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OIL COMPANIES AND OPEC: A CRITICAL ANALYSIS

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ABSTRACT

The Organization of Petroleum Exporting Countries (OPEC) came into being due to the exploitation witnessed from oil companies that were interestingly controlled by western nations that were oil consumers rather than producers. Before OPEC therefore came into the politics of oil at the global level the major control of oil was by the different oil companies that were appreciably under the firm authority of western nation that had to pay for the oil produced by developing countries. It can therefore be stated and ascertained that the politics of oil had always been between those developed, western, wealthy and technologically advanced nations against those countries that were developing but had appreciable reserves of oil and much better production level than the developed countries. The coming of OPEC signified what should be viewed as an end to the exploitative tendencies of the western nations that directly employed the opportunity of oil companies under their control to considerably destroy what ordinarily should have been a source of power to the oil producers. The Pre OPEC years therefore represented a very firm attitude by the West to continue what has been seen as the status quo in which the West had always played a master-servant relationship with the oil producers nations predominantly developing countries. it is important to note that before OPEC came into the fore the global community had been divided into two made up of those that design whose regulating international relations and another group that only have to obey those rules designed. Invariably it was a global community in which those that designed the

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rules understandably made it possible that whatever would be the principles governing the international community would always be beneficial to them. The utilization of the oil companies towards further exploiting those developing that were oil producers was no more than an avenue to maintain what the global community had always been used to. OPEC would ordinarily have to put a stop to this by its existence. This work therefore is aimed at affirming how much OPEC was able to put a check to the manipulation and control of the oil companies with its entry into the global oil politics.

The methodology is descriptive as it shows in clear details the relationship existing between the oil companies, the western developed nations and the status quo that existed before OPEC came into the picture. The work also indicates the extent at which OPEC was expected to put a stop or at the very least a check to the exploitation of those oil companies in international oil politics. The work employs the use of many materials such as journal articles, books and internet materials.

The work finds out that the coming of OPEC was in itself targeted at the extensive control that oil companies had in international oil politics and was meant to enterprisingly put a stop to whatever manipulation such oil companies were employing. The work also discovers that the OPEC as an organization was able to serve as a check and therefore represented a collective bargaining of southern developing nations against the West, the oil companies and the status quo as it remained before OPEC's entry into the global community. The work concludes that if not for the strategy at bringing OPEC into the picture of oil politics, exploitative tendencies of the West may have continued unabated.

Key Words: OPEC, global community, international oil politics, oil companies and strategic interest.

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INTRODUCTION

Oil companies represented the most critical and formidable group of organizations before OPEC. What was interesting about the oil companies was that they all virtually belonged to the group of nations that were ordinarily supposed to be disadvantaged in global oil politics. The pre OPEC year therefore were no more than an extension of what exactly the international community was designed to be. Those periods before OPEC were not anything different from the master-servant relationship of the Western and technologically advanced nations over the developing nations. The difference between what was in place before and what OPEC would introduce was that unlike oil politics at the international level, the western nations had the attributes of being a master in international relations. This was because those basic attributes such as technological advancement, economic where withal, political stability and enormous resources were present with the western nations and absent in the developing nations. In spite of the important fact however that global oil politics introduced a new dimension into global relations where in those that international relations hither to benefitted were placed at an appreciable disadvantage by the reserves and production of oil. Those nations however that would ordinarily have been disadvantaged used the control and ownership of oil companies as means of extending and entrenching what had always been in place. The entry of OPEC was to therefore put a check and a total and absolute end to the manipulation of both the West and the oil companies. The work is divided into four sections; the first identifies what the different oil companies stood for in global oil politics before the introduction of OPEC. The second section looks at the coming of OPEC while the third analyzes in specific terms the basic effect and consequences that an OPEC may have introduced into the international community. The last section concludes.

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OIL UNDER A NORTHERN CONTROL

The period before the OPEC control of the 1970s was extensively used by the Northern developed nations to control all activities that relate to oil. This period was therefore one in which the Northern control of Southern developing nations was extended to the politics of oil. This was because their home countries backed virtually every action of oil companies.

For most of the twentieth century, the international oil system was controlled by a producer cartel[1]. By 1973, the cartel consisted of an oligopoly of seven international oil companies[2]. The "Seven Sisters" were made up of five American (Standard oil of New Jersey now known as Exxon, Standard oil of California, now known as Chevron; Gulf now part of Chevron; Mobil and Texaco), one British (British Petroleum) and one Anglo-Dutch (Royal Dutch-Shell). This was reinforced by the fact that by the early twentieth century, even though oil production continued to climb and by 1920, production had reached 450 million barrels, the US produced between 60 and 70 percent of the world's oil supply. Oil was only discovered in Mexico at the beginning of the twentieth century, in Iran in 1908, in Venezuela during World War I and in Iraq in 1927.By the early twentieth century therefore the control of oil was almost absolutely in the hands of the North, the oil companies had their headquarters in the North while reserves also favoured the North.

It can hardly be doubted therefore that the home countries of these companies extended the existing control and authority over the Southern States where the oil reserves were situated and also effectively used the period to ensure that the "Seven Sisters" controlled

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[1] Spero, J. E.1990. *The Politics of International Economic Relations.* New York, St. Martins Press..261

[2] See Adelman A. M.1972. *The World Petroleum Market.*
Baltimore, John Hopkins University ; Hartshorn J.E. 1967..*Politics and World Oil Economies: An Account of the International Oil Industry in its political environment.* New York, Praeger; Penrose T. E.1969. *The Large International Firm in Developing Industry.* Cambridge, MIT Press; Sampson,. A.1978. *The Seven Sisters;The Great Oil Companies and the World they made.* New York, Viking.

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oil activities in the international community. To the North therefore, only by maintaining and retaining the control can the status quo be firmly rooted. From the period in which oil became a critical product to the international community and until OPEC took firm control; the North extended its political and economic authority to oil.

What clearly demonstrates that the "Seven Sisters" represented an extension of the Northern hold on the South was that by the late 19th century, the oil companies had moved abroad to obtain control of foreign supplies on extremely favourable terms[3]. To ensure that such control was as firm as possible, immediately after World War I, the seven companies had moved further forming joint ventures to explore for foreign oil fields and eventually in the 1920s they began to divide up sources of supply by explicit agreements.

The companies did this by dividing markets and fixing world prices and by discriminating against outsiders[4]. The discrimination not only indicated that the "Seven Sisters" intended to be in firm control but was a strategy to make it impossible for the new sources of supply to form the same type of cartel. This clearly shows two things, the first being that the cartelisation that the North consistently opposes and condemns in OPEC was not only in existence in the days of the "Seven Sisters" but was in fact given strong support by the North. The second is that the "Seven Sisters", and by extension the North, had, several years before the formation of the OPEC envisaged its formation and had worked extensively against its establishment.

This the "Seven Sisters" did by not only keeping outsiders out of all operations of the Seven Sisters but in giving every support it could muster for the oil industries. The evidence that the North saw in these seven companies, an opportunity to extend the initial control it had on

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[3] Mikdashi, Z.1966. *A Financial Analysis of Middle Eastern Oil Concessions: 1901 – 1965.* New York, Praeger; Issawi C. and Yegaleh M.1962. *The Economics of Middle Eastern Oil* .New York, Praeger. 24-40.

[4] Penrose T. E. 1969. *The Large International Firm in Developing Industry.*Cambridge, MIT Press. 223.

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the South is in the fact that governments in the North (the USA, Britain and Holland) provided a favourable political and military environment to actively support the oil companies owned by their nationals. In Iran for instance, the crisis over a new agreement with the Anglo-Iranian Oil Company, which invariably necessitated a nationalization of the Company's assets, brought the British government in confrontation with the Iranian government and actually contributed immensely to the demise of the then Iranian government. The United States which played a notable role in bringing the Iranian government down also did all within its power to ensure that her (US) companies replaced the Anglo-Iranian Company.[5]

It could not have therefore come as a surprise that in bargaining with the oil companies, the less developed oil producing countries were confronted with two major and fundamental obstacles; an oligopoly supported by powerful Northern governments as well as uncertainty about the success of oil exploration and the availability of alternative sources of supply.[6]

Unfortunately, because new discoveries when they came were made during colonialism, the hold of the North on the South did not reduce with those discoveries. Since many of the new oil discoveries occurred in areas dominated by Britain and the Netherlands; in the Dutch East Indices, as well as Iran and British mandates in the Middle East it only increased the Northern control on the South. Invariably, by 1919, Britain controlled 50 percent of the world's proven oil reserves.[7]In essence, both production and reserves favoured the North.

Invariably, even when policy makers and the oil industry focused their attention on the Middle East, particularly the Persian Gulf, which they believed would be the center of post war

[5] Schwadran, B.1955. *The Middle east, Oil and the Great Powers,* New York, Council for Middle Eastern Affairs.103-152.

[6] Edwards G. G. 1971. Foreign Petroleum Companies and the State in Venezuela. *Foreign Investment in the Petroleum and Mineral Industries* M. F. Raymond et al; Eds. Baltimore, John Hopkins University Press. 101-128.
[7] Ibid.115.

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oil production; it did not in any way alter the Northern control on oil. As early as the 1930s therefore, Britain had gained control over Iran's oil fields, while the United States discovered oil in Kuwait and Saudi Arabia.

The struggle for control of the Middle Eastern oil fields was followed by the formation of a cartel by the seven major oil companies. Efforts of the companies to establish a monopoly, or rather an oligopoly over the production, refining, marketing, etc. of oil were aimed at establishing an international cartel to regulate prices and competition in such a way as to guarantee profits to all members of the cartel.[8]

There were however clear indications of the lack of consensus of the Northern nations even in these early years. For instance, after the First World War, a bitter struggle for control of World oil reserves erupted. The British, the Dutch and the French excluded American companies from purchasing oil field in territories under their control. The United States' Congress had to retaliate in 1920 by adopting the Mineral Levy Act, which denied access to American oil reserves to any foreign country that restricted American access to its reserves. Probably due to the congress' decision, the dispute was ultimately resolved in 1920 when American oil companies were finally allowed to drill the British Middle East and the Dutch East Indies.[9]

Events immediately after the Second World War however introduced dramatic changes to the position of oil in the international community. In the first place, relatively inexpensive imported oil became the primary source of energy for the developed World, and both Western Europe and Japan, with virtually no oil supplies of their own, became significant importers of oil.[10]

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[8] Ibid.126.
[9] Ibid.
[10] Wells, D. A. 1971. Aramco; The Evolution of an Oil Concession . *Foreign Investment in the Petroleum and Mineral Industries* Mikesell et al Eds; Baltimore, John Hopkins University Press.87.

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Secondly, when by 1950, US oil consumption outdistanced its vast domestic production; the United States had very little choice but to become a net importer of oil. Thirdly, the 1950s coincided with when growing nationalism and the great success of oil exploration made it imperative that the host countries insist on better concessionary agreements. The effect was a redefining of the basis for royalty payments at a fifty-fifty division of profits between the companies and their respective host governments.[11] Invariably, profits accruing to host governments increased significantly, with the per-barrel payment to Saudi Arabia rising from $0.17, which it was in 1946 to $0.80 in 1956.[12]

In spite of these perceived achievements that can be viewed as remarkable, the “Seven Sisters”, also known as the Majors, continued to dominate the system. By controlling almost all the World’s oil reserves, they were able to manage the price of oil. They were also able to continue maintaining control over both the upstream and downstream operations by ensuring that outsiders were blocked from crude oil exploration and production as well as from refining, transportation and marketing operations.[13] Certain other events however introduced dramatic changes to the oil industry.

By the mid-1950, for instance, companies that were initially and previously not active in the international oil business obtained and successfully developed concessions with nations such as Algeria, Libya and Nigeria. Between 1952 and 1968, the production of the “seven sisters” reduced from 90 percent to 75 percent[14].

In the oil producing states also, changes in elite attitudes, improved skills, less uncertainty and more especially, the emergence of new competitors, increased the bargaining

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[11] Ibid,89.
[12] Adelman A. M.1972. *The World Petroleum Market.* Baltimore, John Hopkins University.207.

[13] Richard, A. & Waterbury, J. 1990. *A Political Economy of the Middle East: State, Class and Economic Development.*Boulder: Westview Press.115.
[14] Wilkins M,1974. *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 197*0. Cambridge, Mass; Harvard University Press. 386-387.

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power of the host governments[15]. The producer states now obtained larger percentages of earning and provisions for relinquishing exploited parts of concessions in the negotiations with emerging oil companies[16].

As would be expected, the oil producing states, especially large producers such as Libya and Saudi Arabia increased their earnings and began to accumulate significant foreign exchange reserves[17]. The foreign exchange reserves gave the governments the strength and power needed to absorb any short-term loss of earnings from an embargo or production reduction, designed to increase the price of oil or to obtain other concessions[18].

To worsen the reduction of the "Seven Sisters" control on the oil industry, changes that occurred at three different levels (the international oil industry, the oil producing states and the oil consuming states) invariably affected the control and authority of the "Seven Sisters"[19]. The first change was that competition increased upstream, with new players seeking concessions to explore for and produce crude oil. The second change was that in the downstream operation, more refineries were built with competition growing in markets for refined oil[20].

More than any other issue however, the depreciation of oil prices served as the major event, which introduced a cartel of oil producers as against the cartel of oil companies that existed before it. Even though oil prices went through a steady increase during World War II, it faced a sharp decline after the war. While the oil majors were successful in avoiding sharp changes in prices in the 1950s, increased supplies of oil from North Africa and a rise in exports

[15] Spero.1990.264, op cit.
[16] Ibid 264.
[17] Ibid.266.
[18] Ibid.267.
[19] Penrose, .1966.248-263. op. cit.
[20] Spero, 1990.263, op cit.

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from the Soviet Union, forced the oil companies to reduce the posted prices of oil in 1959 by 18 cents and again in 1960 by 10 cents[21].

While the reductions were not large, their impact was a shock to the producing countries. The most outstanding change was that it provided the oil producing governments that unique opportunity to co-operate with each other. Frustrated with the price cuts which invariably reduced their tax receipts, five of the major petroleum – exporting countries – Iran, Iraq, Kuwait, Saudi Arabia and Venezuela – met in 1960 to discuss unilateral action by oil companies and decided to form an Organisation of Petroleum Exporting Countries, to protect the price of oil and revenues of their governments[22].

THE COMING OPEC

The most successful effort of Southern countries to alter their dependency relationship with the North was the common action of OPEC in seizing control over the World's oil market. By acting together in a producer cartel, the Southern oil-exporting states were able to increase not only their economic rewards but also their political power.

> The five nations that formed OPEC met in Baghdad in what can be referred to as a mood of excited confidence. Sampson quoted the owner-editor of the Middle East Economic Survey, Fuad Itayim, as stating, "the price cuts might precipitate the establishment of what some delegates chose to call "a cartel to confront the cartel" and Sampson agreed, "it had precisely that effect"[23].

The first resolution of OPEC made it clear that their chief enemy was the oil Companies as they declared

[21] Ibid.30.
[22] Mikdashi, 1962, op cit.
[23] Sampson, A.1978. *The Seven Sisters; The Great Oil Companies and the World they made.* New York, Viking.174.

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> That members can no longer remain indifferent to the attitude heretofore adopted by the oil companies in effecting price modifications; that members shall demand that oil companies maintain their prices steady and free from all unnecessary fluctuation; that members shall endeavour, by all means available to them, to restore present prices to the levels prevailing before their reductions. [24]

The establishment of OPEC in September 1960 came not only as a protective reaction following the unilateral reduction of the export price of oil by the transnational companies, but was also aimed at gaining economic sovereignty in the development of its members' major and sometimes sole source of livelihood.[25]

Six major forces actually existed in the oil industry before the emergence of OPEC in 1973.[26] The first major force were the giant international companies which straddle the whole industry, both across geographical and across economic levels. The oil companies were grouped into two by Tanzer; the first being the seven major integrated international oil industries (the "international major") such as Standard Oil of New Jersey, Royal Dutch Shell, Mobil, Texaco, Gulf Oil, Standard Oil of California and British Petroleum. The second were the 20 – 30 generally smaller oil companies that have ventures into the international oil industry during the 1950s and 1960s in a significant way, they were companies otherwise referred to as "new comers" or the "international minors" such as Phillips Petroleum, Standard Oil of Indiana, ENI etc."

The second major force was the home government of the international oil companies either headquartered in their country or controlled by their citizens. The United States was by far the most important Western government for the international oil industry since it was home to five of the seven majors and most of the important newcomers. Great Britain was the second

[24] Ibid.175.
[25] Mikdashi.1980.1, op.cit.
[26] Ibid, 21-29.

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most important Western Oil power, having a Government-owned) majority share in one of the seven majors (British Petroleum) and a 40 percent share in the remaining one (Royal Dutch Shell). The 60 percent share of Royal Dutch Shell controlled by Dutch citizens gave Holland an important stake, even if it was a passive role, in international oil. The stake of France resided both in the state-owned ERAP and in the partially government-owned Compagnic Francaise ders Petroles (CFP), which was sometimes considered by eight of the international majors because even though small, shared production facilities with the Seven Majors in the Middle East. Japan was home to one of the important newcomers, the Japanese Arabian Oil Company, while Italy was equally home to the ENI. West-Germany, Spain and other Western European countries also sought to promote newly formed oil companies controlled by their own citizens.

The third major force was the group of oil-exporting underdeveloped nations which were the well-spring of the enormously profitable international oil flows; the most important of which before the 1973 oil embargo were four Middle Eastern countries of Saudi Arabia, Kuwait, Iran and Iraq, as well as two North Africa nations (Libya and Algeria).

The fourth major force was the Soviet Union, which Tanzer claimed derived much of its influence from resurgence in the 1950s to its historical position as an important oil exporter.

The fifth force was the group of international organisations such as the International Monetary Fund (IMF), The World Bank and The United Nations.

The sixth was the underdeveloped oil-importing nations such as Communist China, Topoland, Brazil, Tanzania, India and Ceylon.

For both the founder members and those who joined later, OPEC provided a means for collective defence vis-à-vis a number of shared threats. These include; the pricing and production policies of the transnational companies, which affected the budgetary receipts of the Organisation and the economic policies of their major trading partners – the Western

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industrialized countries that maintain oil-exporting countries in a relationship of dependence as mere suppliers of raw materials[27].

On a more general level, OPEC members had to face the predicament of poverty among their populations and the sense of vulnerability, which is derived from the fact that their economies are narrowly based on oil. Moreover, OPEC has proved to be their means of defence against a repetition of the collective boycott faced by Iran between 1951 and 1953, which was imposed by the transnational oil companies. It has also served as a mechanism for coordinating the members' strategies with respect to prices, industrialization and aids[28].

OPEC IN AN INTERNATIONAL OIL POLITICS: A CRTICAL ANALYSIS

It is unfortunate that the advantages of such collective deliberation and action that produced OPEC are unfortunately translated only into larger oil revenues, mainly through increased prices. This has served as one of the greatest deficiencies of OPEC. This is because almost from the onset had it been very clear that OPEC was to serve the purpose of a revenue generation rather than being employed as a weapon. It is interesting to note that in spite of tremendous achievements recorded by OPEC at the early stage of presentation of demands for a new international economic order, the importance of oil more as a weapon than an income was not fully established.

It could not have therefore come as a surprise that within the first ten years, and in spite of the fact that OPEC expanded from five to thirteen members and accounted for 85 percent of the World's oil exports[29], it met with very little success. All that the individual oil-producing states were able to achieve in those thirteen years was an increase in their revenues. The only

[27] Mikdashi, 1980.2,, op cit.
[28] Migdal, J. 1980.*Strong Societies and Weak States: State Society Relations & State Capabilities in the Third World,* Princeton, Princeton University Press, 85, 1980.

[29] Mikdashi,. 1975.203. Op cit.

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remarkable achievement therefore was that the attitude of lowering oil prices died with the emergence of OPEC and the oil producing states also expanded their experience in cooperation[30].

In the final analysis, the fact that Western consuming countries became vulnerable to the threat of supply interruption or reduction was not fully exploited to OPEC's favour. Unfortunately a focus on generation of income diminished the fact that oil became the primary source of energy. The focus on oil as a source of revenue did not also strongly establish the fact that the United States' reserves and production had considerably reduced. In spite of the fact that the developed market economies became increasingly dependent on foreign oil, especially oil from the Middle East and North Africa, virtually all-Arab nations[31], very little positive result was attained until 1973 when the Arab oil producers imposed an embargo on industrialized nations.

By 1972, Western Europe derived almost 60 percent of its energy from oil almost all of which was imported[32]. Oil from abroad supplied 73 percent of Japan's energy needs and 46 percent of US energy came from oil, and at least one-third of this was imported[33]. And by this year (1972), 80 percent of Western Europe and Japanese oil imports came from the Middle East and North Africa. The United States also relied on the Middle East and North Africa for 15 percent of its oil imports[34]. It was only the adoption of a totally changed strategy by OPEC from 1973 that reverted the North-South relations. Invariably therefore rather than reserves that favoured the South, if OPEC had not taken its destiny into its own hands, very little would still have been achieved.

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30 Harbeson, J. and Rothchild, D.1991. *Africa in World Politics.*Boulder, Westview Press.107.
31 Spero, 1990.265, op cit.
32 Darmstadter J. and Landsberg H.1975. The Economic Background. *Daedalus*..104.21.

33 Spero.1990., 265. op cit.
34 Darmstadter J.and Landsberg H. 1975.Op.Cit.23.

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One can therefore conveniently ascertain that the earlier Third World bargaining strategy of moderate diplomacy through the presentation of joint positions in international forums had to undergo a radical change before any appreciable gain; achievement, progress and advancement could be attained. The new feeling became securing resource transfers from the North through the threat of disruptions in the primary commodity markets, as opposed to mere appeals to Northern conscience.[35] It was therefore only when Southern oil producing nations saw reason with a strategy that employs disruption of a critical primary product, that any noticeable achievement was recorded.

As far as the South was concerned, the new oil power coordinated by OPEC suggests that a departure be made from appealing to the Northern conscience into antagonising the North; a change from persuasion to insistence.[36] Interestingly, antagonism to the North seemed to have yielded positive results as attacks on the North, within the framework of a united front, established the fact that the North was primarily to be blamed for the poverty of the South.[37]

Coercive diplomacy of the Third World was therefore by far more effective in securing positive responses from the developed countries than the earlier recourse to persuasions as evident in the OPEC quadrupling of oil price between 1973 and 1974 and the success at changing the European nations' alliance to Israel.[38]

Indeed, the North became inclined towards proposing changes and reforms in the international economic system, unlike the old strategy of only responding to Third World demands.[39] In February 1975 for instance, the Lome Convention was signed between members

[35] Danielsen, A. L.1982. *The Evolution of OPEC.* New York: Harcourt Brace Jonanovich. 115.

[36] Ghanem, S. 1986. *OPEC : The Rise and Fall of an Exclusive Club*. London, New York and Sidney KPI, 219.
[37] Zindani, op cit.
[38] Deagle, E. A. Jr. 1983. *The Future of the International Oil Market* .New York: Group of Thirty, 113.

[39] Kelly, J. B. 1980. *Arabia, the Gulf, and the West: A Critical View of the Arabs and Their Oil Policy.* New York: Basic Books. 7.

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of the European Community and African, Caribbean and Pacific States.[40] This happened to be the first major agreement between any part of the South and the North. What made the agreement more significant and an offshoot of the new oil power was that it not only accepted basis tenets of the NIEO proposals of the Less Developed Countries, but also "provided mechanisms, of varying degrees of effectiveness, for putting them into effect".[41] It is not surprising that the agreements of the Convention were hailed as "a new model for relations between developed and developing states, compatible with the aspirations of the international community towards a more just and balanced economic order"[42]

In Kingston, Jamaica, at the May 1975 Commonwealth Summit, Prime Minister Harold Wilson of Great Britain unfolded a package fashioned "a new deal in world economy", declaring British support for minimum earning guarantees for countries which depended upon a few key exports.[43] In October of the same year at the Ecole Polytechnique, French President Giscard d'Estaing called for "normalisation of raw material export prices and for stable export earnings for the South"[44].

The United States' opposition to the demand for a new economic order, also considerably reduced. The US Secretary of State, Henry Kissinger stated the United States was more willing to engage in constructive dialogue with countries in the South.[45] The United States

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[40] Lome Dossier, 1975. The Courier, European Community-Africa-Caribbean-Pacific (Brussels: European Commission), 31, Special Issue. 1975.

[41] Ibid.

[42] Aribisala,F. 1983. Nigeria and OPEC. *Nigeria's External Relationships: The first twenty-five years.* Olusanya G.O and Akindele R. Eds. Ibadan, Ibadan University Press .136.

[43] Ghadar, F. 1977.*The Evolution of OPEC Strategy.* Lexington, Mass.: Lexington Books.215.

[44] Ibid.221.

[45] Kissinger H. A.1975. Before the Wisconsin Institute of World Affairs. Milwankee, Washington DC, US Department of States. Press Release .370, 1975, 117.

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was also going to be forthcoming with new initiatives within the GATT, new financial arrangements within the IMF, and a new system of international food reserves[46].

The Secretary of State further declared that:

> *We have heard and begun to understand your concerns. We want to be responsive. We are prepared to undertake joint efforts to alleviate your economic problems clearly this requires a posture of cooperation*[47]

In fact by the time the Seventh Special Session of the United Nations' General Assembly was called in September 1975, the issue had become "not so much whether, but what kind of collective arrangements to construct in order to deal with certain Third World demands, particularly in the commodity and raw materials field."[48]

At the Third World forum held at Karachi in January, 1975, a declaration was issued heralding OPEC's action as "part of the struggle of the Third Word to obtain a better deal from the World order"[49] Also, at the Conference on Raw Materials held in Dakar Senegal between February 3 and 8, 1975 by 110 developing nations, the oil producing countries worked at, and eventually got a resolution endorsing that the Conference not only dealt with oil, but also with other raw materials.[50] The resolution also recommended that the Conference be bilateral with "the industrialized nations on one side and the developing ones on the other"[51]

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[46] Ibid.117.
[47] Aribisala, op. cit., 138.
[48] Gosovic B and Ruggie J.G.1976. On the Creation of a New International Economic Order. *International Organization,*. 30.. 2: 310.

[49] Howe, op. cit, 123.
[50] Zindani, op. cit, 206.
[51] Facts on File, 1975.

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And at the Assembly's Seventh Special Session held in September, 1975 the United States' position that it would go "into opposition" against the oil producing nations in response to the Third World call for a new international economic order, had changed to a generally conciliatory one[52]. The United States at the Assembly, for instance declared that it understood the aspirations of the Third World, stating that "we embrace your hopes, we will join your efforts"[53].

The considerable drop in oil prices especially from 1985 gave the wrong perception that oil might have lost its value in the international community. The reduction in the prices of oil was however due more to issues relating to the oil producing nations than the value of the product. This can be explained by the fact that the dependence of the Northern developed nations never actually reduced since it was first observed around 1972.The low oil prices were therefore only consequent on the deficient oil producers' strategy some of which introduced the oil glut of the mid 1980s and its attendant consequences. It is not too surprising therefore that by the turn of the Twenty-first century; there was a considerable increase in the demand of the North for oil. In Western Europe for instance,[54] while there was a demand for 14 million barrels of oil per day by the turn of the 20th century, up more than 10 percent over the last decade of that century, only 5 million barrels of oil were produced through the North Sea oil in Europe. Invariably therefore, the whole of Western Europe still depended on importation for well over 65 percent of its oil consumption and demand.[55]

An OPEC Bulletin had forecast that the Commission of the European Communities' total demand for energy would grow by almost 15 percent in the 1990s, while the EC would need a net import of around 9.6 million barrels per day by the year 2000, which happened to be 70 percent of its consumption. The OPEC Annual Statistical Bulletin claims that, the crude oil

[52] Moynihan, P. D. 1975.The United States in Opposition. *Commentary.* 59.3, March, 31.
[53] AIPV 2327, 1975.
[54] Woolsey J. 2003. Spiking the Oil Weapon. *Wall Street Journal*, New York, 3.
[55] Ibid.

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production of Western Europe in 1990 was 4 million and 68 thousand barrels in 1990 compared to a consumption of 12 million, 223 thousand in the same period. By the year 2000, Western Europe production had increased to 6 million 238 thousand, while its consumption had equally increased to 13 million, 650 thousand barrels per day. Invariably therefore, the Western Europe was absolutely dependent on oil from outside to the tune of well over 7 million barrels per day by the turn of the century. By 2003, Western Europe that was producing 5mllion 624 thousand barrels of oil per day was consuming 13million 899thousand barrels per day. Invariably a shortfall of over 8million barrels existed for which the region could not but depend on the outside.[56] In essence, in spite of the North Sea oil fields, the EC could not but have a growing dependence on external oil production.[57]

In the same vein, by 1987, the United States had become considerably dependent on oil from outside, as the Energy Statistics Sourcebook stated the United States domestic demand for petroleum products far exceeded the level of domestic production.[58] The demand for oil by 1987 in the United States was basically a representation of what had obtained consistently from the late 1970s. According to the Energy Statistic Sourcebook as the United States' demand increased in the late 1970s, imports provided the vast majority of additional petroleum required and US' dependency on imported oil grew to 47.7 percent of domestic demand in 1977. By 1979, total imports averaged 8.459 million barrels a day, representing 45.45 percent of domestic demand.[59] Even though demand reduced in 1986, total industry crude and product imports were still as high as 6.176million barrels a day, which was 37.9 percent of domestic demand.[60] By 2003, the United States' dependence on foreign oil was over 15 million barrels, representing close to 60 percent of total domestic demand.

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[56] OPEC Annual Statistical Bulletin 2003.
[57] OPEC Bulletin, 1993. June, 5.
[58] Energy Statistic Sourcebook, 1987 ,12.
[59] Ibid.12.
[60] Ibid, 14.

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By 2003, the North American region comprising of both the United States and Canada was producing 7,190,000 barrels per day. Consumption had however increased by 2003, from its initial 21,419,000 barrels per day of 2000 to 22,332,000 barrels in 2003. In essence, by 2003, the North American dependence on outside oil was over fifteen million barrels per day! The continued dependence of the United States on imported oil eventually made the country vulnerable to the Southern oil producing nations, especially found in the Middle East.[61]

Oil as an indispensable product thus divided the international community into two major groups. The first was made up of oil producing states, virtually concentrated in the Southern part of the globe and the second was the oil consuming countries, largely found in the North. It soon became apparent especially to the developed nations that oil could easily be used as a weapon against the North and as a means toward achieving certain concession from the North.

The issue of oil became for the South, the predominant element of bloc strategies in their economic struggle against the North. Since the Northern developed nations were increasingly vulnerable to oil, it was possible for the oil producing countries to use oil, as a weapon, to champion the Southern demands.

CONCLUSION

The coming of OPEC signified an interesting departure from what was the politics of oil at the international level. It can be emphatically stated that OPEC represented a strong union of oil producers as against the hither to powerful organization that oil companies formed. OPEC therefore was an avenue through which oil producers came to clearly identify the basic benefits, advantages and privileges that substantial reserves of oil and production gave them. It is tragic that before OPEC ever came the oil producers left the important but critical

[61] OPEC Annual Statistical Bulletin, 2003, 14.

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management of oil to oil companies that were ordinarily supposed to play a subservient role to oil producers. The unnecessary reversal of role was such that oil companies took authority over determining the pricing of oil that ordinarily would have been under a control and authority of oil producers that had the total advantage in terms of reserves. It couldn't therefore have come as too much of a surprise that the OPEC had not been too forthcoming in its actions even after coming into the picture as oil continues to remain an income generating product rather than a weapon not only against the oil companies but also the Western nations that have continuously been at the advantage in international relations and in the design of those rules and regulations governing it. OPEC may therefore be described as an organization of great potentials whose strategic focus has been seriously misplaced to such an extent that its effectiveness and criticality in international oil politics have been negatively affected.