OPEC and the Oil Market

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Despre OPEC s-a scris foarte mult în literatura de specialitate: de ce a fost creat, ce a realizat, încotro se îndreaptă. Studiul comportamentului OPEC a devenit o afacere de proporții pentru profesori, consultanți, analiști politici. Nu numai companiile petroliere și băncile sunt dispuse să plătească studii care să explice comportamentul OPEC, dar și guvernele (în special cel al Statelor Unite) au finanțat studii pentru a descifra magia luării deciziilor în cadrul OPEC.
Această lucrare își propune să prezinte sintetic cauzele care au dus la apariția OPEC, modul în care a funcționat de-a lungul ultimelor 4 decenii, precum și o analiză critică a politicii OPEC în domeniul prețului petrolului.

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Motto:
"OPEC: is an organization formed by rivals who recognize the need for cooperation."
(Alvaro Silva Calderon, OPEC General Secretary)

OPEC is not really an organisation. It is not a coherent hierarchy with a command system. It is actually a heterogeneous group of nations, linked together by oil. The mission of the "organisation" is to give to the member states the opportunity to meet. The link is the reciprocal economic and political interests. The behaviour of OPEC countries is unlike that of either Western democracies or private enterprises: it is a combination of traits specific to the economic and political objectives of each member state. OPEC members turn out to be very joint together, concerning some issues, while with reference to others they are irreconcilable (some members have been engaged in armed conflicts).
And still the organisation continues to function.
OPEC was founded in 1960, as a common politic initiative, in reply to various national aspirations. Therefore, OPEC was in the first place a political creation, which had as objective stopping erosion, and, afterwards, growing incomes from oil. Also, another less obvious objective was winning the independence in the field of oil industry.
The purpose of OPEC, as of any cartel, is to limit supply, with the hope of maintaining high price. Oil industry has been scared by explosions of production and reductions of price ever since 1859, when Colonel Edwin Drake discovered oil in Titusville,

Pennsylvania. As the large oil enterprises have concluded during 1920 – 1960 in order to prevent the price and, respectively, the profit from falling, OPEC member states meet periodically in order to establish production level, with the purpose of maintaining the price.

The nature of oil (lack of substitutes) and the relatively small number of suppliers make it an ideal product for cartelisation.

The rise of OPEC is linked to the transfer of power from oil companies to producing countries. Following the lack of expertise in oil exploration, production technologies, refining capacities, distribution networks, oil producing countries were not able to determine the domination of oil companies prior to the First World War. Since that period, exporting countries have begun to set better terms in their contracts1.

In order to regain profits, international oil companies tried to reduce posted prices, starting 1958. In 1959, British Petroleum unilaterally reduced the price by 10%. In 1960, following a second price reduction in August, five important producing countries decided to respond to these policies by creating OPEC.

In its first decade of existence, OPEC has managed to prevent the free falling of the price, but didn't manage to rise the price, as its member states hoped2. Although the nature of the product and the limited number of suppliers has favoured OPEC, the organisation's power has been limited in its first 10 years3.

The day of October 16th 19734 is an important moment in OPEC evolution. Between 1960 and 1973, OPEC was engaged in another type of activity than the one that followed after 1973. It was the moment in which OPEC took over determining oil price and meant passing from the time when it negotiated its power to the time when it became capable to exercise this power.

It had enough power to be created in 1960. It became powerful enough in 1968, in order to establish its long run objectives. It became ever powerful in 1970, and in 1973 OPEC had achieved almost all that its founders had intended, except that of being a real cartel.

The creation and functioning of OPEC

The Organisation of Petroleum Exporting Countries (OPEC) is a group of the most important oil producing countries. OPEC was founded in Baghdad, September

[1] In 1943, Venezuela signed the first "50% - 50%" agreement, which offered to the producing country a fixed amount plus half of the resulting profit.

[2] Generally, products cartels (like the coffee cartel) have failed because of the existence of substitutes and of numerous potential producers. A rise in the price of the product determines many consumers to choose a substitute (which leads to a fall in demand) and encourages new producers to enter the market (which leads to a rise in supply). Both the fall in demand and the rise in supply increase the pressure upon the price (lowering it), undermining the effectiveness of the cartel. Cartels suffer also because of its members being inclined to cheat the agreement, in order to increase production.

[3] Five causes can be identified: 1. OPEC share of only 28% of world production, in 1960 (in 1970 the share was 41%); 2. the underground oil reserves belonged to international companies (except for Iran), which limited the power of producing countries; 3. the oil excess in the 60s couldn't have led to a price increase; 4. exporting countries were desperate to gain incomes from oil, in order to finance their economic development; 5. important political breaks existed in the Arab world (the disagreement between Nasser's revolutionary government and the Saudi monarchy, Iraq's threat to invade Kuwait – stopped by the display of British forces - , the fight for supremacy in the Middle East, between Iran and Saudi Arabia)

[4] On October 16th 1973, delegates from Gulf countries met in Kuwait and unilaterally decided, without waiting for the reaction of oil companies, a rise in oil price by 70%.

14th 19601, by 5 important oil producing countries (Iran, Iraq, Kuwait, Saudi Arabia, Venezuela), which confronted the fall in oil sales revenues, following the price policies of large international oil companies2.

Producing countries were aware that their revenues from oil, accounting for a majority share in national budgets, depended on the prices established by a small number of interdependent companies (British Petroleum, Shell, Mobil, Exxon, Texaco, Gulf and California Standard) which had their headquarters in the US and Europe. These companies organised in 19473 mixed enterprises for Middle East oil camp exploring and development4. Worldwide, in the years 1949-1950, these seven companies controlled 65% of the oil reserves (except those from the former Soviet block), 55% of production, 57% of refining capacity and oil pipes5. The horizontal and vertical integration structure of these companies allowed a series of reductions, with the purpose of increasing the final revenue of oil companies and of decreasing taxes and dues paid to producing countries.

Ever since 1947, attempts have existed to co-ordinate the policies of oil producing countries' Governments, and, in 1959, the Arab Oil Conference in Cairo adopted a resolution which insisted that any change in the posted prices be discussed with the producing countries' Governments. The main initiatives in these attempts to approach South-American and Middle Eastern interests, which were to set the basis for OPEC, belonged to the Venezuelan Minister of mines, Juan Perez Alfonzo, and to the Saudi Minister of oil, Sheik Abdullah Tariki.

At present, OPEC is an international organisation of 11 developing countries whose incomes strongly depend on oil. Any country, which is an important oil exporter and which shares the ideals of the organisation, may become a member of OPEC.

Because incomes from oil are vital for the economic development of member states, their purpose is to bring stability and harmony on the oil market, through adjusting their own production levels so as to ensure an equilibrium between demand and supply. Therefore, OPEC's objective is co-ordinating and unifying oil policies in the member countries, in order to ensure:

- just and stable prices for oil producers,
- an efficient and constant oil supply to consumer nations,
- just capital yield for those who invest in this industry.

Oil Ministries from the member states meet twice a year to decide OPEC production level and decide whether activities to adjust production on the basis of recent and anticipative oil market developments are necessary. At present, OPEC

[1] OPEC was registered at United Nations Secretary on November 6th 1962 (Resolution No 6363)

[2] Although the aggregate incomes, from exporting oil, of the 5 Governments rose from $570 million in 1950 to $2,2 billion in 1960, the income per barrel, which rose at first, continuously decreased starting with 1957-1959, and for Saudi Arabia, Venezuela and Kuwait even the absolute values decreased

[3] For instance, ARAMCO: Arabian – American Oil Company

[4] At that time, international oil companies, which produced and sold a large share of world oil, dictated oil price and paid taxes and dues to the Governments of oil producing countries.

[5] D.A. Rustow, J.F. Mugno, *OPEC: Success and Prospects*, New York University Press, 1976, p. 2-3

member countries supply almost 40% of oil world production and possess over three quarters of the total oil known reserves of the Planet1.

However, the foundation of OPEC didn't immediately lead to another type of relations between companies and producing countries. Only in 1975 did the first meeting at the level of OPEC member states' leaders take place. Prior to that year, meetings were biannual and only at ministerial level. The Secretary of the organisation functioned in the first years at the Geneva headquarters, and then the headquarters moved to Vienna. New members were admitted until 19752.

Some of OPEC founding Governments favoured the classic strategy of cartels: production reduction in order to rise prices and thus increasing Government taxes and dues. But such a strategy would have implied assigning production quotas between member countries, which would have shaken the fragile unity of the young organisation and, at the same time, would have been in contradiction with the policy of large companies, which have always demanded exclusivity on decisions regarding production and of those in the process of extending their own market.

Only at the fourth Conference in 1962 tactics to negotiate prices with oil companies were adopted, on the basis of a common plan, to ensure stable revenues. Posted prices remained constant during the entire decade. This modest success meant also the prevention of some new price reductions.

This partial success encouraged OPEC, so as to adopt, at the June 1968 Conference, the "Declaration of Member States' Oil Policies". The Declaration benefited from little attention in Western newspapers, and oil companies didn't take it seriously, but it turned out to be the most important document establishing the long run strategy, as it actually developed in the 70s.

Among the long run objectives of OPEC, as they were established in the 19683 document, there are to be outlined:

1. determining oil prices;
2. establishing ownership and direct control over own oil resources.

The first objective was achieved in 1973, when OPEC member countries succeeded to unilaterally increase oil price. Between 1973 and 1974, OPEC succeeded in raising the price from $3 to $12 per barrel. In 1973, OPEC produced 55% of the world oil supply and over 80% of the oil sold on markets worldwide.

The second objective was either totally or partly achieved in most OPEC countries through take-overs and nationalisations of oil companies' operations. Integrated multinational oil companies continued, however, to be responsible for technical aspects of production and to act as OPEC oil distributors throughout the world.

Because the will for larger incomes was the incentive which led to the creation of OPEC, it became obvious that prices imposed by OPEC were to be substantially higher

[1] www.opec.org

[2] Qatar (1961), Indonesia (1962), Libya (1962), United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973-1992), Gabon (1975-1994)

[3] D.A. Rustow, J.F. Mugno, *OPEC: Success and Prospects*, New York University Press, 1976, Appendix C, p.167-172 (entire document)

than those set by oil companies. The implementation of such a strategy depended on political and economic circumstances and on OPEC's ability to benefit from them.

As opposed to other cartels, OPEC didn't resort, until towards the end of the 90s, to determining production quotas or allocating export quotas between its member countries1. Despite this limited centralised control, OPEC succeeded in maintaining oil price in the 70s. However, during the 80s, when the world market share of OPEC reduced by almost a third, both open and hidden price reductions occurred.

Due to oil abundance worldwide, at that period, (following consumption restraints, oil being substituted with coal, production growth in North Sea exploitations), OPEC countries were forced to reduce prices and production. Price reductions took many forms2.

At the beginning of the 80s, Saudi Arabia sustained oil price acting as a "swing-producer", reducing its production to a minimum of 2 million barrels per day (from a maximum of 10 million barrels per day in 1980). This was less than half of the authorised quota of 4.35 million barrels per day. However, in October 1985, Saudi Arabia changed its policy and began increasing production up to 6 million barrels per day, which significantly exceeded its quota. This policy change aimed at: increasing own incomes (a price reduction of 30%, which doubled the sales), encouraging world consumption and discouraging substitutes, disciplining other producing countries (like the United Kingdom, Norway, Mexico) unveiling the consequences of income decrease, forcing the competition (the US, Canada, the UK, and others) to shut down the equipment that functioned at high costs3.

On the long run, Saudi Arabian policy had as objective increasing the demand for oil, reducing oil reserves and production capacities, and inducing wider cooperation between OPEC member (and non-member) countries regarding production and price set decisions. As a result of own production increase, prices dropped to $12 per barrel, at that time.

After numerous months of negotiations, OPEC members (except Iraq) agreed, in July 1986, to significantly reduce oil production and to adopt a price of $18 per barrel. Saudi Arabia became again OPEC's "swing-producer" through reducing production in order to support the price set.

In the 90s, speculations with regard to a potential crash of OPEC continued. The weak oil demand, exceeding production capacities, sudden price fluctuations, cheating of the quotas, by member countries, wars between OPEC member states determined big problems for the cartel. Presently, OPEC controls almost 40% of world oil production, and the role of leader of Saudi Arabia was doubted especially by Venezuela. Despite all these problems, OPEC managed to survive.

Synthesizing evolutions on each of the 4 decades of existence of the organisation, it can be argued as follows:

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[1] Some countries, OPEC members, individually established own production quotas in order to prevent premature geologic exhaustion

[2] For instance, Nigeria proceeded towards reducing dues and taxes from oil companies which acted on its territory. Other forms were barter agreements and payment terms extension for acquiring oil.

[3] McGuigan, J. R., Moyer, C. R., Harris, F. H., *Managerial Economics: Applications, Strategy, and Tactics*, South-Western College Publishing, 1999, p. 529

- The 60s represented the creation years of OPEC. The organisation started as a group of five oil producing developing countries, which aimed at gaining member countries' legitimate rights in a world oil market dominated by the "seven sisters" – multinational companies. The activities had a generally low level, OPEC establishing its objectives, Secretary, adopting resolutions and engaging in negotiations with the companies. The number of member states reached 10.
- The following decade, OPEC acquired international importance, as member countries gained control over national oil industries, and began to have an important saying in setting the price on world oil markets. In this period, two crises (oil shocks) took place, caused, one by the Arab embargo in 1973, and the other, five years later, by the Iranian revolution burst, both on the background of market disequilibrium. The two crises resulted in a strong price increase for oil. Also in this decade, the first meeting of leaders of the member states took place, in March 1975, in Alger. The eleventh member, Nigeria, joined OPEC in 1971.
- At the beginning of the 80s, prices reached a maximum before beginning to fall dramatically, culminating with the 1986 collapse (the third oil shock). Prices recovered towards the end of the decade, however without reaching the level at the beginning of the period, following awareness of the need of oil producers' common actions (because market stabilisation was in focus). Environmental issues began to appear on the international agenda.
- A fourth crisis, which could have burst following the outbreak of hostilities in the Middle East, was avoided at the beginning of the 90s. The price rise on panicked markets was reduced by increasing oil production by OPEC member countries. Prices remained relatively stable until 1998, when they collapsed, following unfavourable economic developments in South Eastern Asia. Common action of OPEC and of important non-OPEC producers again stabilised the situation. At the end of the decade, major mergers occurred, between oil companies, in an industry that was subject to important technological progresses. This decade, the change of international climate led to avoiding major future falls in oil demand.

Price of oil and OPEC policy

During the first two-three decades after the Second World War, the US, Japan and Western Europe came to a large scale development. International trade grew more than five times, world GDP tripled, same as energy consumption. Oil market size depended decidedly on price and the price, in its turn, depended on a combination of economic and politic factors.
The economic factors aren't difficult to identify. There is a lower limit for the potential price of oil, that is the physical cost of producing in the most favourable exploitations, to which the cost of capital is added, transportation towards markets, distillation, distribution. No one would produce on the long run, having losses. And there is an

upper limit that is the cost of producing alternative fuels: coal, nuclear energy, a.s.o. No one would use a more expensive fuel on the long run if cheaper fuels were on the market. Within this economically determined interval, prices can fluctuate. And here political factors come, which have great force in oil-related businesses. In practice, economic oil policy is usually reduced to a major competition between the desires of oil companies, of producing countries' Governments and consuming countries' Governments.

In a world of free trade and perfect competition, the oil price would be at the lower limit, and consumption would be maximum (so long as enough resources existed). In such conditions, consumed oil should only be from the Persian Gulf1. In a world of perfect monopoly, oil price would rather be nearer to the higher limit, set through available alternatives.

The lower limit is not difficult to be valued. But the upper limit is almost impossible to calculate, as there are no present available substitutes for car and plane fuel, for example. In addition, the elasticity of oil demand is hard to be tested. One cannot estimate how much OPEC could raise the price without the latter resulting in total income drop2.

So this is where battles around oil price came from during the century: from splitting the difference between a cost of ¢20 per barrel, to a price of over $20 per barrel!

OPEC is a cartel in the sense that it sets the oil price. Prices are set at ordinary meetings of oil Ministries from OPEC member countries. Saudi Arabia is the most influential OPEC member because of the enormous size of its production capacities (almost half of the total production of OPEC's total production). All price decisions are voted by oil Ministries and must be unanimously adopted. However, at the beginning of the 80s, OPEC members didn't decide upon an uniform price. The norm-price varied from $32 to $36 per barrel for producing countries, while during the last years this interval; extended ($32 – $41), following differences in the quality of oil between producing countries and distances to the markets in consumer countries.

Conservative producing countries from the Persian Gulf (for instance, Saudi Arabia and Kuwait), with consistent oil reserves, sufficient even for a century, tried to maintain the prices at the lower limit in order to delay the development of alternative fuels (substitutes). Other countries, with smaller reserves (Libya, Iran) set prices at the upper limit of the interval, aiming at maximising their revenues prior to the oil exhaustion.

No other commodity has had a larger impact on global economic and political performance, as oil has. Both as volume, and as value, oil is by far the most important commodity in international trade3.

[1] For instance, the production cost of one barrel in the 50s was between ¢12 and ¢22, as compared to ¢39 in Venezuela or ¢1,51in the US.

[2] For example, in 1975 the price paid in Europe (OPEC's largest consumer) reached almost $22per barrel, and at that level only did a consumer resistance begin to show. The increase of 50% (from $15 to $22) brought along only a decline of less than 10% in volume.

[3] In 1987, although transactional volume reduced and the price fell, the total value of exports and imports was 209 billion dollars, that is 8,4% of international trade value.

Price fluctuations for such a strategic merchandise have large effects upon the economies of all participants to the global energy trade, whether they are members of OPEC or not, whether they are producing or consuming countries.

Oil is practically the only source of income for oil producing/exporting countries and supplies to them not only the funds necessary for long run development, but also the resources necessary to cover current needs. For most OPEC countries, their income in foreign currency depends of oil on a 80 - 99% ratio.

Despite the importance of oil price stability for all participants in international energy trade, the price for no other merchandise fluctuated as amply and violently as that of oil1.

OPEC decision to increase so much the price in a relatively short period of time ultimately proved to be self-destructive. The most important consequence was that, especially at the middle of the 80s, OPEC's market quota decreased so much, that it became impossible for OPEC to further support the price.

By taking over price decision, the purpose of OPEC was to create the conditions to control and manage price on rational basis, so that the dominant role of the organisation on the market be maintained and stable and rising incomes for OPEC members be ensured.

Despite all these, OPEC confronted a deterioration of its dominant world market position and in less than 10 years allowed conditions that led to cheap oil for a long period of time and destabilised oil market.

The most important outcome of the high price level was that OPEC demand, in time, reduced to half, between 1979 and 19852. The drastic effect was the erosion of OPEC's ability to control international price. The market quota decreased so much that, at the end of 1985, the price began to fluctuate much, having a downward trend.

As a result of these fluctuations, of both price and volume, oil incomes of OPEC members fluctuated themselves. Taking into account the almost total dependence to incomes from oil of these states, it is clear that these ample changes have had a negative impact not only on the economic development of member countries, but also on OPEC ability to stabilise price. Following revenue as well as production capacity drop, the latter remaining unused because of reduced oil demand, member states went through internal pressures to produce over the level that could have been absorbed by the market or over the allocated production level. As production quotas are hard to maintain, the result is price decrease as supply exceeds demand. Therefore, a system of low prices is to be expected so long as oil demand is below OPEC production capacity.

When OPEC took over from international companies the decision regarding oil price, member countries were totally unprepared to assume such a responsibility. The price setting mechanisms and interaction of forces on the oil market weren't familiar to them.

The price setting decision belonged for decades to international oil companies (beginning with the 20s, when the concessions system was introduced) and not to producing countries' Governments. OPEC member states only collected dues from the

[1] In January 1971, the price shown for Arabian Light (the reference oil of OPEC until the end of 1985) was $1,8/barrel. In January 1981, the reference price was $36/barrel.

[2] OPEC market quota reduced from 75 - 85% in 1973 to 40 - 50% in 1985.

companies. The latter set the price and the quantities produced and there was no partnership.

The moment OPEC took over the price decision it suddenly found itself having enormous economic and political power. Not having experience and having few experts, these countries didn't succeed in using that power. Thus, price decisions didn't show either a rational approach or a clearly defined economic strategy.

Analysing OPEC price decisions after 1973, it can be said that they didn't take into consideration basic economic principles.

- OPEC ignored a very simple principle: oil price elasticity of demand is low on the short run, but can be high on medium or long run. When OPEC repeatedly and significantly increased the price, the effects weren't immediate: consumers continued to use oil until they managed to find substitute products or reduce energy consumption. Finding and producing available substitute products requires investments and time. Once new energy sources are rendered valuable, it is not easy to completely give them up even after oil price becomes competitive again.

  OPEC didn't also take into account the fact that the price of a commodity determines not only the nature and volume of substitutes, but also the required level of investments. The higher the oil price, the larger the number of substitutes and the more quickly are investment funds available to produce substitutes.

  Prices can determine also the necessary time to implement new production capacities. The higher the price, the shorter this period. Very high oil prices ensure large profit margins to investors, that can be then reinvested to reduce the time necessary to implement new alternatives (for example, the process of exploring and developing new oil fields can be accelerated).
- Because of its dominant position on the international oil market, OPEC derived profit from a cartel position. In its price decisions, however, OPEC didn't take into consideration the fact that any group of producers of a certain commodity which engages in international trade and which has a monopoly or oligopoly position on the market, must find equilibrium between the price it sets and demand.

  OPEC didn't apprehend that the reason for economic power is a growing and dynamic demand.

  The cartel model of setting the price considers that price can be increased as long as it doesn't determine consumption decrease under a certain level, or, can be increased only until finding new substitutes. The moment cartel members see that the price they set leads to a decrease in the market quota, they adjust (reduce) the price in order to maintain a high demand. OPEC has, however, acted the other way around: it increased the price while demand decreased.

  A strong demand is a condition sine qua non for a group's ability to control price1.

[1] Al – Chalabi, Fadhil, *OPEC at the crossroads*, Pergamon Press, 1989, p. 6

- Analysing the decision making process, it can be said that OPEC didn't take into consideration the fact that the oil industry is in itself unstable and that it requires efficient management.

  If the industry is left by itself, under the influence of market forces, this may determine violent fluctuations (large fluctuations in short periods of time).

  Oil industry history has proven that without the efficient management of oil supply and without a rational price policy (that would take into account the long run impact on demand), the market becomes chaotic and results in damage to the parties involved. The main reason stands in the high cost of finding and developing new energy sources, as compared to the extremely low production cost of exploiting existent oil fields.

  In an oil-flooded market, the lack of efficient supply management leads to competition between suppliers, which result in price dropping to the marginal production cost of an oil barrel, and that because of the market operators' fight to maintain their market quota.

  Given the negative effects of oil price fluctuations, producers (oil companies or Governments) must convene upon a method to regulate supply, that being the only mean to ensure a relative stability of the price.

  At first, international oil companies were those which convened upon regulating the world oil supply. This was a consequence of price wars in the 20s, which led to a price of only ¢20 per barrel.

  Even in the time of market scarcity, supply must be regulated lest it should result in an excessive price increase.

- Energy, in general, and oil in particular, are strategic commodities for the economic growth and welfare of the consuming countries. Therefore, the Governments of these countries cannot leave uncontrolled the oil market, only under the influence of demand and supply forces and they intervene through fiscal instruments (high consumption taxes, subventions for internal energy producers, a.s.o.) to manage the price and the energy balance.

  Through substantial price increase, OPEC has encouraged consuming countries to use on a larger scale protectionist measures, which had a negative effect on OPEC's oil demand.

- In order to ensure constant increase in world oil trade, the isolation of oil from any conflict and political pressure is necessary.

  A basic requirement for the increase of transactions of a commodity is consumers' perception that the merchandise's supply is adequate and certain.

  The way in which Arab embargo in October 1973 was announced and implemented was used by the anti-Arab propagandist machinery in order to make OPEC oil political and to prove that Middle Eastern oil is uncertain. Such political approach was intensified and dramatised by the fact that the embargo proclamation came a day after the meeting in Kuwait of OPEC countries from the Gulf, on October 16th 1973, when they announced their historic decision to take over price decision from international companies and to increase the posted price for Arabian Light to $5.11/barrel, that is a 70% increase compared to the price at that time, of $3/barrel.

Moreover, implementing the embargo to Arab oil producing countries, though it had been announced to be made selectively (and that it would have been used only against the countries which had supported Israel), was perceived as a punishment to the entire world.

The announcement of step-by-step decreases in the oil production of Arab countries led to a spectacular price increase for world oil, affecting all oil importers (including Third World countries sympathising with the Arab case). In November 1973, prices reached a level higher than twice the price posted in October 1973 by OPEC, which was $5.11/barrel.

The politic frenzy in world mass-media was directed against OPEC, which was perceived as an organisation of Arab origin1.

Another effect of the political approach to oil was the creation of the International Energy Agency 2. The spoken intention of the I.E.A. was to adopt a common policy against OPEC, in order to reduce the efficiency of the organisation's decisions. The most important objective was finding ways to reduce the dependence to OPEC oil.

- Mystifying oil as a special raw material contributed also to the actions to set prices on non-economic basis. In addition, there were points of view supporting the idea that, having in mind the exhaustible nature of oil reserves, there is oil over-production. To protect these for future generations, OPEC countries had to minimize their production, which led to imposing higher prices, especially during the second oil shock in 1979 – 1980.

  Though it is true that oil reserves are exhaustible and that they must not be wasted, the character of exhaustibility shouldn't be considered in a static, but also dynamic manner: partial resource exhaustion helps present generations to develop the infrastructure in producing countries, a beneficial process for the next generations. Also, OPEC exploitation of present oil fields doesn't mean that these cannot be replaced by new fields.

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[1] Mass-media completely ignored that the embargo wasn't a totally Arab business, not even a business totally of OPEC. For instance, Iraq didn't take part in this embargo.

[2] This agency was the result of a meeting organized by Henry Kissinger, US State Secretary.

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