diminish during the next decade. Supplies from the Communist bloc will not find their way onto the international market because of the increased demand for them within that bloc. Neither can we look with optimism to substantially increased supplies from enhanced oil recovery. Estimates are that by the year 2000 such methods may account for no more than half-a-million barrels a day of additional supplies. Lastly, neither can we expect synthetic fuels to provide enough additional petroleum to alter the situation in a meaningful way. Given the projections of future crude oil prices, such developments are uneconomic.

The prospects of maintaining non-OPEC petroleum supplies at their current levels in the future appears remote. Most of the major sedimentary basins have been explored already. Few of the remaining unexplored areas hold the promise of another Gulf of Mexico or a North Sea. Additionally, many of the yet unexplored promising areas lie both in areas remote from markets and in inhospitable environments. To even attempt to slow the decline of non-OPEC oil would require amounts of capital expenditure which could only be described as enormous. Such a level of expenditures will not be forthcoming without price stability in the oil markets. This is largely dependent upon OPEC.

The recent behavior of oil prices gives little basis for optimism. Rarely is oil being sold at a long-term fixed price. More commonly it is being sold on a short-term basis or on the spot market. Current estimates place the amount of oil being sold on the spot market at near 70 percent. This is a significant change from the not too distant days when the spot market accounted for only 5 percent of world petroleum sales. It appears that the recent trend towards a commodity market approach to oil has developed a momentum which may be difficult, if not impossible, to reverse.

The present situation of slowly increasing demand and the peaking of non-OPEC supplies implies an increasing reliance upon OPEC in the coming years. It has not been so apparent to many casual observers because more than one-third of OPEC's production capacity stands unused. Another reason it has not been noticed is that in recent years the price pressures of internationally traded petroleum have been downward.

### OPEC priorities

The one controllable causal factor in the decrease in the price of oil has been the high level of production in non-OPEC countries. This production has increased by about 4 percent over last year. The major source of this increase has been the North Sea countries. The high levels of production in the North Sea region have had the effect of undermining one of the major purposes of OPEC as an organization. That purpose is to have stable oil prices and hence, stable oil revenues. This purpose was the subject of the first resolution adopted by the five founding members of OPEC (Iran, Iraq, Kuwait, Saudi Arabia and Venezuela) at the First OPEC Conference in Baghdad in September 1960. The relevant paragraph of that first resolution states that:

> Members shall study and formulate a system to ensure the stabilization of prices by, among other means, the regulation of production, with due regard to the interests of the producing and of the consuming nations and to the necessity of securing a steady income to the producing countries, an efficient, economic and regular supply of this source of energy to consuming nations, and a fair return on their capital to those investing in the petroleum industry.

The importance of stable petroleum prices to OPEC and its member countries is fundamental. All thirteen members of OPEC are developing countries. They are all heavily dependent upon oil revenues to finance their development programs. Until their economies reach a higher level of development they remain tied to oil, a non-renewable resource. Long ago they recognized that development was, of necessity, a long-term process. It could not be achieved in a few years. Despite assertions to the contrary, the goal of oil price stability in real terms has been the primary purpose of OPEC throughout its twenty-five years of existence. It is a goal which it has often failed to achieve, but such failures have not diminished its resolution.

The present situation of OPEC member countries consciously overproducing is a case in point. For several years they have sought to reach an agreement on production with the world's oil producers in order to stabilize world oil prices. Non-OPEC producers have not been willing to enter into such an agreement, especially Britain. Increasingly OPEC, and its major producer Saudi Arabia, were no longer willing to reduce their production and revenues while other producers were reaping the benefits. OPEC lost its patience. It decided that if low and unstable prices were what non-OPEC producers want, they would have them. Such a policy may be costly in the short run for OPEC, but not in the longer run, especially for its dominant members.

By the early 1990s most of OPEC's remaining excess capacity will be concentrated in Saudi Arabia and its neighbors around the Gulf. During the same time period OPEC production will be concentrated increasingly in the Middle East. OPEC, at that time, will realize rapidly increasing oil export revenues.

These factors, when combined, will serve to again place OPEC in a much more important position in the international oil markets than is currently the case. At that same time the output of the OPEC countries will be approaching effective capacity. The result of this development is that even a moderate disruption of oil supplies by OPEC could be significant.

At that time the prices of oil will rise. The next few years, when oil prices are low, will be difficult for the OPEC countries. Their oil revenues have fallen. This has caused them to stop temporarily a number of their developments aimed at industrializing their countries. But just beyond the horizon, the future of the OPEC countries is rosy. They know this. They know that the original reason for creating OPEC, the political and economic development of the member countries, will be much easier. With this bright future before them, the OPEC countries will grin and bear the low oil prices for the present. □