

military machines. Over half of the oil involved in international trade passes through the Strait of Hormuz at the entrance to the Gulf of Arabia, at a rate of about 18 million barrels per day. In a typical 24-hour period, 70 to 80 ships use the Strait, including the world's largest supertankers. Roughly 90% of Japan's total oil requirements are shipped via this narrow passage, as are 60% of Western Europe's oil imports and about 30% of U.S. imports. The invasion of Afghanistan brought Soviet military forces to within 550 kilometres of the Strait, adding to the anxieties of the oil-importing nations.

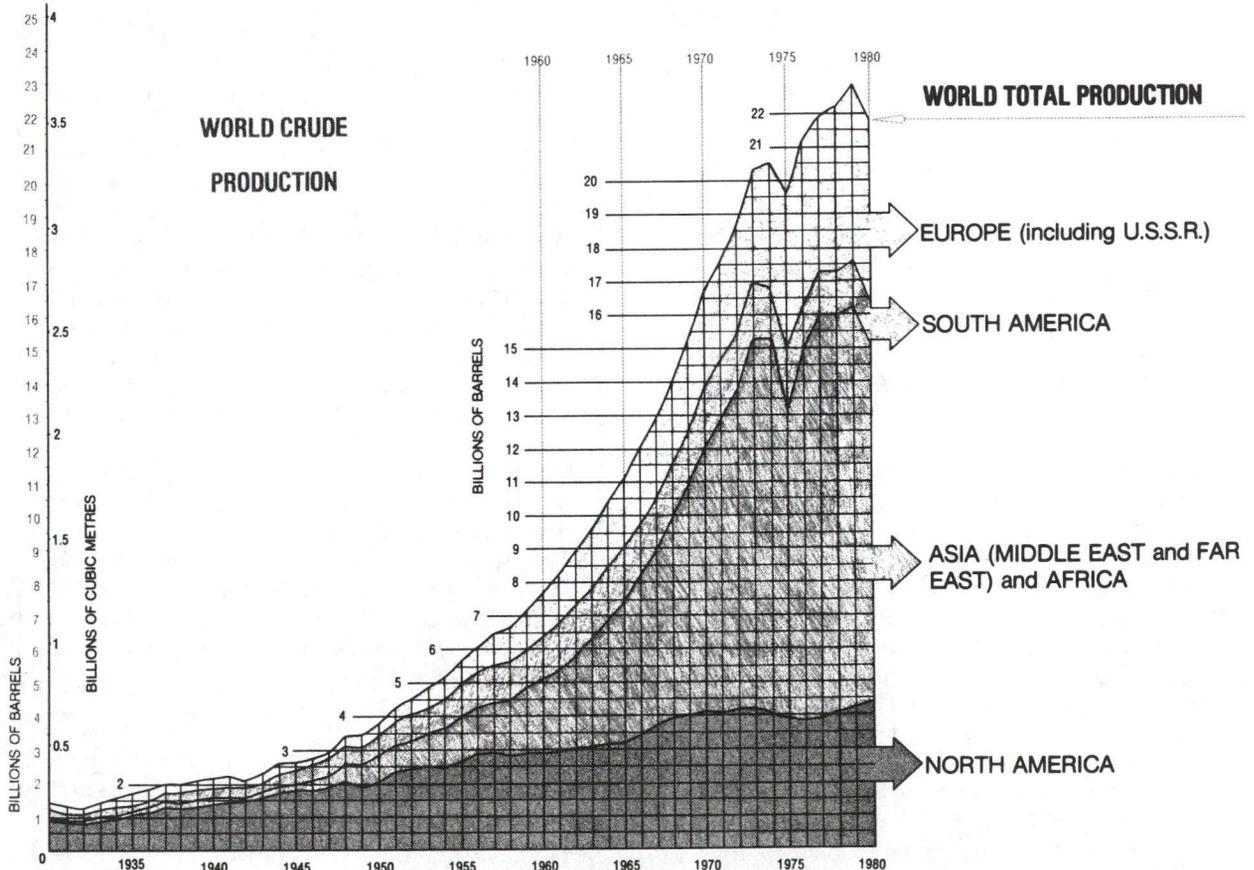
In a number of other ways, OPEC is moving to strengthen its ability to control the world petroleum market. During the 1970s, host governments nationalized most of OPEC's oil fields, relegating the petroleum companies to the role of operator. The oil-producing countries are also moving more towards direct sales via government-to-government transactions. Prior to the 1973 embargo, more than 75% of the oil extracted by OPEC was marketed by the major oil companies; by 1979, the figure had dropped to less than 50%. The

ability of the oil companies to act as a buffer between consuming and producing countries — notably to re-route supplies in the event of emergencies — is consequently being lost.

OPEC also is seeking to extend its control through diversification into downstream petroleum activities such as refining and shipping. Such diversification allows OPEC to earn more revenue for each barrel of oil produced (thereby diminishing the need to expand production), and allows producers to extend their influence in the marketing process. Some European refiners have even agreed to process crude while allowing the producing country to retain title to the oil throughout the refining process. This also grants the producing country more power to control the destination of its petroleum exports.

This concentration of power in the hands of OPEC has paralleled the decline of the United States in world oil affairs. At the end of World War II, the U.S. was not only the world's largest producer, but its output exceeded that of all other countries combined. As recently as

Figure 3-22: WORLD CRUDE OIL PRODUCTION BY REGION, 1930-1980



Source: DeGolyer and MacNaughton, 1980, p. 4; and Auldridge, 1980, p. 78-79.