

# OPEC



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By: Ryan O'Neill

# Outline

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- Revenue of OPEC
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- OPEC and the U.S.
- Ways for U.S. to Rid of Dependence on OPEC  
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# Basic Facts

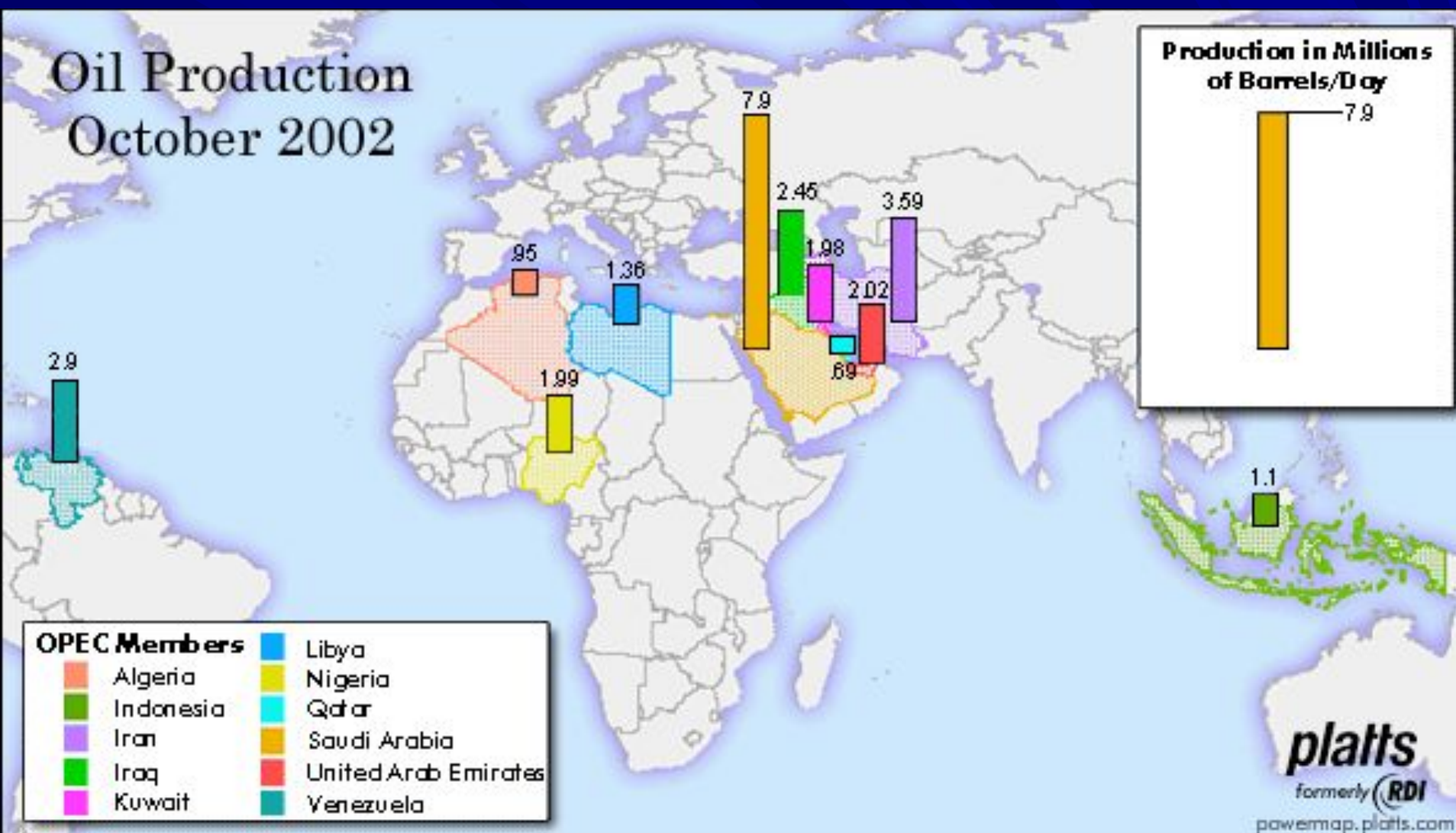
- OPEC was formed in Baghdad in 1960 to coordinate and unify the policies of petroleum exporting nations
- The main objective of OPEC is to ensure the “stabilization of oil prices in international markets” and securing a steady income to oil producing nations
- In order to achieve these objectives, the OPEC nations meet at least bi-annually to decide whether to raise or lower their collective oil production in order to maintain “stable” prices
- The main factors in their formulating of petroleum policy are the forecasts for economic growth rates and petroleum demand and supply
- The 11 OPEC member countries produce about 40% of the world’s crude oil, and therefore have a strong influence on the oil market
- At the end of 2001, OPEC had reserves of nearly 850 billion barrels of crude oil, representing nearly 80% of the world total of over 1 trillion barrels

# How OPEC Exerts its Influence

- OPEC sets individual production quotas for each member country that serve as “production targets” to ensure that there supply isn’t greater than demand
- These “production targets” for each country add up to a “ceiling” that OPEC desires not to exceed (However they rarely stay under their proposed ceiling)
- The graph to the right shows the quota set by OPEC for the millions of barrels to be produced per day during Oct. 22 compared to the actual amount. (As you can see, the quota has been surpassed by over 3 million barrels per day)
- Iraq is not included in the quota system because their exports are controlled by the U.N. based on the “food for oil” program

Country	Oct. 2002	Quota
Algeria	0.95	.693
Indonesia	1.1	1.125
Iran	3.59	3.186
Iraq	2.45	
Kuwait	1.98	1.741
Libya	1.36	1.162
Nigeria	1.99	1.787
Qatar	.69	.562
Saudi Arabia	7.9	7.053
UAE	2.02	1.894
Venezuela	2.9	2.497
Total	26.93	
OPEC 10	24.48	21.7

# Oil Production October 2002



platts

formerly RDI

powemap.platts.com

# Middle East

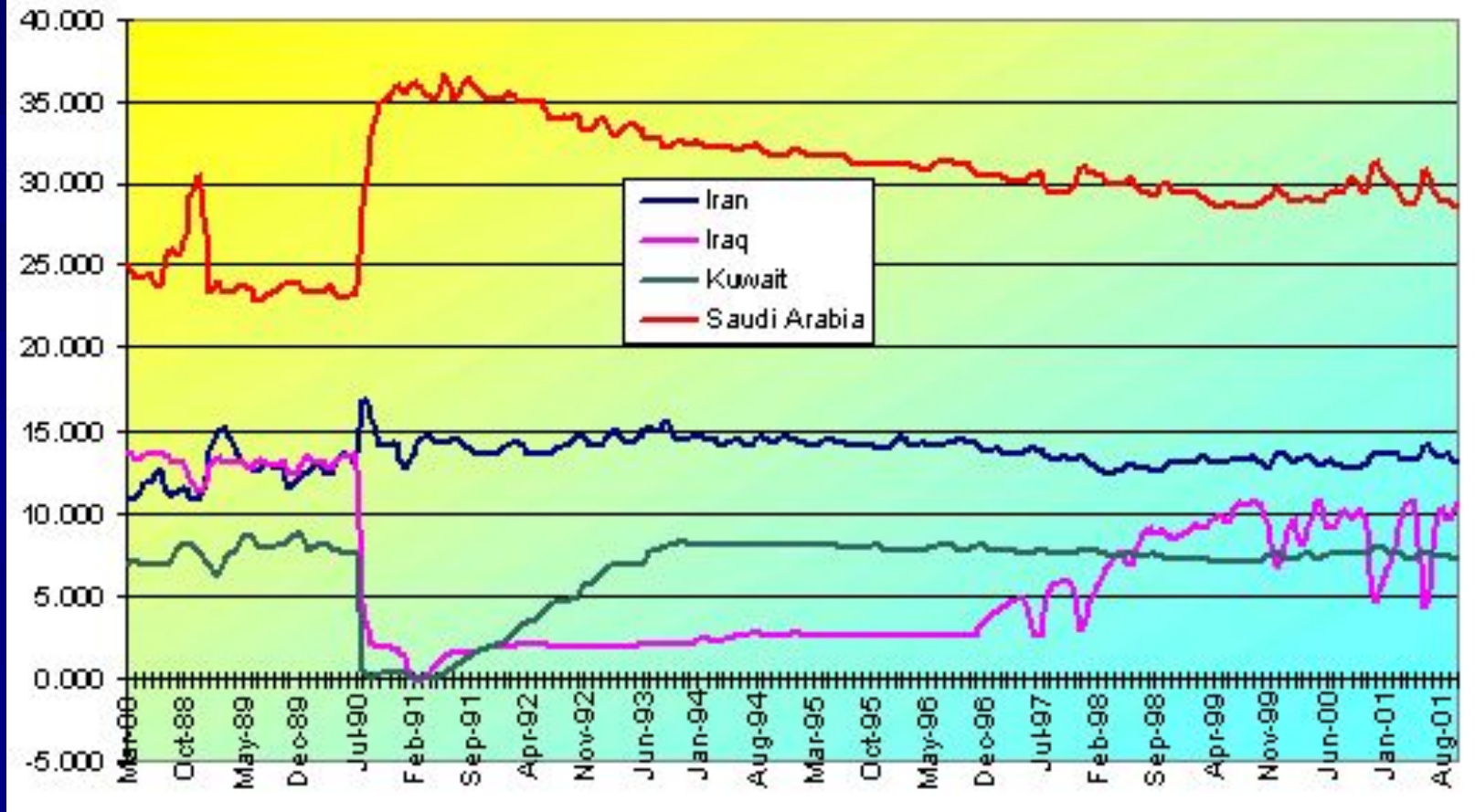
- Although OPEC is not an organization of Middle Eastern oil producers, the politics of the Middle East and in particular the Persian Gulf have played and continue to play a dominant role in the policies OPEC decides upon
- There have been three main price spikes in world oil prices, all of which were due to unrest in the Middle East with OPEC not increasing quotas enough to compensate:
- In the early 1970's oil prices spiked as Arab oil producers embargoed oil deliveries to countries friendly to Israel
- In 1979, prices soared again as Iranian oil workers went on strike in support of the Islamic Revolution, and high prices continued in the early 80's during the Iran/Iraq War
- In 1990 when Iraq invaded Kuwait, oil exports from Kuwait were severely diminished from the burning of their oil fields and the imposing of sanctions on oil exports from Iraq ( In this instance Saudi Arabia did pick up the slack substantially )

## U. S. First Purchaser's Crude Oil Price



As the graph illustrates, the main price spikes began in the early 70's, escalated dramatically during the energy crisis in the late 70's and early 80's, with the last main increase occurring as a result of Iraq's invasion of Kuwait

## Percentage shares of OPEC output since 1988



Saudi Arabia has been the main producer of oil from the OPEC countries, and as previously mentioned, it was they who picked up their rate of production during the Gulf War to compensate for Kuwait's burned fields and the sanctions imposed on Iraq.



# Production from OPEC Countries

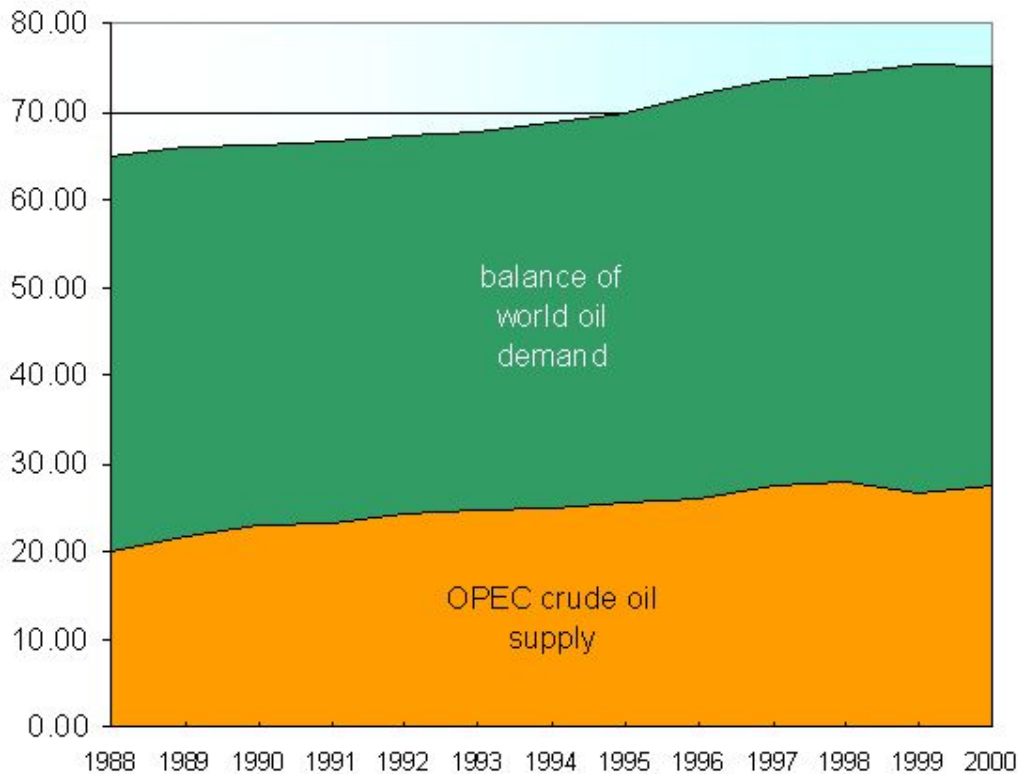
Figures for total OPEC production since 1988



~ OPEC production in barrels per day in 2001 declined to 27 million, which equals nearly 10 billion annually

~ Using the percentages of production in the previous diagram, Saudi Arabia produces nearly 3 billion barrels of oil annually

### The OPEC-Demand Divergence



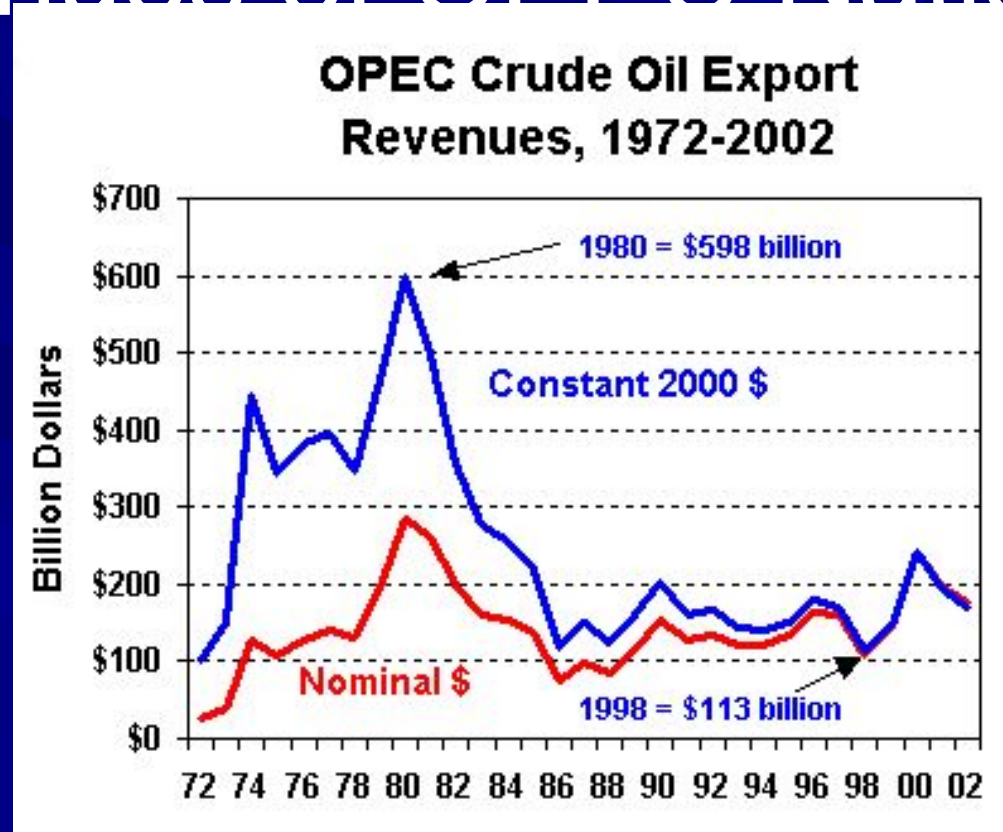
For the first time in 10 years, OPEC output in 1999 has fallen at a time of rising demand.  
Sources: OPEC data and forecast - Standard & Poor's Platt's; historical demand data - IEA

~ This chart demonstrates how OPEC's share of world oil production has effectively fallen since the late 1980s, as world demand has risen. Figures are in millions of barrels a day

~ The world demand for millions of barrels of crude oil has gone up about 10 million during this 12 yr span while the amount supplied by OPEC only went up 4 to 5 million

~ This graph is evidence of the declining dominance of OPEC in oil supply due to the emergence of Non-OPEC suppliers such as Canada and Russia

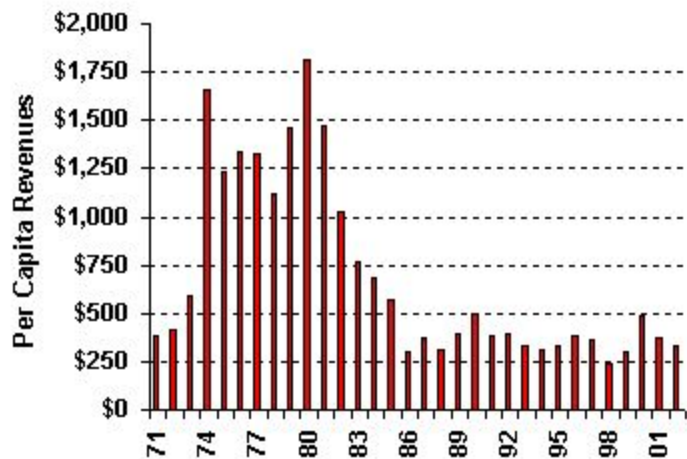
# Revenues of OPEC Nations



~ OPEC net oil export revenues for 2001 are an approximate \$190 billion, a 20% decrease from the 2000 levels, and no way comparable to the revenues during the 1970's

~ This chart reflects the sharp oil price decline in the months following the September 11 attacks that exacerbated the recession already in progress in the U.S. as well as the price rebound of early this year

OPEC -- Per Capita Crude Oil Export Revenues  
(Constant \$2000)



~ In inflation adjusted terms, OPEC per capita oil export revenues are far below the peaks reached in the late 1970s/early 1980s

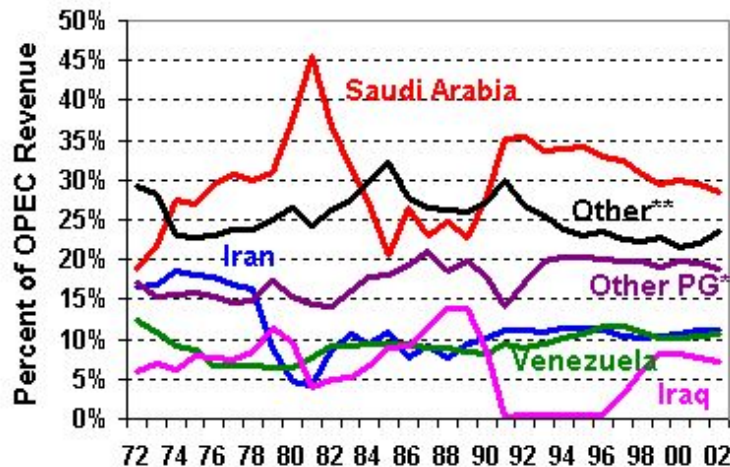
~ For OPEC as a whole, per capita oil export revenues (in constant \$2000) are projected at \$327 for 2002, down 10% from the \$365 per person figure for 2001



~ OPEC countries are currently heavily in debt and have populations growing, so such low per capita revenues have a potentially devastating impact

~ Not surprisingly, Saudi Arabia leads in revenues, with Iraq slowly getting back in the positive column due to the food for oil program

Share of OPEC Revenues  
for Selected Countries



\* Other PG (Persian Gulf) includes: Kuwait, Qatar, and the United Arab Emirates

\*\* Other includes: Algeria, Indonesia, Libya, and Nigeria



# Summary

- While OPEC still has considerable influence in determining the price per barrel of petroleum by restricting output, their success has greatly diminished since the 1970's
- Despite the overall increase in worldwide demand for petroleum, OPEC nations have not received the brunt of this increased demand. Rather, it has gone to Non-OPEC nations
- As a result, over the past few years both production and revenues in the OPEC nations have declined significantly
- Successful oil production in the OPEC nations is tied to the political and economic status of the volatile Middle East, which serves as a deterrent to potential importers

# OPEC and the U.S.

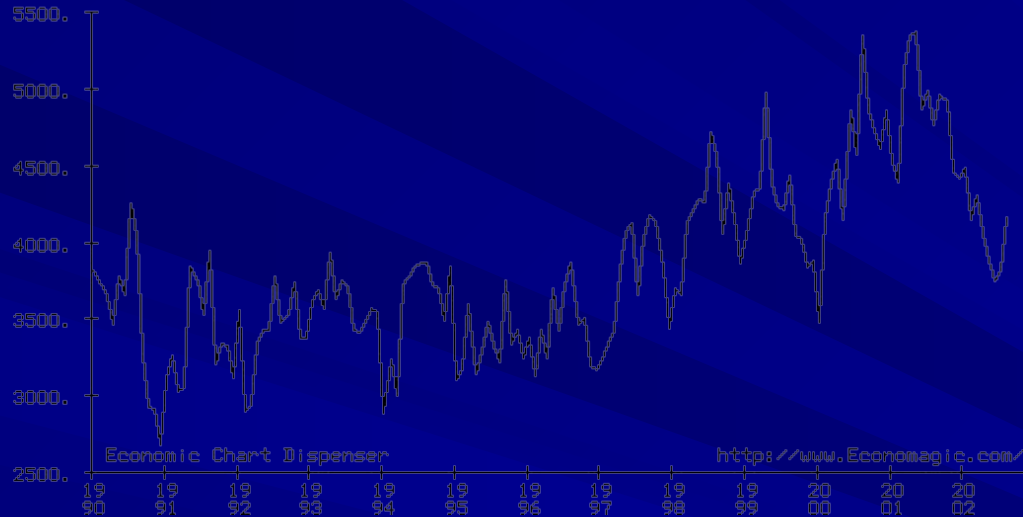
- As I touched upon in my first presentation, the United States consumes nearly 7 billion barrels of oil annually
- The U.S. imports over half of these 7 billion barrels, with half of these imports coming from OPEC nations
- The amount of these imports is only going to increase in the future as the nearly depleted U.S. reserves begin to run out
- Some numbers for you math lovers of course:
  - ~ 1998 U.S. oil imports- \$50 Billion nations      ~ Approx. \$25 Billion to OPEC
  - ~ 1999 U.S. oil imports- \$67 Billion nations      ~ Approx. \$34 Billion to OPEC
  - ~ 2000 U.S. oil imports- \$119 Billion nations      ~ Approx. \$60 Billion to OPEC

# Major Sources of U.S. Petroleum Imports (2001)

Country	Total Oil Imports
Canada	1.79
Saudi Arabia	1.66
Venezuela	1.54
Mexico	1.42
Nigeria	.86
Iraq	.78
Norway	.33
Angola	.32
U.K.	.31
Total Imports	11.62
	(MB/D)

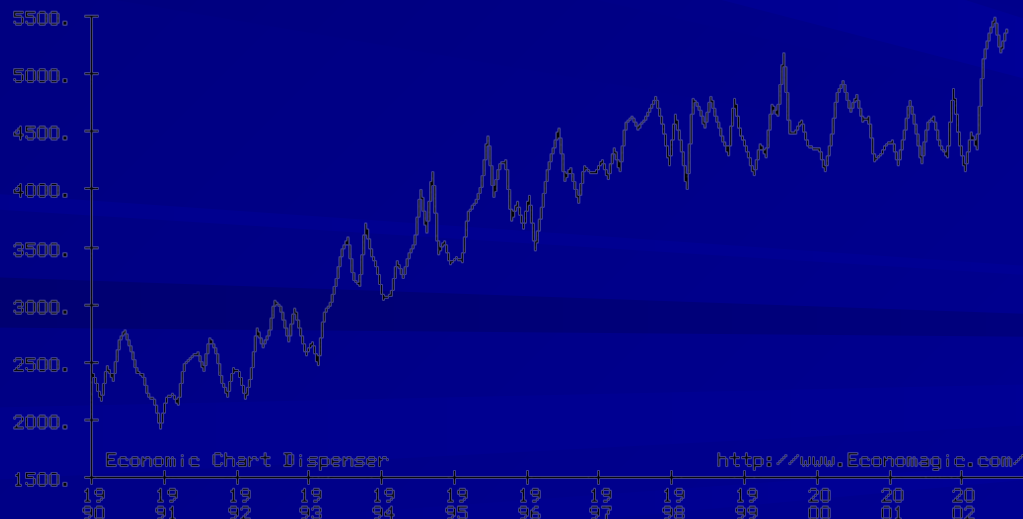
# Comparison of U.S. Oil Imports

Crude Oil Imports from OPEC Countries; Mb/d



~Oil imports from OPEC countries are projected to significantly decrease in 2002 compared to 2001 in accordance with the steadily rising trend of U.S. oil imports from Non-OPEC countries (Mainly Canada and Mexico)

Crude Oil Imports from Non-OPEC Countries; Mb/d



~ While the U.S. slightly easing its dependence on OPEC imports is a good sign towards not being reliant on the Persian Gulf for economic prosperity, much more efficient measures can be taken



# Assuring Independence from OPEC Imports

- ~ Drilling in the ANWR- Screw the caribou!
  - ~ No seriously, attempting to improve domestic production of oil won't decrease our dependence on foreign imports, any gains in domestic production would be trivial compared to possible gains through efficiency
- ~ Congress raising fuel economy standards with car standards= to SUV
  - ~ Eventually set a 40 mpg standard that would save 50 Billion barrels of oil over 50 yrs
  - ~ Castrating Ronald Reagan for rolling back the impressive CAFÉ standards that put us on the path to oblivion otherwise disguised as today!
- ~ Other smaller efficiency measures such as:
  - ~ Carpooling    ~ Improving public transportation    ~ More research in hybrid tech's

And the Ultimate Way to Assure Independence from OPEC imports:

~ Finding someone crazy enough to risk the political suicide of attempting to run for office on the platform of raising the price of gasoline to its true cost (Between \$5-15)

~ What man could possibly possess the qualifications and drive to pull off such an improbable campaign victory??

~Who could possibly lift the Green Party out of the eternal dungeon of defeat to execute such a policy??

~It must be someone who has made sacrifices in their life for environmental benefit!

~Someone who uses the windowsill instead of a refrigerator!

BOYS

5-38



Oh no! Not the pre-game Lets win this for the gas tax speech again!

# Conclusion

- OPEC still has considerable influence in determining the price per barrel of petroleum by setting quotas, but their best days are behind them
- Non-OPEC nations such as Canada and Mexico have stripped the cartel of its power to single-handedly manipulate the petroleum market
- The U.S. has benefited from the increased production of petroleum by Non-OPEC nations and thus reduced their annual imports from the OPEC countries in recent years
- The United States needs to address its unacceptable energy policy by stressing efficiency and reduced demand for fossil fuels