

surplus productive capacity⁷ is necessary to help maintain crude oil price stability. Presumably, the cartel is in a strong strategic position to influence prices, whenever the call for OPEC crude is at or in excess of its productive capacity. ***Currently OPEC is operating at 82% of its capacity. According to the forecasts presented in this paper, OPEC will be producing at this rate of capacity utilization until 1995, after which the utilization rate is expected to increase to around 90%.***

The CERI study argues that the low price, high volume market strategy long favoured by the Saudis will be the dominant OPEC strategy over the decade of the nineties. Several leading OPEC members including Saudi Arabia, Iraq, Kuwait and Venezuela plan to increase their crude oil capacity. Table A16 shows the estimates of productive capacity expansions derived from the individual OPEC member country plans. These capacity additions will certainly require significant capital investment. According to some estimates⁸, an investment of up to \$70 billion would be required to increase productive capacity in the Middle East by 5 MMBD over the next 5 years. Of this amount \$20 billion would be needed to develop new capacity and \$50 billion would be required to maintain current capacity levels. Additional funds required for restoring Kuwaiti wells are estimated to be around \$20-30 billion, while the cost of restoration in Iraq is unclear.

The problem of raising the capital necessary to undertake these projects is now a major hurdle facing OPEC members. Over a third of the national oil companies' capital requirements is expected to be met from bank borrowings, a small portion from state reserves and the remainder from foreign contractors offering financing packages. The speculation is that a gradual transformation and commercialization will eventually lead to privatization and the opening up of the hydrocarbon sector to foreign participation in the Gulf region⁹.

⁷ Production capacity is related to proven reserves through the engineering principles of an optimal field depletion rate given the number of wells and the physical output limits. It normally means the rated optimal production capacity of a field that is sustainable over a period of months or years without causing permanent reservoir damage. (Energy Policy, Oct. 1992)

⁸ EMR, "Experts' Views on World Oil Markets", Winter 1992.

⁹ W.A. Mazedi, "Privatizing National Oil Companies in the Gulf", Energy Policy, October 1992, pp 983-994.