

# OPEC

**OPEC**, in full **Organization of the Petroleum Exporting Countries**, multinational organization that was established to coordinate the petroleum policies of its members and to provide member states with technical and economic aid.

## Membership and organization

OPEC was established at a conference held in Baghdad September 10–14, 1960, and was formally constituted in January 1961 by five countries: Saudi Arabia, Iran, Iraq, Kuwait, and Venezuela. Members admitted afterward include Qatar (1961), Indonesia and Libya (1962), Abu Dhabi (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), and Angola (2007). The United Arab Emirates—which includes Abu Dhabi (the largest of the emirates), Dubai, ‘Ajmān, Sharjah, Umm al-Qaywayn, Ra’s al-Khaymah, and Al-Fujayrah—assumed Abu Dhabi’s membership in the 1970s. Gabon, which had joined in 1975, withdrew in January 1995, but it had relatively insignificant oil reserves. Ecuador suspended its OPEC membership from December 1992 until October 2007, while Indonesia suspended its membership beginning in January 2009. Qatar, during a prolonged blockade implemented by other OPEC countries, announced in late 2018 that it would suspend its membership in January 2019 and focus instead on natural gas production.

OPEC’s headquarters, first located in Geneva, was moved to Vienna in 1965. OPEC members coordinate policies on oil prices, production, and related matters at semiannual and special meetings of the OPEC Conference. The Board of Governors, which is responsible for managing the organization, convening the Conference, and drawing up the annual budget, contains representatives appointed by each member country; its chair is elected to a one-year term by the Conference. OPEC also possesses a Secretariat, headed by a secretary-general appointed by the Conference for a three-year term; the Secretariat includes research and energy-studies divisions.

OPEC claims that its members collectively own about four-fifths of the world’s proven petroleum reserves, while they account for two-fifths of world oil production. Members differ in a variety of ways, including the size of oil reserves, geography, religion, and economic and political interests. Some members, such as Kuwait, Saudi Arabia, and the United Arab Emirates, have very large per capita oil reserves; they also are relatively strong financially and thus have considerable flexibility in adjusting their production. Saudi Arabia, which has the second largest reserves and a relatively small (but fast-growing) population, has traditionally played a dominant role in determining overall production and prices. Venezuela, on the other hand, has the largest reserves but produces only a fraction of what Saudi Arabia produces.

Because OPEC has been beset by numerous conflicts throughout its history, some experts have concluded that it is not a cartel—or at least not an effective one—and that it has little, if any, influence over the amount of oil produced or its price. Other experts believe that OPEC is an effective cartel, though it has not been equally effective at all times. The debate largely centres on semantics and the definition of what constitutes a cartel. Those who argue that OPEC is not a cartel emphasize the sovereignty of each member country, the inherent problems of coordinating price and production policies, and the tendency of countries to renege on prior agreements at ministerial meetings. Those who claim that OPEC is a cartel argue that production costs in the Persian Gulf are generally less than 10 percent of the price charged and that prices would decline toward those costs in the absence of coordination by OPEC.

The influence of individual OPEC members on the organization and on the oil market usually depends on their levels of reserves and production. Saudi Arabia, which controls about one-third of OPEC's total oil reserves, plays a leading role in the organization. Other important members are Iran, Iraq, Kuwait, and the United Arab Emirates, whose combined reserves are significantly greater than those of Saudi Arabia. Kuwait, which has a very small population, has shown a willingness to cut production relative to the size of its reserves, whereas Iran and Iraq, both with large and growing populations, have generally produced at high levels relative to reserves. Revolutions and wars have impaired the ability of some OPEC members to maintain high levels of production.

## History

When OPEC was formed in 1960, its main goal was to prevent its concessionaires—the world's largest oil producers, refiners, and marketers—from lowering the price of oil, which they had always specified, or “posted.” OPEC members sought to gain greater control over oil prices by coordinating their production and export policies, though each member retained ultimate control over its own policy. OPEC managed to prevent price reductions during the 1960s, but its success encouraged increases in production, resulting in a gradual decline in nominal prices (not adjusted for inflation) from \$1.93 per barrel in 1955 to \$1.30 per barrel in 1970. During the 1970s the primary goal of OPEC members was to secure complete sovereignty over their petroleum resources. Accordingly, several OPEC members nationalized their oil reserves and altered their contracts with major oil companies.

In October 1973, OPEC raised oil prices by 70 percent. In December, two months after the Yom Kippur War (see Arab-Israeli wars), prices were raised by an additional 130 percent, and the organization's Arab members, which had formed OAPEC (Organization of Arab Petroleum Exporting Countries) in 1968, curtailed production and placed an embargo on oil

shipments to the United States and the Netherlands, the main supporters of Israel during the war. The result throughout the West was severe oil shortages and spiraling inflation. As OPEC continued to raise prices through the rest of the decade (prices increased 10-fold from 1973 to 1980), its political and economic power grew. Flush with petrodollars, many OPEC members began large-scale domestic economic and social development programs and invested heavily overseas, particularly in the United States and Europe. OPEC also established an international fund to aid developing countries.

Although oil-importing countries reacted slowly to the price increases, eventually they reduced their overall energy consumption, found other sources of oil (e.g., in Norway, the United Kingdom, and Mexico), and developed alternative sources of energy, such as coal, natural gas, and nuclear power. In response, OPEC members—particularly Saudi Arabia and Kuwait—reduced their production levels in the early 1980s in what proved to be a futile effort to defend their posted prices.

Production and prices continued to fall in the 1980s. Although the brunt of the production cuts were borne by Saudi Arabia, whose oil revenues shrank by some four-fifths by 1986, the revenues of all producers, including non-OPEC countries, fell by some two-thirds in the same period as the price of oil dropped to less than \$10 per barrel. The decline in revenues and the ruinous Iran-Iraq War (1980–88), which pitted two OPEC members against each other, undermined the unity of the organization and precipitated a major policy shift by Saudi Arabia, which decided that it no longer would defend the price of oil but would defend its market share instead. Following Saudi Arabia's lead, other OPEC members soon decided to maintain production quotas. Saudi Arabia's influence within OPEC also was evident during the Persian Gulf War (1990–91)—which resulted from the invasion of one OPEC member (Kuwait) by another (Iraq)—when the kingdom agreed to increase production to stabilize prices and minimize any disruption in the international oil market.

During the 1990s OPEC continued to emphasize production quotas. Oil prices, which collapsed at the end of the decade, began to increase again in the early 21st century, owing to greater unity among OPEC members and better cooperation with nonmembers (such as Mexico, Norway, Oman, and Russia), increased tensions in the Middle East, and a political crisis in Venezuela. As the 21st century began, international efforts to reduce the burning of fossil fuels (which has contributed significantly to global warming; see greenhouse effect) made it likely that the world demand for oil would inevitably decline. In response, OPEC attempted to develop a coherent environmental policy. The power of OPEC has waxed and waned since its creation in 1960 and is likely to continue to do so for as long as oil remains a viable energy resource.

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