The Problem With Oil

Oil is not merely an economic commodity. It is a source of enormous political leverage in the hands of the major oil producing nations. Any realistic assessment of the cost of oil must include not only the price in dollars and cents, but also the price in terms of political, military and other concessions which producing countries can extract as a condition for supplying oil. Virtually all the OPEC producers, particularly those in the Middle East, have used their oil at one time or another to pursue noneconomic objectives. Oil has been used to influence the foreign policies of consuming countries, the most significant example being the Arab boycott during the 1973 Arab-Israeli dispute. Oil has been used to induce the United States, France, Germany, Italy, Japan, and Brazil to trade advanced weapons systems and technologies which have military applications, to the Middle East. Oil has been used to obtain other economic concessions including assistance in building refineries, petrochemical plants or other industries which otherwise would not have been granted.... (U.S. Senate Committee on Energy and Natural Resources, 1980, page 29.)

Organization of Petroleum Exporting Countries (OPEC)

Prior to the formation of OPEC in 1960, control of the world petroleum business lay primarily in the hands of the major oil companies and price changes were arranged through a distributors' cartel. With the aim of preventing oil price reductions and improving their negotiating position, a number of oil-producing countries held discussions concerning a united pricing and production policy, culminating in the formation of OPEC on 10 September 1960, in Baghdad. The founding five countries were Saudi Arabia, Kuwait, Iran, Iraq and Venezuela. Today the membership of OPEC stands at thirteen: Saudi Arabia, Kuwait, Iran, Iraq, the United Arab Emirates (whose oil-producing members include Abu Dhabi, Dubai and Sharjah), Qatar, Libya, Algeria, Nigeria, Gabon, Ecuador, Venezuela and Indonesia. OPEC's estimated crude oil production in 1980 was 26.8 million barrels/day, or 45% of world crude liftings of 59.7 million barrels/day.

Organization of Arab Petroleum Exporting Countries (OAPEC)

On 9 January 1968, Saudi Arabia, Kuwait and Libya concluded an agreement in Beirut founding OAPEC, with membership restricted to Arab countries in which oil represented the main source of national income. Algeria, Abu Dhabi, Dubai, Bahrain and Qatar joined in 1970 and Iraq in 1972. In late 1971, the Beirut agreement was modified to allow membership of any Arab nation in which petroleum represented an "important" source of national income. Syria then joined in 1972 and Egypt in 1973, although Dubai withdrew from OAPEC in late 1972. OAPEC precipitated the oil embargo of late 1973, leading to the first explosion in world price. In April 1979, Egypt was suspended from OAPEC membership but, for consistency in statistical reporting, Egypt's oil production is still often included in the OAPEC total. OAPEC's crude oil output in 1980 was approximately 19.6 million barrels/day, about 33% of world production.

The world petroleum market is susceptible to manipulation for a variety of reasons. OPEC controls almost 70% of global conventional crude oil reserves and one member alone, Saudi Arabia, holds approximately 27% of the total. This small group of nations also possesses the greatest capacity to expand production in the short term. With OPEC accounting for a little less than half of the world's oil output while holding more than two-thirds of its reserves, it is apparent that other oil-producing countries are compelled, at least in relative terms, to overproduce their oil resources. The oil producers in the Middle East could, on average, sustain current levels of output for nearly half a century; the United States and Canada have little more than a decade of oil left at the current rate of production with their present proved reserves. In a world in which oil is the dominant energy commodity, now accounting for about 45% of primary energy consumption, this is a degree of resource concentration holding profound implications.

Oil is an essential component of the energy system in every industrialized nation and fuels all conventional