

tackle is the issue of regulating production capacities of the members whether the level or the method of arriving at such production capacities. So far OPEC members have only concentrated on the definitive quotas of productions proportional to the organizations's production ceiling. Planning a long term system, however, demands quotas for production capacities. Following points will have to be taken into consideration for the purpose:

1) It is essential that the long term trend of supply and demand for all varieties of energy carriers for the next 20-25 years in all areas of the world is studied. The results of those, especially regarding the net demand for OPEC's production, are to be presented to OPEC's ministerial meeting for ratification. That is to say that the long term demand for OPEC's oil which is unanimously accepted will form the basis for the long term planning.

It is worth noting that there have been a great many forecasts about the trend of global supply and demand of energy upto year 2000 and OPEC's share of it have been presented by various centers. But a preliminary study shows that most such forecasts are not credible enough and also many of them stem out of certain intentions. Hence the said study will have to be carried out independently by OPEC secretariat and under supervision of elite experts of the member countries.

2) Following the clarification fo the level of demand for OPEC's oil in the long term, a criterion for the production capacities of the members will be set. This too will have to be endorsed by the highest decision making body of OPEC. Indices to be used for such a criterion will have to take into consideration statistics regarding their total recoverable reserves, populations, country sizes, economic issues, historical productions, domestic energy use levels, etc.

3) Based on the results of the above, OPEC must come to an agreement regarding members' future capacities for the period in question. Then the members will be allowed to invest strictly for the predetermined production capacities.

4) In related subject paying attention to the excess capacities is especially important because having a discipline in this regard is indispensable and must fall within the same planning. When

implementation of what was delineated above, this main obstacle would be removed and a coordination would occur among OPEC members. There are many other subjects which should be tackled by OPEC's long-term strategy committee, some of which are as follows:

1- OPEC should clarify its stance towards the international conventions on environment protection currently under consideration and take collective action



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production capacities are regulated, then naturally there would be no need for excess capacities.

The only remaining point is that in view of uncertainties about the demand forecasts and also in order to allow OPEC a degree of flexibility to utilize opportunities for production increase, a certain excess capacity may be required, the ceiling of which must be decided and endorsed and be divided (as a percentage of production capacity) amongst members.

5- If above points are well implemented, then the irrational rivalries among OPEC members to absorb foreign investment in their upstreams will be moderated. It is obviously advisable that members stop their internal rivalries altogether and, in order to be better positioned for competing with non-OPEC countries, adopt a unified method to absorb investments and contracts with oil companies.

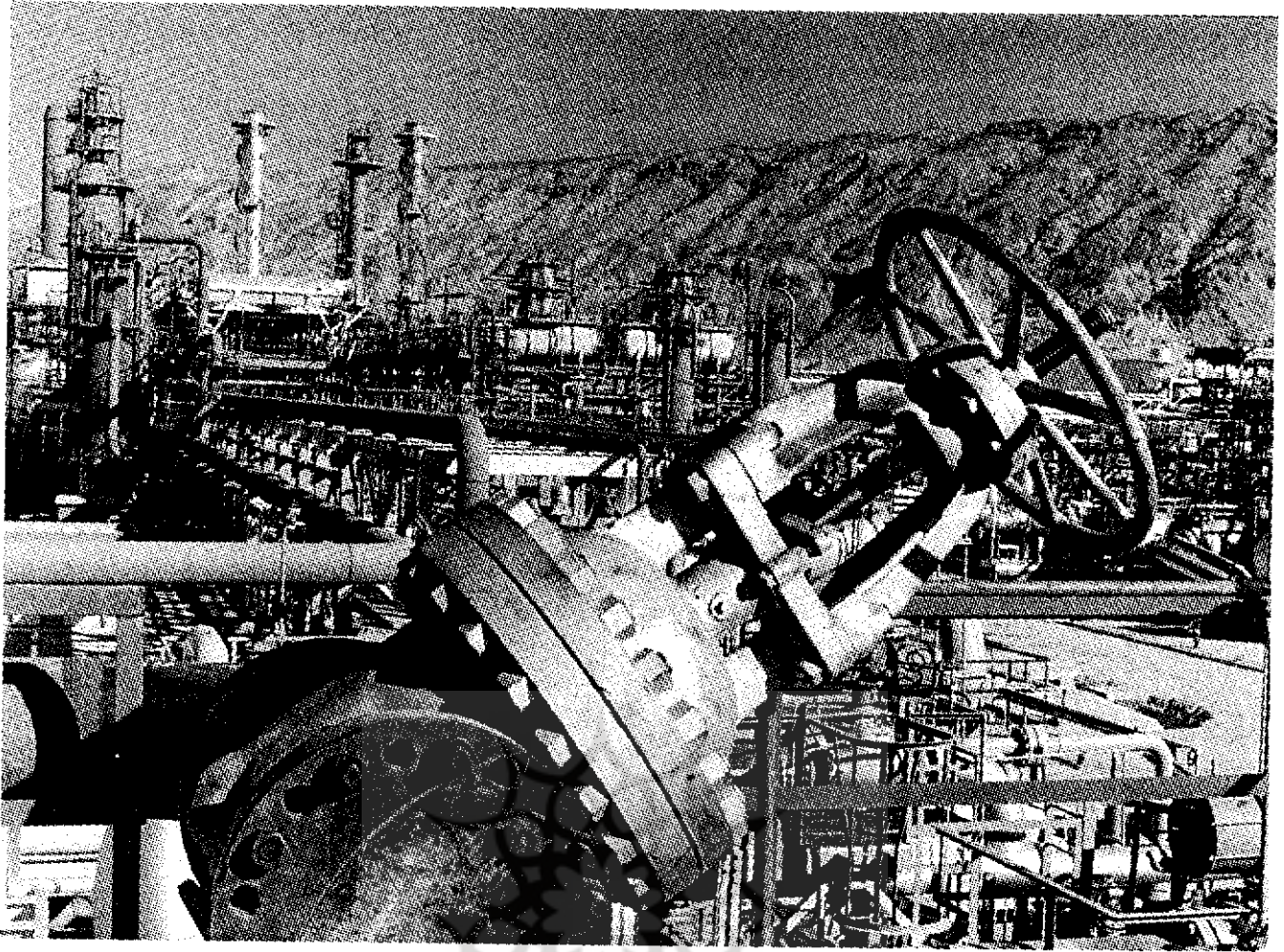
The past method of OPEC members has been individually providing excess capacity before imposing their action on other members, a trend which has usually caused troubles in the oil market. By contrast, through

in this regard, OPEC must also clearly define its relations with subjects such as WTO, economic globalization, Energy Charter Treaty, the European monetary unit and take appropriate measures.

OPEC summit and long-term strategy

All OPEC members have accepted an invitation made by Venezuela to take part in an OPEC summit conference in that country. Although Venezuela has postponed the date of the summit due to certain domestic problems, however, the current circumstances and relations among major OPEC members indicate that the meeting will be held in the near future. The second summit of OPEC will provide a great opportunity for tackling the long-term strategy of the organization. As the first summit established the long-term strategy committee, it is hoped that the second summit would seriously follow up the subject and the heads of OPEC countries would urge their ministers to compile the said strategy.

Director ■



was suggested by Saudi Arabi:

A. Revaluating oil price to offset impact of inflation of imported goods in OPEC member countries based on price index of exported goods of industrial countries.

B. price reconsideration to compensate dollar's value fluctuations based on a foreign exchange basket.

C. Oil price hike proportionate to GNP growth in industrial states.

In reaction to this proposal which was based on a limited formula, others suggested certain views which incorporated deep-rooted aspects and largely directed the prices towards higher levels. In any case since the said committee was confronted with internal skirmishes and also the situation in the market caused its activities to be shelved for a long time and even change its original visage.

At the time of oil crisis of 1986 and change of Saudi's minister of oil the

committee's work came to a complete halt. In 1988 and as per the demand of OPEC ministers, the Secretary General put up a fresh effort to revitalize the committee, however apparently due to fundamental difference among members about long term goals of OPEC and also lack of spirit cooperations, such an endeavour proved fruitless. Hence adoption of a long-term strategy for OPEC never materialized.



OPEC
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but through working out
along-term strategy

Guidelines for Long-Term Strategy

No doubt drawing out principles of a long-term strategy for OPEC under the present complicated new economic atmosphere of the world is a complex task and requires the mobilization of elite experts of OPEC members, and perhaps independent ones as well, to study the subject within a fresh structure. Therefore what follows is a mere opening to the issue.

As cited before, under the prevailing circumstances of the world where in OPEC is faced with various phenomena, the organization has to define its relationships with such phenomena. But prior to that OPEC must move in a direction that will lead into internal cohesion and thus enabling it to resolve much of its problematic issues. Such a move will pave the way to find solutions to other complications. I believe the most important problem for OPEC to

worldwide. The International Energy Agency manages to gradually regulate the energy consumption of its member countries and trace strategic lines, first for energy consumption of its member countries and trace strategic lines, first for energy problems of its own members, and then for the world. While the strategies and policies of IEA were gradually implemented, the passiveness of OPEC was intensified. A comparison between the OPEC's domain of influence and activity with those of IEA gives a better image of the situation.

1- As mentioned earlier, IEA members consume more than 50% of the energy produced in the world and the rate of their energy production stands at the same level.

While OPEC members produce less than 20% of the world energy and their consumption is lower than 10%. Moreover, IEA has leverages at its disposal for indirect management of production and supply of energy in other countries of the world.

2- Whereas IEA holds a global view for all energy carriers and carries out its plans accordingly, OPEC's scope of activity is limited to oil.

3- Above all, IEA has defined

short-term solutions while your rivals see the matter through a wider angle.

No doubt continued success of any great economic establishment hinges on a long-term strategy., considering constantly trends beyond day-to-day ups and downs.

History of adoption of long-term strategy for OPEC

In 1975, for the first time ever during the first OPEC summit held in Algeria, the notion of formation of a long-term strategy committee was endorsed. However it was not before summer of 1978 when the then Saudi oil minister called on colleagues from OPEC's founding member states as well as Algeria to convene an informal meeting in Taef, Saudi Arabia, in this regard. In the gathering the Saudi oil minister was appointed as the head of the said committee. It was the first time that the activity of an expert OPEC committee was put under supervision of a minister, which could be interpreted as the importance of the long-term strategy to the organization. In the first session of the committee in June 1978, the head of the committee proposed to the members looking into the following

5- The final cost of rival energies for oil and their replacement potentialities.

6- Relation between oil, energy and other world economic issues in North-South dialogues.

In later sessions of the committee, the following subjects were added to their agenda:

1- OPEC's stance towards taxes levied on oil products in industrial countries which effectively reduce demand artificially.

2- OPEC cooperation to increase production of petroleum products.

3- Upgrading OPEC's role in international arena in a bid to gain advantages through proper use of commercial strength of the organization.

4- Implementation of a production control to avert oil price decreases notably during excess supply periods.

5- Studying the role and competence of multinational companies in regulating relations between producing and consuming countries.

6- Evaluation and adoption of OPEC's main policy in its relations with developing countries.

Following the compilation of the above agenda, the OPEC secretariat was assigned to study some of these subjects using services of international oil and economics consultancy companies. The long-term strategy committee eventually, after examining several reports, presented to the OPEC meeting the following four fields of activity made by experts from OPEC and international consultancy companies.

1- Studying long-term perspective of oil supply and demand.

2- Adoption of long-term strategy for oil pricing structure.

3- Relations with industrial countries.

4- Relations with developing countries

In a ministerial meeting held in Dhahran, OPEC's strategy on oil pricing based on the following three principles



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present analyses of the first category

while the second type of comments are put forth by those

who consider OPEC as an effective body

long-term strategies, but again OPEC has been satisfied with adopting piecemeal, short-termed, albeit effective, measures.

As pointed out earlier, the key element in OPEC's passiveness is the last one. OPEC has no way out of passiveness but through working out along-term strategy. You are doomed to be passive as long as you are restricted to a short-sighted analysis and thus

subjects:

1- Role of oil in meeting energy demands of the world.

2- OPEC's stance vis-a-vis the new economic developments of the world.

3- Preserving the purchasing power of petrodollars in view of the worldwide inflation and fluctuation in dollar's value.

4- Calculation of oil price with a view on price elasticity for oil demand.

OPEC effective but passive and in need of long-term strategy

Introduction

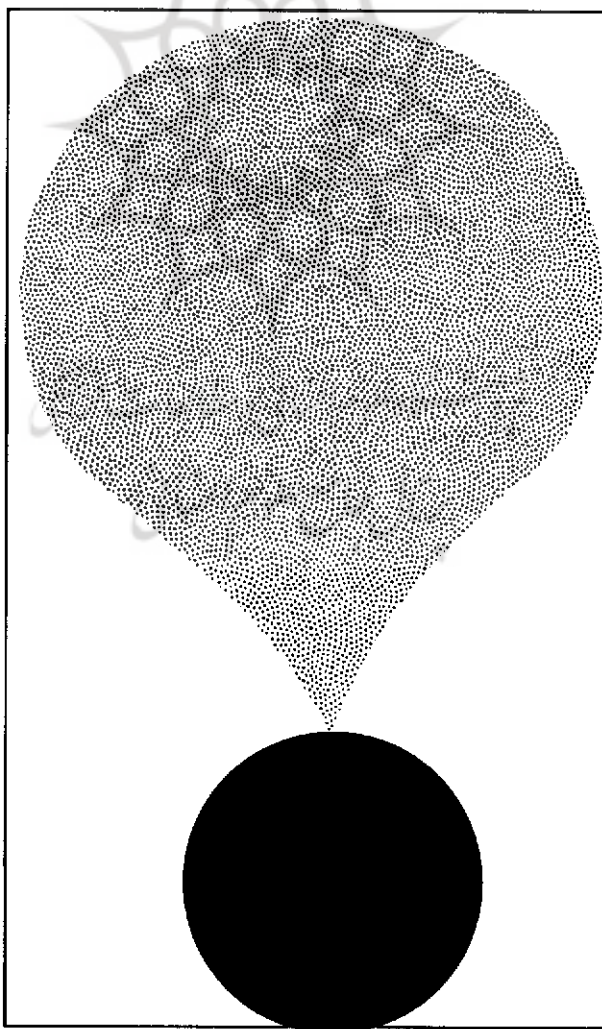
During last two decades, different and partly contradictory discussions and analyses have been put forward regarding the identity and capabilities of OPEC. At certain junctures some analysts have declared the imminent death of the organization which has also been tagged as an organization of the past, while some others at times in explicit or implicit comments have seen the body as an influential and effective entity in handling the world oil market. In the last couple of years, OPEC has regulated the oil production worldwide to its own advantage through more internal discipline. The latter comments have been more prevalent.

The question is what is the reason of such contradictory analyses? And what comprehensive framework could be thought of within which these struggling comments could converge?

Passive but Effective

In my opinion, a comprehensive explanation which could thoroughly answer these questions is that OPEC is a passive and at the same time effective organization. Those who mainly refer to its passive aspect present analyses of the first category while the second type of comments are put forth by those who consider OPEC as an effective body.

To take an example to illustrate the situation, you may imagine that you are walking in the street and suddenly you are charged by someone accusing you of theft. Then people gather around you. In such a situation, you are in a passive condition although you may take an action of whatever nature and even harm that person, or wait and see. In other words you may become most effective or completely ineffective in such a position, but you would be



way, because the initiative does not rest with you and you are stopped from your normal activity. You can see through this simple example that the more sophisticated the strategy of that person, the greater your passiveness, while in the very passive situation, you may be effective or otherwise to a great extent. Of course one should consider the fact that such passiveness can be avoided through wisdom and awareness.

The history of OPEC's passiveness goes back to the second half of 1970's during which the International Energy Agency (IEA) was established. The IEA was formed following the first oil shock in a bid to manage the energy affairs of the OPEC member countries. At that time some twenty members of this energy body consumed over 62% of the world energy production. They still use some 53% of the energy produced