OPEC AND SALE OF OIL: THE ROLE OF NIGERIAN GOVERNMENT AS A MEMBER OF THE ORGANIZATION

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Abstract

The paper examined the circumstances that compelled the oil producing and exporting countries to form the Organization of the Petroleum Exporting Countries (OPEC) in 1960. The domination of the oil industry by foreign oil companies in the host countries without appreciable benefits to the host nations frustrated and compelled them to form the organization, essentially to regulate and stabilize the oil market for their mutual benefits. Secondary sources of data in the form of books, journals, bulletin, etc were utilized in the paper. Among other things, extant literature reveals that the existence of OPEC has gone a long way in stabilizing the international oil market; the organization has become a tool in the hands of the member nations, which are mostly Third World countries, for extracting concessions from the developed world. It was recommended that the organization should reach an understanding with the non-OPEC members who also produce and sell oil so that together they can effectively regulate the oil market for their mutual benefits.

Keywords: "The Seven Sister", OPEC Membership, OPEC Quotas and Targets Nigeria's Role in OPEC

Introduction

The organisation of the Petroleum Exporting Countries (OPEC), a permanent, international organization with its headquarters in Vienna, Austria was established in Baghdad, Iraq on 10-14 September, 1960 (Evans, 1993) by Iraq, Iran, Kuwait, Saudi Arabia, and Venezuela, now known as the founding fathers of the organizaton. Its mandate as a cartel is to:

> *Coordinate and unify the petroleum policies of its members and to ensure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry*(OPEC, 2011).

By the year 2014, the number of members of OPEC had risen to 12: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirate, and Venezuela. Below are the membership details of OPEC member nations.

Table 1: Membership Details of OPEC

Country	Region	Joined OPEC	Population (July 2012)	Area (km^2)	Production (bbl/day)
Algeria	Africa	1969	37,367,226	2,381,740	2,125,000(16th)
Angola	Africa	2007	18,056,072	1,246,700	1,948,000 (17th)
Ecuador	South America	(1973) 2007	15,223,680	283,560	485,700 (30th)
Iran	Middle East	1960	78,868,711	1,648,000	4,172,000 (4th)
Iraq	Middle East	1960	31,129,225	437,072	3,200,000 (7th)
Kuwait	Middle East	1960	2,646,314	17,820	2,494,000 (10th)
Libya	Africa	1962	5,613,380	1,759,540	2,210,000 (15th)
Nigeria	Africa	1971	170,123,740	923,768	2,210,000 (14th)
Qatar	Middle East	1961	1,951,591	11,437	1,213,000 (21st)
Saudi Arabia	Middle East	1960	26,534,504	2,149,690	8,800,000 (2nd)
United Arab Emirates	Middle East	1967	5,314,317	83,600	2,798,000 (8th)
Venezuela	South America	1960	28,047,938	912,050	2,472,000 (11th)
	Total		**369,368,429**	**11,854,977km^2**	**33,327,700**

Source: ("About" OPEC (Vienna), nd, retrieved 12 December, 2014

The United States Energy Information Administration (HA) and other world powers have alluded to the fact that OPEC crude oil production and control of the oil prices do have palpable effects on the dynamics of the oil market, and by extension, on the world economy (Painter, 2012). As a strategy for maintaining reasonable oil prices for its member countries, OPEC sets production targets, decreasing it when necessary to induce higher prices. On the other hand, when member nations, for whatever reason, singly or collectively, increase production, oil prices fall. For example, projections of changes in Saudi Arabia's production alone are enough to result in changes in the price of benchmark of crude oil (EIA, 2014). Pursuant to its self preservation and protection of its interests, part of OPEC's Solemn Declaration adopted at its conference of sovereigns and Heads of State in 1966 related to the following:

(i) the imperatives of conservation of petroleum, including the depletion and increasing scarcity in the future;

(ii) the value of oil in terms of its non-energy use, and

(iii) the conditions of availability, utilization and costs of alternative sources of energy (Omorgbe, 2001:82)

The domination of international oil market by a group of multinational companies known as the "seven sisters" (Anthony, 1991:414) was the main factor that triggered off the formation of OPEC in 1960 (Daniel, 1991). The action was a demonstration of the sovereign will of the oil producing and exporting countries who were determined to wrest control of natural resources, in this case, oil and gas, from the multinational companies that had become used to unilateral cutting of oil prices. OPEC has indeed injected sanity into the international oil market since its inception in 1960. However, the allocation of production quotas and the fixing of production targets have, at one time or the other, sparked production disputes among member nations.

Production and Sale Disputes

Much as the member nations would like to sustain high oil prices for their own benefits, the economic needs of the member nations and their internal politics have made some of the members to default on their quotas and the targets. Generally, members have always canvassed for reductions in production quotas to increase crude oil price, so that they will have more oil revenue for development programmes at home. But this strategy runs counter to the internal policies of some member nations, such as Saudi Arabia which favours a long term strategy of being a partner in progress with the world's economic powers by way of ensuring a steady flow of oil to them, thereby supporting the growth and development of the world economy (Naimi, 1991). This policy, according to their former oil minister, Sheikh Yamni, is to discourage the developed nations from developing alternative sources of energy. In keeping with this policy, the Saudi Arabian delegates on 10 September, 2008 reportedly walked out of OPEC negotiating session where the organization voted to reduce production in order to induce higher oil prices. Although the Saudi Arabian delegates eventually endorsed the new quotas set by OPEC, they unofficially said they would not abide by the quotas, but that they would follow the dictates of the market demand pressure. This Saudi Arabian policy on this has not changed till date.

OPEC Crude Oil Production and Sale and the World Economy

Some secondary sources have revealed that total OPEC crude oil production in the world averaged 30.15 mb/d by January, 2015. The output decreased significantly mostly from Iraq and Libya, while there were increases in Angola, Saudi Arabia, Kuwait and the UAE. On the whole, OPEC crude oil production, excluding Iraq, was 26.80 mb/d in January, 2015.

The intermittent crude oil price fluctuations over the years have had palpable effects on the world economy generally. It could be said that the world economy has been recovering from a long recess, but the sporadic cuts in oil production have resulted in uncertainties in the world economy at present and in the foreseable future. As experts have said:

> *The growing importance of monetary policies, continuing high debt levels in some key economies, and various structural deficiencies, mainly in emerging and developing economies, have all contributed to a rising complexity in the global economy* (Skeet, 1988).

There have been volatile changes cutting across various sectors of the world economy, including that of the oil producing nations themselves. This is aptly illustrated in table 2.

Table 2a: OPEC crude oil production based on secondary sources, tb/d

Country	2013	2014	Jan 2015
Algeria	1,159	1,151	1,130
Angola	1,738	1,654	1,777
Ecuador	516	542	553
Iran I.R	2,673	2,766	2,754
Iraq	3,037	3,264	3,353
Kuwait	2,822	2,774	2,777
Libya	928	473	343
Nigeria	1,912	1,910	1,940
Qatar	732	724	680
Saudi Arabia	9,586	9,683	9,683
United Arab Emirates	2,741	2,760	2,841
Venezuela	2 ,356	2,333	2,321
Total OPEC	**30,198**	**30,032**	**30,153**
OPEC excl. Iraq	**27,161**	**26,768**	**26,800**

Source: OPEC monthly Report January, 2015

Table 2b: OPEC crude oil production based on direct communication, tb/d

Country	2013	2014	Jan 2015
Algeria	1,203	1,192	1,165
Angola	1,701	1,652	---
Ecuador	526	557	561
Iran I.R	3,576	3,121	3,020
Iraq	2,980	3,110	3,046
Kuwait	2,922	2,867	2,850
Libya	993	480	360
Nigeria	1,754	1,807	1,899
Qatar	724	709	674
Saudi Arabia	9,637	9,713	9,680
United Arab Emirates	2,797	2,794	2,960
Venezuela	2,786	2,683	---
Total OPEC	**31,599**	**30,683**	**---**
OPEC excl. Iraq	**28,619**	**27,573**	**---**

Source: OPEC monthly Report January, 2015

In the light of the generally low production quotas of OPEC member nations, as shown in Table 2(b) above, and the challenges posed in recent years, particularly to the emerging and developing economies of the world, the 2015 GDP growth forecasts has been brought down from 3.6 to 3.4%. However, OECD growth forecast for both 2014 and 2015 remain at 1.8 and 2.2% respectively.

Recent economic indicators in the US show a weaker trend than expected, and it is difficult to forecast how the trend will be in the months ahead. The Euro zone economies are no doubt improving, albeit with certain challenges. The situation in Japan is uncertain all because of the fluctuating prices affecting her economy. Lower oil prices will certainly help the developed world to maintain their development momentum, but this will have negative effects on the economies of the oil producing countries if such a trend is not revised quickly.

China is one of the countries whose economies have been affected by the negative effects of unstable oil prices. She is currently experiencing a growth rate that has decreased by 0.2 percent. However, the forecast of the growth rate of India moved from 5.8% to 6% for 2015. It has been observed that the growth rates in Brazil and Russia have fallen below the global momentum. Russia's growth forecast for 2015 has been revised from 0% t 2.4% and Brazil's growth forecast for 2015 has been revised from 1% to 0.7%. All these are illustrated in the table below:

Table 3: Economic growth rate and revision, 2014-2015, %

	World	**OECD**	**US**	**Japan**	**Euro-Zone**	**China**	**India**	**Brazil**	**Russia**
2014E*	**3.2**	**1.8**	**2.4**	**0.2**	**0.9**	**7.4**	**5.5**	**0.2**	**0.3**
Chang from previous month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2015F	**3.4**	**2.2**	**2.9**	**1.2**	**1.2**	**7.0**	**6.0**	**0.7**	**-2.4**
Chang from previous month	-0.2	0.0	0.0	0.0	0.0	-0.2	0.2	-0.3	-2.4

Source: OPEC monthly Report January, 2015

*E = estimate and F = forecast

OPEC: Import and Export flows differentials

OPEC was founded to unify and coordinate members' Petroleum policies. Between 1960 and 1975, the organization expanded to include Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), and Nigeria (1971). Ecuador and Gabon were early members of OPEC, but Ecuador withdrew on 31 December, 1992 because she was unwilling or unable to pay a $2 million membership fee, and also felt that it needed to produce more oil than she was allowed to do under the OPEC quota. However, she rejoined in October 2007. Similar concerns prompted Gabon to suspend her membership in January 1995. Angola joined on the first of January 2007. Norway and Russia sometimes attend OPEC meetings as observers. To demonstrate that OPEC is ever ready to welcome new members, and in line with its statute, (OPEC, 2008) the Secretary General, Mohammed Barkindo, asked Sudan to join. Iraq remains a member of OPEC, but her production has not been a part of any OPEC quota agreements since March 1998.

In the 1970s, OPEC began to gain influence and subsequently cut production resulting in sharp increases in oil prices during the 1973 oil crisis in reaction to US support for Israel during the Yom Kippur War in that year. This OPEC's tough measure lasted until March 1974. The membership of the organization increased to 13 in 1975, and subsequently the members adopted the policy to sell oil at a rate that would not hinder the socio-economic development of the developing nations, especially those that have no oil. A few member countries became centrally planned economies, yet they have retained their membership of OPEC.

OPEC is a legal entity that can sue and can be sued. In 1979, U.S. District Court decision held that OPEC's pricing decisions have sovereign immunity as "governmental" acts of state, as opposed to "commercial" acts, and are therefore beyond the legal reach of U.S court competition law and are protected by the Foreign Sovereign Immunities Act of 1976.

In the 1980s, the price of oil was allowed to rise before the adverse effects of higher prices caused demand and price to fall. During this period OPEC nations which depend on revenue from oil sales experienced severe economic hardship from the lower demand for oil and, consequently, cut production in order to boost the price of oil. At the same time, environmental issues began to emerge on the international energy agenda. Lower demand for oil between 1998 and 1999 caused the price of oil to fall back to 1986 level.

In the 2000s, a combination of factors pushed up oil prices even as supply remained high. Prices rose astronomically in mid-2008 before falling as a result of the 2007 financial crisis. OPEC's summits in Caracas and Riyadh in 2000 and 2007 formulated guiding principles for stable energy markets and sustainability of production targets. In 2003 the International Energy Agency (IEA) and OPEC held their first joint workshop on energy issues and since then they have continued to meet to jointly analyze and understand market trends and to advance market transparency and predictability.

OPEC in 2011 called for more efforts by governments and regulatory bodies to curb excessive speculation in oil future's markets as such habit would increase volatility in oil prices capable of causing disconnect between price and market forces. Nymex oil traders made brisk business in 2011. By mid-March in that year, the Nymex WTI exceeded 1.5 million anticipated contracts, amounting to 18 times higher than the volume of daily traded physical crude.

While there have been some allegations that OPEC acted as a cartel when it adopted output rationing in 1996 (OPEC, 1996)in order to maintain price. Jeff Colgan argued in 2013 that since 1982 some countries have at one time or the other cheated on their quotas 96% of the time, thereby weakening the ability of OPEC to collectively influence prices.

In 2011 the U.S Energy Information Administration estimated that OPEC would break above the US$1 trillion mark earnings at US$1.034 trillion for the first time. In 2008 OPEC earned US4965 billion (OPEC, 2008).

The Role of Nigerian Government as a Member of OPEC

Nigeria is the largest exporter of crude oil in Africa and has the largest economy in Africa (Boniface, 2014. Nigeria's petroleum is branded "light and sweet" in recognition of the fact that it is largely free from sulphur. It is worthy of note that Nigeria is the largest producer of sweet oil in OPEC. It is similar in composition to petroleum extracted from the North Sea. It is popularly known as Bonny light. Other brands of Nigerian crude oil named after their export terminals, are Qua Ibo, Esoravos blend, Brassriver, Forcados, and Pennington Anfan. Nigeria is the most populous country in OPEC.

In the light of the above, there has been massive pressure on Nigerian government to assert itself, first among the African members of OPEC, and two, in the whole of OPEC. At the level of OPEC, Nigeria's presence has been visible. Nigeria was in the forefront of the collective action by OPEC members to place embargo on the United States and Western Europe for supporting Israel against the Arab allies in the Yom Kippur war of 1973 (Citono, 2002). The effects of the embargo on the affected nations were palpable. For example, it resulted in astronomical increase in oil price. The USA in particular embarked on energy – saving techniques, such as the manufacturing of energy – conserving potable cars, reduction in the use of oil generally as a source of energy.

Secondly, Nigeria in 1975 under General Gowon mediated in the debacle arising from the kidnapping of 11 OPEC ministers by Arab terrorists demanding for the liberation of Palestine. The ministers were subsequently released, partly because of Nigeria's diplomatic efforts (Omorogbe, 2001).

It is expected that Nigeria will play an even more vigorous role in fashioning out a more beneficial re-negotiation of OPEC terms, given her status as the most populous country in OPEC, and the highest exporter of oil in Africa, and in view of the fact that her economy is anchored on oil. This role should have begun at the time a Nigerian, Alhaji Dr. Rilwanu Lukman, who was President Obasanjo's special adviser on petroleum, was Secretary-General of OPEC from January 1, 1995 until December 3, 2000. However, it is expected that the in-coming Administration under the dynamic leadership of General Mohammed Buhari, will play a more purposeful role in the affairs of OPEC.

At the domestic level, the Nigerian federal government has a lot to do as a member of OPEC. It behoves on the federal government of the country to pressure the National Assembly to pass the much talked-about Petroleum Industry Bill to sanitise the industry. There is also an urgent need for government to implement the gas master plan, and to also increase her refining capacity by resuscitating or building new refineries to optimize the oil business in the country. It is heart warming that the immediate past Minister of Petroleum Resources, Mrs. Diezani Alison-Madueke, at one time during her tenure unveiled government plan to enter into collaboration with foreign companies to pursue some laudable goals in the petroleum industry for the benefit of local consumers. Needles to say, Nigeria's annual budgets are based on prevailing oil price. All this underscores the importance of oil to Nigeria.

Conclusion

The paper is concluded on an optimistic note – that is, OPEC as a cartel has done a lot to justify its existence. It has ensured steady supply of oil to consumer nations all over the world, and has at the same time embarked on certain policies that have gone a long way in bringing benefits to the member nations.

Interestingly, virtually all the member countries of OPEC are Third World countries. One interesting thing about this is that they can use OPEC to extract various concessions from the developed countries who are the main consumers of oil. It is interesting to note that OPEC in 1966 came up with a Solemn Declaration, part of which was a demand for the creation of a New International Economic Order based on justice, mutual understanding and genuine concern for the well-being of all peoples of the world.

Recommendations

1. Nigeria should not only remain a member of OPEC, but should also endeavour to play a pivotal role in pursuing the mandate of the organization.

2. OPEC should sit down and decide on how to cut back on production when necessary and ration the quotas in such a way that the member nations will always get the best out of oil before it gets finished since it is an exhaustive asset (Robert, 2004).

3. OPEC should ensure that its members maximize proceeds from their resources. For instance, when oil price goes up, it should allow its members to exceed production quotas and tightens the noose when price begins to fall beyond tolerable levels.

4. Let OPEC discuss with the non-OPEC producers, such as Russia, Gabon and Indonesia, so that together they will embark on measures to stablise the oil market by way of cutting back on production and allocating whatever the market can take in the form of quota.

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