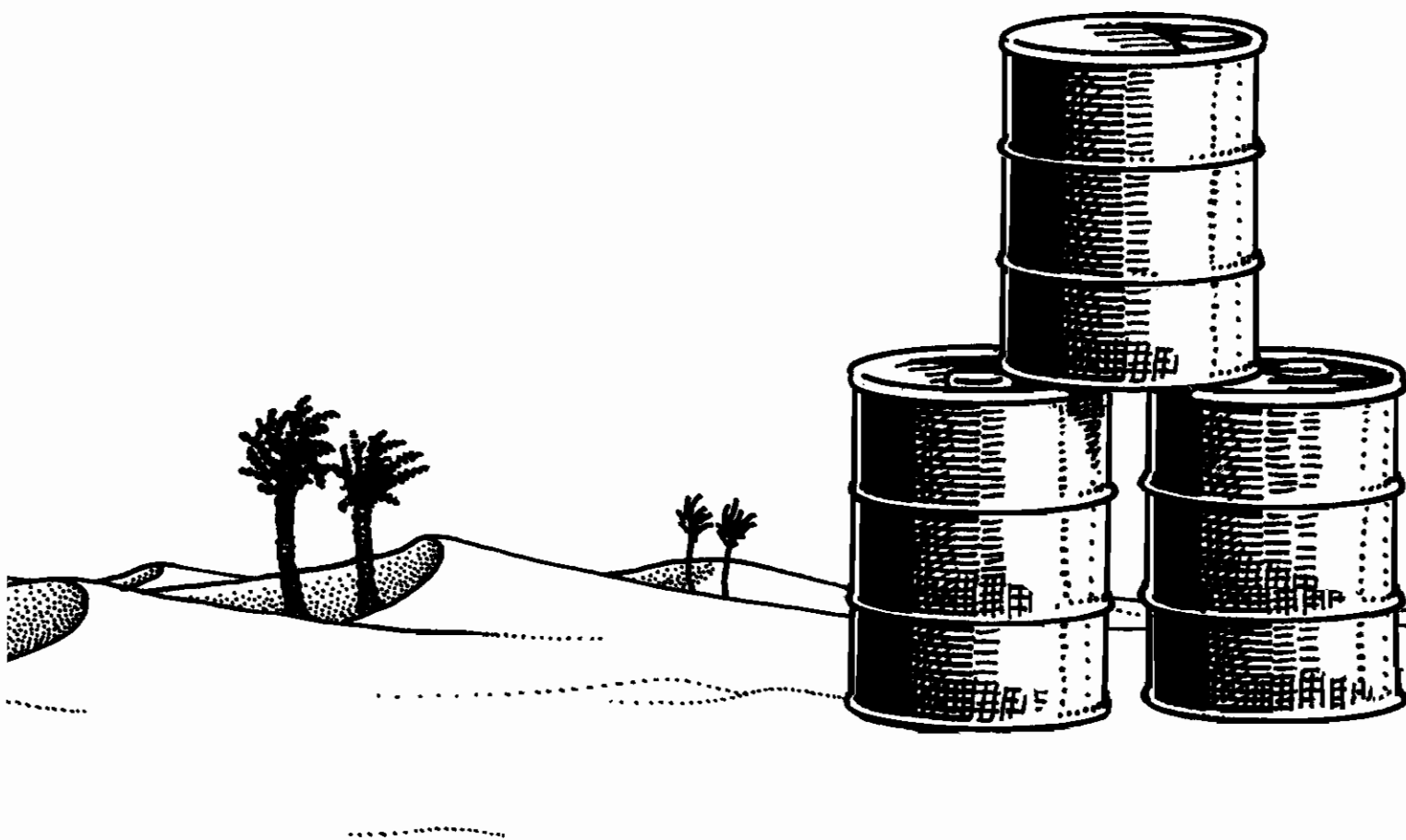


# OPEC: Calming a Nervous World Oil Market

by Nazli Choucri

Reprinted from *Technology Review*,  
Volume 83, Number 1, October 1980  
Copyright 1980, Alumni Association  
of the Massachusetts Institute of Technology,  
Cambridge, Massachusetts 02139



In October 1973, the oil-exporting countries announced an increase in oil prices from \$3.11 to \$5.12 per barrel. The consuming nations regarded the price increases with horror — as an audacious and unwarranted economic humiliation. Since then, the oil-exporting countries have increased the market price of crude ten times, reaching \$28 per barrel, and almost everyone agrees that there remains a wide margin for further price increases to producers, consumers, and international oil companies. In retrospect, the 1973 price increases seem moderate, but they were the first obvious manifestation of irrevoc-

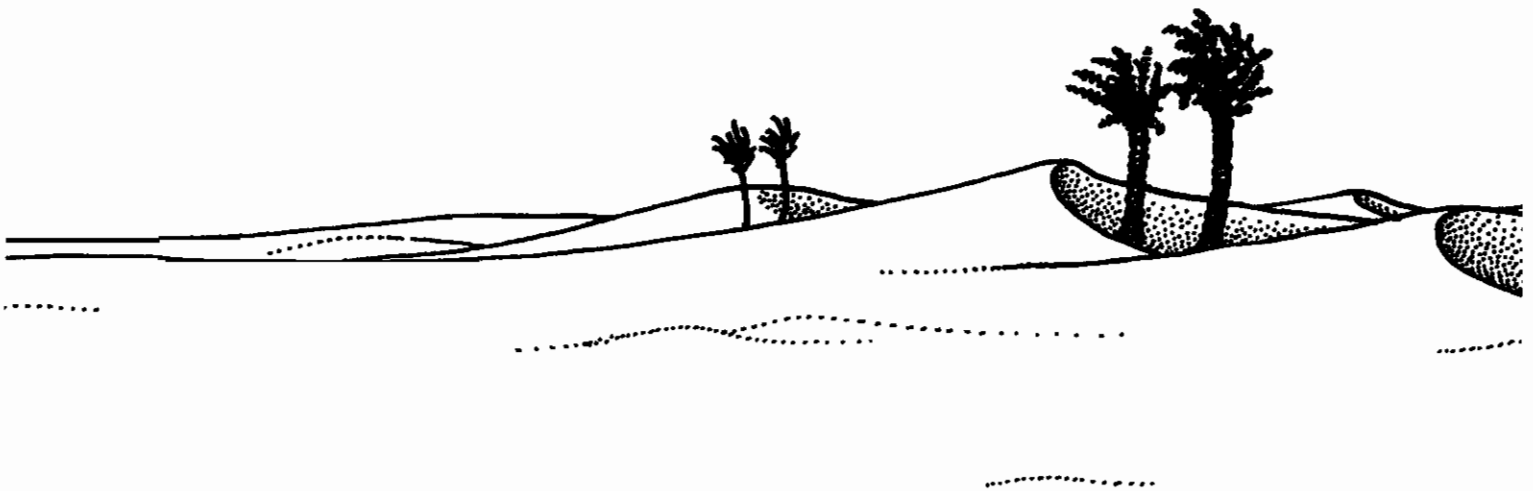
able changes in the oil market and, most important, in the world's international power structure.

OPEC's initial move changed the decision-making process — critical decisions pertaining to the oil market were no longer to be made by the major oil companies alone. The governments of the oil-exporting countries today in effect control not only prices but, by extension, the economic adjustments to these prices — the low elasticity of demand makes the producing countries the final arbiters of economic policies in the West. For when alternatives to a critical industrial commodity are not commercially

# OPEC: Calming a Nervous World Oil Market

by Nazli Choucri

OPEC is pressing for greater influence in finding, refining, and distributing the world's oil. Regarded by some as a manipulative cartel, OPEC is actually a vital force for international stability and restraint.



available, the sellers' policies determine the buyers' reactions.

In 1973, the dominant view in the West was that the oil-producing nations of OPEC were guilty of undue market interventions — as if the market had been competitive — and that restoring normalcy was necessary for economic stability. But even then, supply and demand did not govern world prices. Indeed, prices in the world oil market have never been governed by the mechanisms of a competitive market. Even before the 1973 increases, the costs of petroleum production in the Persian Gulf were far

below price.

The real importance of the 1973 and subsequent price increases is that in revealing these facts to us, they have changed our way of life. They have altered existing global power relations and forced people everywhere to rethink their basic values about consumption, growth, and equity. For the first time in our history, we are challenged by less-developed states. The challenge is effective and transcends the oil market; there have been fundamental changes in international relations and in our understanding of their mechanisms.

**The European nations  
recognize that oil policy means foreign policy.  
The US has yet to recognize this  
interrelationship.**

### **The Origins of OPEC**

Contrary to popular views, the initiative for the creation of the Organization of Petroleum-Exporting Countries (OPEC) came not from the Persian Gulf states or the Arabs but from Latin America. It was Venezuela that first suggested cooperation to Iran in 1949, during the latter's negotiations with its concessionaire, the Anglo-Iranian Oil Co. The information Venezuela gave to Iran, Saudi Arabia, and the other exporting nations on its tax arrangements was in part responsible for changing the general method of exacting payments from the oil companies. Four years later came the first formal agreement between Iran and Saudi Arabia for the exchange of information and frequent consultation regarding oil prices and policies. By 1960 this collaboration was officially extended when OPEC was formed to coordinate activities and policies on oil prices in all exporting countries.

The development of OPEC can be traced to three factors:

- A persistent fear on the part of producing nations of the oil companies' ability to cut prices without consultation.
- A realization among more established exporters that the entry of new producers with lower prices might cut into established markets.
- An increased sense of technical competence among the oil-exporting countries, which gave them confidence to risk the displeasure of both major oil companies and major importing countries by exerting pressure to protect the exporting countries' interests.

The three factors came into prominence gradually between 1949 and 1969. Throughout this 20-year period, the oil exporters were gradually developing the basis for cooperation and a modicum of consensus.

There were two sources of pressure. Venezuela had taken the lead in the Western Hemisphere in mobilizing the exporters and opposing the price cuts announced by the companies in 1959. During that year, posted prices in the Middle East were reduced by about 8 percent, initiated by British Petroleum (BP). Venezuela protested to the British government, but the latter would not (or could not) intervene in company policy. During the same year, Shell Oil Co. of Venezuela reduced posted prices to adjust them to the market in the U.S. and worldwide. Later the

same year came more drastic price cuts by BP for their operations in Kuwait, Iran, and Qatar, and similar reductions were posted by operators in Venezuela.

At the same time, a second source of pressure was taking shape in the Middle East: there was a beginning political cooperation, however erratic, in the development of the Arab League, including both functional agencies and institutionalized political communication. This was in part a response to oil company policies, but it took strength from pervasive anti-imperialist sentiment and the rejection of Western military presence in the region.

By 1960 these events had consolidated. Venezuela's repeated overtures for cooperation were beginning to pay off. In August, just 12 months after an 8-percent price reduction had been negotiated by the international companies, the major oil companies again reduced posted prices, this time by about 6 percent — meaning a substantial (\$300-million) loss of revenue for the exporting nations. Following these price cuts, representatives of Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela met in Baghdad, and OPEC was announced in September of that year.

This history emphasizes the pressures that developed between exporting governments and major oil companies. The latter exerted formidable political and economic influence, indicated, for instance, in the events of the 1951 nationalization in Iran. At that time the major oil companies were willing and able to freeze out any producers who tried to raise oil prices significantly, preventing such producers from marketing their oil. In cases where the companies had long-term concessions (75 years in Iraq, for example), they threatened to sue any independent buyer who purchased oil from a nationalized oil company. Clearly, the major international oil companies held greater power than the producing nations from the 1950s to the mid-to-late-1960s.

While the specific events can be interpreted differently — particularly the motives behind corporate price cuts to Venezuela in 1959 — the fact remains that the creation of a formal organization in 1960 was the product of trial and error and repeated probes and failures. For similar reasons, only in 1973, 20 years after the initial conversations among producer governments, were the exporters first successful in exerting their influence on the market. This effort, too, was the product of trial and error

**An ultimate irony is  
that OPEC's own demand for petroleum will soon  
become a major factor in the  
world market.**

and events over which OPEC had little control, notably the Arab-Israeli war. Underlying the discrete events lay fundamental changes in both the oil market and its institutional setting. If OPEC had not been in existence, it would have had to be invented.

The 1973 price increases were not the oil exporters' first joint effort to increase the price of crude. The first major effort in 1967 met with no success. In 1970 and 1971, Libya challenged the independent companies operating in that country with some success; this led to the Teheran Agreement, and afterwards to marginal upward adjustments in prices.

In 1973 a convergence of political events in the Middle East repeated the 1967 Arab-Israeli scenario. But there was one important difference as far as OPEC's struggle to increase prices was concerned: the world oil market was now substantially different and conditions for successful cartelization had materialized. Between 1967 and 1973, demand for petroleum in all three main consuming regions — Western Europe, Japan, and the United States — had increased by a total of 5 billion barrels per year, while production in these three areas increased by less than one-tenth that amount. As a result, these regions' imports had grown by 95 percent, from 4.9 to 9.5 billion barrels a year. Virtually all this increase was made possible by higher OPEC production, nearly 80 percent of which occurred in the Middle East.

But the new conditions affecting OPEC cannot be interpreted only on the basis of conventional economics. The war of 1973 blurred the distinction between politics and economics. It was Iran, a nonbelligerent, then a supporter of Israel, that took the lead in imposing the price increase. (Recent allegations that Secretary of State Henry Kissinger was instrumental in shaping Iran's move — and that he refused to pressure the shah to hold the price line — are now academic. In the absence of a tight market situation, shifting political realities, and expanding claims on oil revenues, Kissinger's ploy — if substantiated — would have been no more than an invitation, probably unsuccessful, for a price increase; it can hardly be credited as the cause.) Everyone regarded Saudi Arabia as responsible for the 1973 price increases, probably because its place as the major producer made the Saudis a credible, if not the only possible, arbiter of prices and production policies. Yet in matters of oil policy, at least briefly in 1973, Saudi Arabia and Iran saw eye to eye and must share re-

sponsibility for OPEC's successful price increase. The 1973 embargo succeeded where previous efforts had failed: demand was heightened by "scare buying," and the spot-market price of oil rose to new levels. The producing countries were clearly in a position to raise their prices, and they seized the long-sought opportunity with Iran in the lead and Saudi Arabia urging restraint.

### **A New Sense of Vulnerability**

Given the history of trial and error, shifting market conditions of the 1960s and 1970s, and the overriding political factors, what did the events of 1973 mean, aside from a higher oil bill for the importers and greater revenues for OPEC? The specific economic adjustments required in 1973 and 1974 in both importing and exporting nations have been discussed extensively. But the fundamental, long-term effects of the events of 1973 are not well appreciated.

For the industrialized consumer countries, the price increases brought not only economic adjustments but a new sense of vulnerability in the realization that producers could act and indeed had acted in union, in a political manner, in determining production and pricing policies. The immediate concern over higher prices soon gave way to a fear of supply interruptions. Though the United States was the least affected by the 1973 action, having substantial domestic production, it was the most vociferous of the industrialized nations in its reaction. But market changes, domestic economic difficulties, and rising inflation — only partly due to higher fuel prices — eventually created a reality throughout the industrialized nations to match the initial fears of the U.S.

Since 1973 the U.S. has increased its dependence on OPEC for its oil; in 1979, 39 percent of U.S. consumption was imported from OPEC, compared with 26 percent in 1973. That represents a major shift in market position and has led to a deterioration in the U.S. balance of trade as well as in worldwide economic and political leverage. The fact that the public debate stimulated by these changes has led to a posture, but not a policy, of expanding the country's sources of energy has fueled our uneasiness and sense of vulnerability. Note that the principal cause is not the oil price increase; the OPEC move simply accentuated emerging changes. It was an aggrava-

**Without the OPEC-induced  
incentives to expand domestic oil production and develop  
alternatives, consuming nations would  
be even more dependent and  
vulnerable.**

tion of existing problems, a precursor of inevitable changes, a constant reminder of the deterioration in our strategic bargaining positions.

For the European countries, the price increase of 1973 accentuated economic pressures and emphasized the need for policy responses to strong reliance on OPEC oil. The European nations have since concentrated on reducing dependence on OPEC by increasing bilateral economic ties, including more government involvement in oil transactions and a reduced role for the international oil companies. Thus, government control over the energy sector, already strong in Europe, has become even stronger. Though like the U.S. the European nations have yet to develop a coherent energy policy, they remain one step ahead of the U.S. They recognize that oil policy means foreign policy, and even in 1973 they were willing to couple foreign policy issues with economic issues. So for European nations the Palestinian problem became the fulcrum of both oil policy and foreign policy. The U.S. has yet to recognize this interrelationship.

For the producing countries the issues are more sharply defined. Greater oil revenue means greater disposable income and greater revenue for foreign and domestic investments. But this blessing of surplus revenue has brought with it economic, political, and social tensions. The most obvious have been documented elsewhere, but there remain for the producing nations some profound problems that are less well understood. Among these is the confrontation between a large public sector, dominated primarily by oil, and a new, expanding informal sector largely outside governmental control. It is "informal" because it allocates resources without recourse to governmental policy or adherence to government regulations. In some countries this sector is now so strong that it poses serious challenges to governmental authority.

Perhaps more critical is the existence of a large migrant population to meet the labor requirements of the producer countries' development programs. In Kuwait, for instance, over 50 percent of the population is now foreign and over 70 percent of the labor force is migrant. In other countries of the Persian Gulf and in Libya, too, the foreign labor supply is extensive and provides the backbone of the economy. These people are essentially outside the political system; they have no hope of attaining citizenship and can be deported at a moment's

notice. With such a large percentage of the labor force in this uncertain situation, the social fabric becomes fragile. Traditional leadership is strained by the need to make large domestic investments and the need to manage a large migrant population as the labor for those investments. Libya, Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar all share this predicament.

The other more populated oil-rich countries have the labor to implement extensive domestic investments. Their problem is how to manage their economies under pressures of growth and change with the increasingly dim prospects of surplus revenue. Though Algeria, Ecuador, Indonesia, Iran, Nigeria, and Venezuela share this predicament, they differ in the size of their reserves, production rates, and production capacity, and therefore in their future prospects. Differences among them have been accentuated since 1973, generating strains in OPEC that have become obstacles to the development of a coherent price policy. Pressure from these OPEC countries with modest oil reserves is likely to result in some minor production cutbacks in the immediate future. These will be designed to bring production down to the level of actual demand to maintain price stability in real (not inflated) dollars. OPEC's goal will be to avoid creating economic crises and indeed to avoid any situation that would have a severe impact on exporters.

Another change that will affect future supply and price is perhaps the ultimate irony: the oil-exporting countries' own demand for petroleum will soon become a major factor in the world oil market. The OPEC countries' oil consumption has exceeded all predictions. Thus, the importing nations must expect pressures from both production cutbacks and increased demand for oil in the OPEC countries themselves, and these pressures are likely to affect us more drastically than the oil price increases of the past three years.

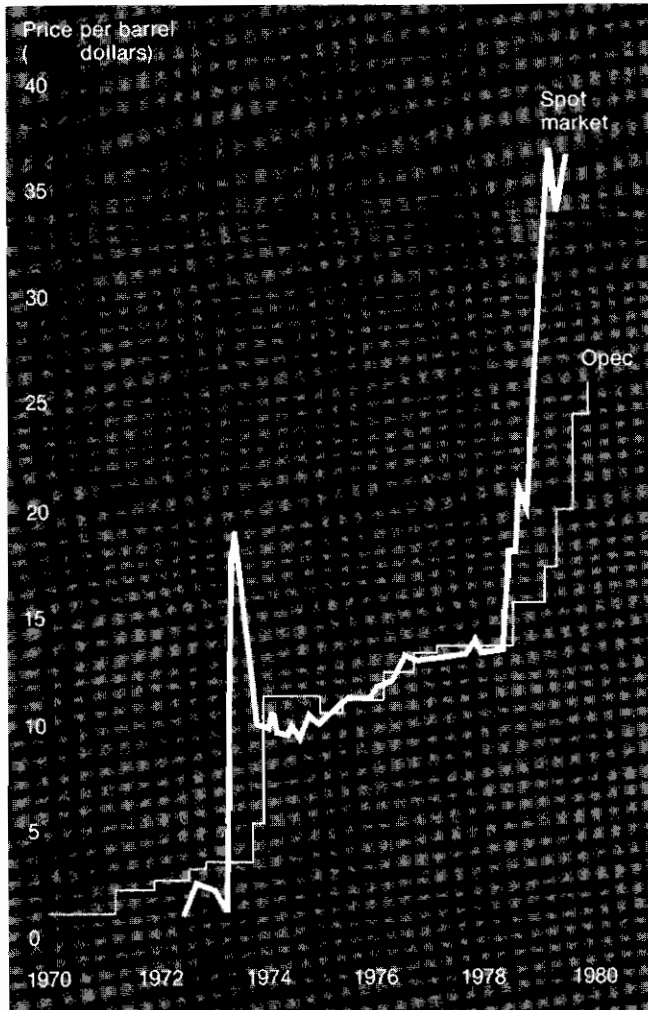
#### **Transferring the Refineries?**

The international oil companies that have dominated the industry worldwide have been deeply affected by the events of 1973 and since. The price increases have generated additional corporate profits, of course, since profits are tied to sales. But a far more important factor has been a gradual yet unmistakable erosion of the companies' influence on the

How shortage and uncertainty combine to move the price of crude oil upward. The spot market for oil first loomed large in 1973, when the OPEC nations flexed their muscles by attempting an embargo on oil exports to the West. The

precipitous rise in the spot market reflected more a feared shortage than a real one. The same thing happened late in 1978, when Iranian production fell sharply and the West's vulnerability was made clear. Though the OPEC countries

have responded in both cases by increasing the price of crude, their effort moderated the most violent market fluctuations. Because OPEC understands its interdependence with the West, this trend is likely to continue.



oil market. Today they are no longer the sole decision makers of the industry, no longer the arbiters of price, production, and investments in exploration and development, no longer the allocators of market shares. They have become intermediaries, brokers between buyers and sellers. In the past three years, more and more government-to-government deals have bypassed the companies, limiting their maneuverability and control of the industry. The precise nature of the shift is unclear, partly because of corporate secrecy on contracts, but by all indications the percentage of oil passing through the hands of the major international companies is declining, with the increasingly aggressive national oil companies of producer countries making substantial gains.

These national oil companies, the corporate arms of the producer governments, represent an extension

of the “trial-and-error” phase of OPEC’s development. Their growing technical skills give them increasing power, and they represent an institutional challenge and at least a partial alternative to the international oil companies. Investment and production decisions and assessments are now made by the governments with technical assistance from their own companies, and the international companies have no alternative but to cooperate with and accept the decisions of these new national institutions.

With their national companies well established in these roles, the next step for many OPEC nations will be the development of their own refinery capacity and participation in downstream operations. The result will be a new challenge to the importing nations and the traditional market systems, including specifically a new reluctance on the part of many OPEC nations to fuel the international oil companies’ refineries. For the importing countries and the international oil companies, the changes these new institutions foretell are likely to be more significant in the long term than the changes in supply-and-demand relationships of the 1970s.

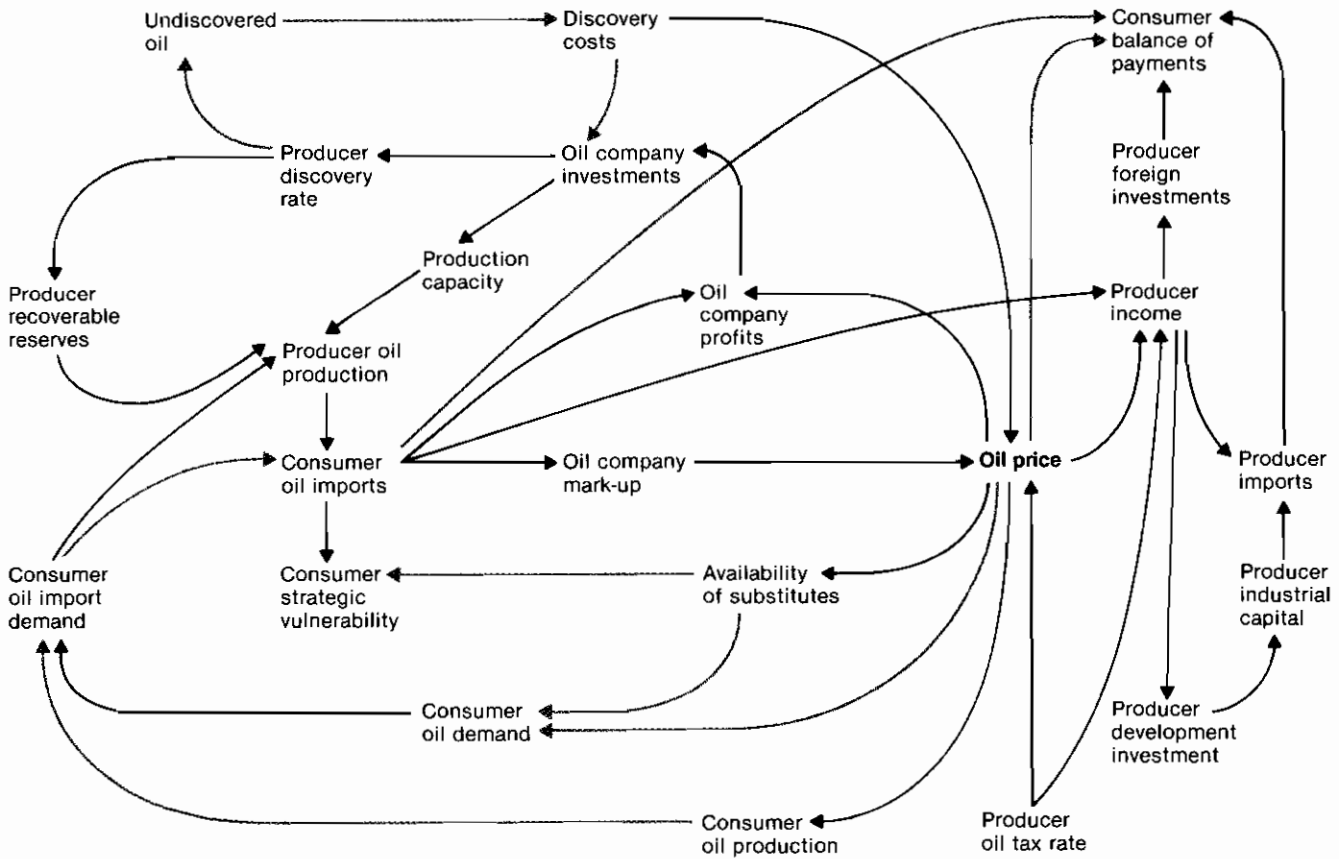
### A World without OPEC

What would have happened had there been no OPEC? Though the question may seem academic, the answer is useful as a way of understanding the true role of OPEC in today’s markets.

If the decisions between buyers and sellers of oil were governed exclusively or even largely by economic motives, then a conventional economic analysis of past and future conditions, based on the economic paradigm of supply-and-demand adjustments to price, would clarify the issues. But even without OPEC, the oil “problem” could not be understood on narrow supply-and-demand grounds; decisions governing the oil industry worldwide would have been influenced by political interventions of both buyers and sellers. Thus, as we seek to understand the role of OPEC, we must adopt a comprehensive view that acknowledges the importance of all three actors in the world oil market — producers, consumers, and the international oil companies.

To predict what would have happened without OPEC, we resort to a simulation model developed at M.I.T. specifically to represent the dynamics of interdependence among buyers and sellers in this

# The Dynamics of Interdependence



← -  
← +

THIS simulation model accounts not only for the oil market itself but also the many effects on the market of production processes, corporate strategies, investment decisions, and national and international financial and security needs — all the factors that influence the pricing of oil. For example, a major component of the pricing system is the amount of taxes imposed by oil-exporting countries — that is, the difference between the cost of production and the companies' markup on the one hand and the price of crude on the other. Other factors in determining price are the importing nations' level of demand and price elasticity, oil

companies' production costs and markup, and availability of energy substitutes.

The system is affected by the profits of multinational oil corporations. The model shows that if profits go up those corporations can increase investments; these in turn are likely to increase the discovery rate, recoverable reserves (while reducing the amount of undiscovered oil remaining), and oil production.

Oil imports by the Western nations generate payments that contribute to the oil producers' revenues and appear as a major claim against the consumer countries' balances of payments. In the model, the balance of payments is

computed for all petroleum-related transactions — oil payments to the exporting countries, investments of the oil producers in the economies of the consumer nations and their purchases of goods and services from the consumers, and the repatriation of profits by the international oil companies.

Used to study alternative policies postulated for OPEC and the consuming countries, this model demonstrates that the economic and political interactions underlying the oil trade are a system of complex international interdependences involving a subtle mixture of cooperation and competition. — N.C. □



## If OPEC did not exist in the 1970s, it would have been necessary to invent it.

world market (*see the diagram on page 42*). Much of the responsibility for rising oil prices in the 1970s has been assigned to OPEC as a cartel manipulating supply. According to this view, a non-OPEC world would be better because there would be no collusion among producers. To test the validity of this assumption, we use the model to simulate a world in which each of the OPEC nations seeks to maximize its share of world petroleum production by keeping its prices as low as possible. According to this scenario, by 2000 the price of oil would be \$9.28 (in 1979 dollars), an increase of only \$2.93 in constant dollars over a 30-year period. This increase would have been due to increases in production costs and somewhat tighter market conditions resulting from soaring petroleum demand. The model confirms what our intuition tells us: lower prices would result in exploding demand and enormous pressure on supplies.

In response to this exploding demand, oil production in the Persian Gulf area would become extremely high; the model shows production of 53 million barrels a day by the year 2000, compared with 18 to 20 million barrels today. This level of production is simply unrealistic; there would be international economic, political, and probably military chaos. Reserves would be depleted, despite large investments in exploration and development.

Though the consuming nations' imports would be very large, it is tempting to assume that their balance-of-payments problems would not be as dramatic as today because of the very low price. However, so much more oil would be imported that — despite the lower price — there would be a serious balance-of-payments problem. In addition, the consuming nations' capital accounts would suffer because they would not benefit from the producers' investments in the consumers' economies; there would be no capital inflows to offset the growing outflows. In the long run there would be substantial deterioration in the consuming nations' international monetary positions, with balance-of-payments problems more serious than today.

Because demand would be slightly if at all constrained, the consuming nations' dependence on external sources of supply would increase. There would be no incentives for expanding domestic production and developing alternative oil supplies and sources of energy. But greater dependence would mean greater vulnerability, with enormous negative

impacts on the consumers' strategic position.

To the producing nations, lower prices in the absence of OPEC would mean enormous gains foregone. The producers' revenues would be but 10 percent of those now projected to the year 2000. The countries of the Persian Gulf would be much poorer than they are now; their imports from the industrialized nations would be 60 percent less, and their domestic investments would be similarly reduced. Indeed, domestic needs would be so great that no capital would be available for investment in Western economies. Economic growth in the OPEC nations would average 4.5 percent a year to 2000 — instead of the 7 percent projected by extending present trends.

The international oil companies would benefit most from the low oil prices postulated above. This is because profits are tied to sales, and sales volume would grow dramatically. But expanded consumption would not be achieved without severe strains; major investments in exploration, refining, and transportation would be necessary; and that capital cost added to the retail price of petroleum products might well fuel inflation.

While a world without OPEC would seem best for the consuming countries on the grounds of oil price alone, it would be a world with serious problems — a dramatic imbalance in international payments and an increase in political as well as economic vulnerability. Paradoxically, the strategic vulnerability of the consuming nations would be greater than in today's world, and there would be no way to reduce this vulnerability. Indeed, without OPEC the consumers' position would inevitably deteriorate.

Low prices for oil are not a long-term solution to the consuming countries' economic problems. If the concern is with continuing economic strength, reducing vulnerability to international supply interruptions, expanding alternative supplies of oil, and developing substitute energy sources, then a world without OPEC is not desirable; it would assure none of these objectives.

### What We Can Expect

If we reject a world without OPEC, what can be said about the future of a world *with* OPEC? What will happen if the present continues into the future? If we incorporate what we know of past prices and project present real price levels into the future, some pat-

**International oil companies  
have been profiting from increased prices, but their  
influence in the world market has been  
gradually yet unmistakably  
eroding.**

terns for the next two decades clearly emerge.

One trend is reduced consumption. The oil price increase of 1973 and the persistent subsequent increases have had an impact on world demand for oil. Consumers in the West have tried to reduce their overall demand, and the rate of increase of world oil consumption has been substantially reduced. Over the next three to five years, economic downturns in the industrial countries are likely to lead to further decreases in consumption. The higher prices of the 1970s have led the consuming nations to expand domestic oil production and seek synthetic substitutes. In response, domestic production will increase in the early 1980s, reducing some of the consumers' dependence on imports. In combination, these changes will decrease the producing countries' market significantly during much of the 1980s.

But the demand for oil is broadening: in addition to the growing need for oil in the exporting countries themselves, demand will expand in the less-developed countries. Everyone expects a somewhat greater availability and utilization of substitutes — coal, synthetic oil, and solar energy, for example — during the rest of this century. But by the end of this decade there will be a dramatic decline in oil production and known reserves in the consuming countries. To fulfill the major role oil will continue to have in all industrial economies during the next two decades, imports are likely to be a growing percentage of total consumption in all the consuming countries. Indeed, by the year 2000 the consuming countries' demand for imports from the Persian Gulf will be nearly double that of 1970.

This means that we can expect supplies to be tight, but we do not expect bedlam in the market. Though OPEC has initiated production cutbacks and proclaimed that they will be extended, these do not result chiefly from a desire to increase prices. Rather, they represent an effort by OPEC to gain economic and political strength in a changing world.

Between now and the year 2000, oil prices will increase in real terms, but we believe the rate of increase will be less than that experienced from 1973 to 1980. This is because the producing nations share with the consuming nations a need for international economic stability and prosperity during the rest of this century. Vulnerability, uncertainty, and the panic buying that sent the spot market for oil into rapid gyrations in the 1970s are in no one's interest. Indeed, the early 1970s were a time of greater vul-

nerability for the consuming nations than will ever exist during the next 30 years.

Clearly, if present trends continue, consumers in our real OPEC world will be in a better strategic position by the year 2000 than those in our hypothesized non-OPEC world. It is perhaps paradoxical that increases in oil prices of the past decade have had the effect of improving the consuming countries' overall strategic position, but that is our reading of the record.

As demand increases, oil payments will also increase. The long-term balance-of-payments position of the consuming countries will deteriorate. In real terms, the basic payments deficit of the Western nations (members of the Organization for Economic Cooperation and Development — OECD) in 1970 was about \$6.8 billion. In 2000, the basic deficit will be at least \$180 billion (in 1979 dollars). The balance of trade will be the principal source of this payments problem.

Meanwhile, we can expect OPEC's domestic and overseas investments to grow, and we can postulate a growth in OPEC's imports of goods and services from the West. But we cannot expect the surge of OPEC investments in the West of the 1970s to persist; that surge resulted from the limited domestic investment capacity of the OPEC nations in their first years as large exporters. Gradually the OPEC nations are increasing their capacity and need for domestic investment, and accordingly there must be declines in OPEC foreign investments in the 1980s and probably in the 1990s as well.

#### **Toward Rationality and Redistributed Power**

The growing role of the national oil companies in OPEC countries and their successful inroads into the activities and influence of the international oil companies is one of the critical institutional changes that will affect the future world oil market. More contracts made directly between governments and their oil companies will mean greater public control over the oil trade in the OPEC nations and less influence for the major oil companies and independent agents.

Institutional responses to this changing situation are yet to develop in the West, but it is fair to predict that traditional government-corporate relations will be affected. As the environments within which international companies have operated so effectively are changed, so must the rules of the game at home

**It is perhaps paradoxical  
that increases in oil prices of the past decade have  
had the effect of improving the consuming  
countries' overall strategic  
position.**

that have enhanced this effectiveness be changed.

As the OPEC nations maintain and even increase their role in world energy supply, they will achieve collectively and individually greater leverage on international problems. There will be pressures to expand the legitimacy of OPEC as a worldwide political force and pressures to link political issues to oil price and production policies. The recent announcement that Europeans intend to address themselves explicitly to the Palestine issue is a case in point.

Those who regard OPEC as a major source of instability in the world have failed to notice the changing role of the producing countries in that market. As spot oil prices exploded throughout 1979, OPEC made successful efforts to hold its official prices below those quoted on spot exchanges. Far from being disrupters of the market, the oil exporters were the regulators of it. Many of the OPEC nations are conservative in their price preferences, and all regard the spot market as an aberration that undermines OPEC's strength in the oil trade. In opposing the spot market, OPEC is ironically becoming a conservative regulator of international prices. OPEC and the West now share a wish to bring order to this chaotic market.

Of course, the strength of the spot market and the persistence of its price increases are the result of the producers' policies, including their periodic threats and announcements of cutbacks. These same policies have led to the increasing trend toward stockpiling among both primary and secondary consumers (the oil companies and non-oil businesses) in the importing countries, thereby increasing demand and exacerbating the instability that OPEC seeks to end. But there have been some recent downward shifts — though marginal — in spot prices, and OPEC is apparently regaining its role as arbiter of the market.

OPEC is also finding itself allied with the consuming countries as a conservative member of the international establishment through its large assistance program to poorer countries. As a disbursing of aid, OPEC finds itself in the role of donor, a position that many of its members have yet to appreciate fully. This is yet another example of how roles are shifting, and everyone must adjust.

The most important shift in political attitude, however, has come as OPEC has adjusted to — indeed, even adopted — the views of the oil market

articulated by Henry Kissinger as secretary of state in early 1973. Mr. Kissinger proclaimed that the world oil situation had created a condition of "interdependence," binding buyers and sellers through mutual sensitivity and vulnerability to one another's actions. That view was not particularly popular in the United States, although it gradually gained acceptance. Six years later, at the First Arab Energy Conference in Abu Dhabi, the same theme of interdependence was raised by the oil-exporting countries. Later that year at the Third Annual OPEC Seminar on the Future Energy Market in Vienna, the secretary general of the Organization of Arab Petroleum Exporting Countries repeated the same doctrine: the posture of the world oil market is one of interdependence, bonds between buyers and sellers must be recognized, and cooperation is more useful than confrontation. This theme has since been reiterated by many OPEC members.

But the most critical issue of all is that of OPEC's future role in the oil industry. While maintaining its concern for moderation in the price of oil, OPEC has now shifted the fulcrum of debate between buyers and sellers from the price of crude to the final price of end products — gasoline, kerosene, and other refined fuels. The shift is important; OPEC is telling us two things:

- The OPEC countries do not want artificial pricing mechanisms such as taxes to raise the cost of petroleum products at OPEC's expense.
- OPEC is now interested in broadening its role in the petroleum industry, taking responsibility for processing crude as well as producing it.

The broadened role of OPEC in the petroleum industry, if achieved, will substantially change the balance of power between governments, the role of private enterprise vis-à-vis public enterprise, and the terms of trade. Therein will lie the most important and pervasive effects of OPEC.

---

Nazli Choucri is professor of political science at M.I.T. Born in Egypt, she came to the U.S. in 1962 after completing undergraduate work at American University in Cairo; her graduate degrees are from Stanford (M.A. 1964, Ph.D. 1967). Dr. Choucri's special interests include the problems of developing areas and the politics of international trade in natural resources. Her latest book, *International Energy Policy*, will be published by the M.I.T. Press early next year.

