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## AN APPRAISAL OF THE ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES (OPEC): TRACING THE TRAJECTORY FROM ESTABLISHMENT TO THE PRESENT TIMES

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### Abstract

As an aftermath of World War Second, strategists from all over the world concentrated on certain oil producing nations and turning them as the focal point in the new era. With the objective to offer shared maintenance to regulate oil prices and to stimulate judicious use of oil resources, the Organization of the Petroleum Exporting Countries (OPEC) was formed. The current research presents the trajectory of OPEC in order to provide insights of the ground realities of efficacy achieved in term of its objectives. The paper presents a crisp account of its history, aims, structure, discussion of the legal statutes, and the various roles of its member nations. This study is significant to understand and gauge the potential challenges of this organization both in the past and in the contemporary scenario. This paper also offers an appraisal of the recent developments and an exploration of the ongoing functioning of OPEC in order to assist the academic scholarship to regulate the policies and to adopt best practices that could ensure a sustainable consumption of the oil reserves along with providing substantial support to both oil producing and oil consuming nations.

**Keywords:** Energy Policy, Oil reserves, OPEC, Middle East.

### Introduction

Oil and gas are one of the main fuel sources of our planet. These resources are essential in almost every sector of human working. The history stands witness of the continual issues about the prospective reserves. Often the question arises as to what will be the future of such potential oil and gas reserves? Although, the flourishing industries in these sectors are far away from any sign of depletion, yet the fact cannot be denied that these repositories will be drained sooner or later, as the massive devouring of such resources is multiple than the measure of existing oil and gas reserves. Subsequently, the assets must be utilized reasonably. Five prominent nations, in the year 1960 established a coalition called the Organization of Petroleum Exporting Countries to control the stockpile and cost of oil. These countries came together with an aim to provide mutual support to regulate oil prices and to promote sustainable use of these resources. Worldwide occasions as of late have exhibited the interconnected idea of the present world. It is hence more significant than any time in recent time to arrange activities and work along with others while handling these worldwide issues. This is particularly essential for the oil business as it attracts a global interest. As an aftermath of World War Second, strategists from all over the world concentrated on the West Asia, which they accepted would turn into the focal point of post oil resources in the new era. Even during the 1930s, Britain had dealt with Iran's oil fields and the United States found oil reservoirs in countries like, Kuwait and Saudi Arabia. Post-war, the West Asian oil industry expanded. Later, American reliance on West Asian oil also reached new heights.

### Understanding OPEC

As an intergovernmental body, founded in the year 1960, the Organization of the Petroleum Exporting Countries (OPEC) is a dynamic initiative to synchronize policies on oil exporting. Every part country needs to complete its capacities as per the arrangements set out by the association. This organization was formed during a conference in September 1960 held at the Baghdad and formed it's headquartered at Geneva, Switzerland (OPEC, 2010). After five years, OPEC's headquarter was shifted to Vienna, Austria. The founding member of this body were Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. The delegates from the founding countries were, "Fuad Rouhani from Iran, Dr. Tala'atalShaibani from Iraq, Ahmed Sayed Omar from Kuwait, Abdullah Al-Tariki from Saudi Arabia and Dr. Juan Pablo Pérez Alfonzo from Venezuela" (OPEC, 2020).

Later, a number of other nations joined hands with this organization, namely,

Qatar (1961); Indonesia (1962), suspended its membership in January 2009, reactivated it in January 2016, but decided to suspend it again in November 2016; Libya (1962); United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973) – suspended its membership in December 1992, but reactivated it in October 2007; Angola (2007); Gabon (1975) - terminated its membership in January 1995 but rejoined in July 2016; and Equatorial Guinea (2017).

This organization was formed to counter the activities of certain industries that were a part of International Oil Companies (IOCs). The exercises of these IOCs were regularly hindering the development and advancement of the oil delivering host nations, whose normal assets they misused (Mabro, 1992). The initial step towards the foundation of OPEC can be followed back to 1949,



when Venezuela moved toward the other oil creating non-industrial nations (Iran, Iraq, Kuwait and Saudi Arabia) to recommend that they investigate roads for normal and closer participation on oil matters.

However, the fundamental stimulus for OPEC's introduction to the world came 10 years after the fact, after the IOCs had chosen to decrease the cost of oil without first asking the legislatures (Mabro, 1992). Accordingly, a few oil-creating nations chose to hold a gathering in Cairo, Egypt, in 1959. This was the First Arab Petroleum Congress. Iran and Venezuela were welcomed as observing nations. The gathering received a goal requesting IOCs to counsel the administrations from oil-creating nations prior to changing the posted cost of oil. In any case, the IOCs disregarded the oil-delivering nations. Furthermore, in August 1960, cost of oil was decreased (OPEC, 2012). As a result of such increasing concerns, OPEC was established as a perpetual intergovernmental institution.

### Objectives and Functioning of OPEC

OPEC is aimed at coordinating and bringing together arrangements and rules pertaining to oil and petroleum among its member nations. Its objective is to ensure an equitable and sustainable costs for oil producing countries and to make a productive, monetary and customary supply of oil to consuming countries. This would then produce a reasonable profit to those putting resources into the business (Moran, 1981). As per its Statute, the aim of the Organization of the Petroleum Exporting Countries (OPEC) is to arrange and bring together the oil production and consumption strategies of its member nations and guarantee the adjustment of oil markets to get an effective, financial and customary stock of oil to purchasers, a consistent pay to makers and a reasonable profit from capital for those putting resources into the petrol business (OPEC, 2012).

During the establishment of this organization, a number of guidelines were set forth to regulate the functioning of this organization. The following are the provisions put forth in this regard:

- The chief purpose of this institution is the management and alliance of the petroleum strategies and plans of the member nations and the establishment of the best practices for the preservation of their interests at all levels.
- The Organization formulates methods and rules for safeguarding the maintenance of costs in global oil business in order to remove destructive and needless instabilities.
- Sustainable importance must be paid to the welfares of the producing countries and to the need of safeguarding a stable revenue to the producing nations; an effectual, monetary and steady production of oil to consuming states; and a substantial profit on their wealth to those spending in the oil trade.
- In a situation where as the aftermath of the employment of the Organization's judgments sanctions are put up by any concerned corporation or a group of corporations against the member countries of OPEC, no affiliate may agree to a proposal of a favorable dealing, be it an escalation in petroleum trades or in an elevation in expenses, which may be a part of conspiracy by the interested associations in order distort the functioning or regulations offered by the institution.
- The Association is led by the attitude of the autonomous equivalence of its Member nations. Member states must hold up all the responsibilities and duties assigned to them by the law.
- The place of conference shall be the Headquarters of the organization.
- The official language of OPEC shall be English.

### Structure of OPEC

OPEC consists of three key organizations:

#### 1. The Conference

The role of the Conference is to select and elect a leading President and another acting President in the initial meetings of the organization. The Alternate President or the acting President has the power to take up the role and responsibility of the head President when he is absent or during any such time when needed. Article 11 of the OPEC Statute highlights that, "The Conference shall consist of delegations representing the Member Countries. A delegation may consist of one or more delegates, as well as advisers and observers. When a delegation consists of more than one person, the appointing country shall nominate one person as the Head of the Delegation" (OPEC, 2012).

#### 2. Board of Governors

The Board of Governors consists of those governors that are designated by the member nations of OPEC and are agreed by the Conference. Every member nation of OPEC has to be present and represented during the meetings and sessions of the Board. Article 18 states that, "The Board of Governors shall meet no less than twice each year, at suitable intervals to be determined by the Chairman of the Board, after consultation with the Secretary General. 10 B. An Extraordinary Meeting of the Board of Governors may be convened at the request of the Chairman of the Board, the Secretary General, or two-thirds of the Governors" (OPEC, 2012).



### 3. The Secretariat

The Secretariat has the power to execute responsibilities of the organization according to the Statute. Its functions are monitored by the Board of Governors. It consists of the Secretary General and other member staff according to the timely requirements and resides at the Headquarters of OPEC.

#### Analysing OPEC's functioning during 2000s

In the initial years, the oil pricing brand mechanism of the OPEC assisted in strengthening and stabilizing of the crude prices. But in the year 2004, many factors such as market forces, speculations, etc., have changed the situation leading to rise in the prices and increase in volatility (OPEC, 2010). Oil was utilized progressively as an asset class. In the mid of 2008 there was a huge increase in the prices and thereafter the price got collapsed due to the global financial crises and economic downfall. As a part of worldwide endeavors and to address the financial crises OPEC become very significant in backup the oil sector. In Caracas the OPEC's second summit was held and its third summit was held in 2007 Riyadh. In both of these summits, three themes were used as guidelines-established stable energy markets, sustainable development and the environment (OPEC, 2010). Further, in 2005 OPEC approved a long-term policy. In OPEC one nation joined it, other country reactivated its enrollment and third country suspended from the OPEC.

#### A More Recent Appraisal: From 2010 to the Present Times

The worldwide economy represented the fundamental danger to the oil market in the initial years, as worldwide macroeconomic vulnerabilities and elevated dangers encompassing the global monetary framework burdened economies. In the first half of the decade, the increasing social uncertainties in various regions of the world impacted both supply as well as demand, albeit the market remained moderately stable (Pierru et al., 2018). In 2011 and in mid-2014 the prices were quite balanced but in 2014 due to oversupply the decrease. In Asian countries there was an increasing demand and in the OCED the demand was decreasing. This resulted in a continuous shifting of the trade patterns. The world's attention on numerous environmental issues started to hone, with assumptions for another UN related climate change convention. OPEC remained stable in the global market, and hoped to additional improve its exchange and collaboration with customers, and non-OPEC makers.

### Conclusion

Contemporary advancements of the worldwide oil industry are characteristic of the critical part of OPEC in dodging unstable oil costs since the association have consistently attempted to give customers the required oil at judicious and reasonable costs by such various methods as willful creation cuts or increments at various occasions. The members of this organization came together with an aim to provide mutual support to regulate oil prices and to promote sustainable use of these resources. It is therefore crucial to provide insights about the structure and functioning of the organization and to assess the direction as well as the effect of its regulation at both regional and global level.

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