

# Shifting Economic Power In World Oil Markets

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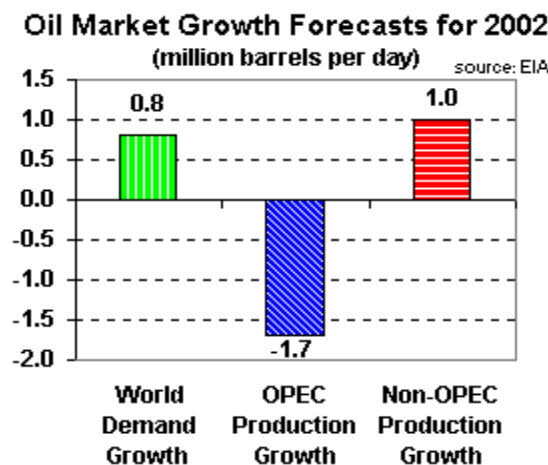
## 1. Introduction

The Organization of Petroleum Exporting Countries (OPEC) has encountered rough times before, but never has its power over the world oil market been in question as it is today. Along with the global recession, and following the tragedy of September 11<sup>th</sup>, there has been a noticeable shift in the priorities and objectives of both OPEC<sup>1</sup> and non-OPEC members. As a result, OPEC's once dominant position in world oil markets appears to be weakening.

World oil prices have reached a two-year low, yet OPEC has been unable to do much about the decline. In spite of a reduction of 1.7 million barrels in daily oil production, OPEC has thus far been unable to bolster softening oil prices.

As can be seen from Figure 1, below, projections of growth in world oil demand are more than equaled by growth projections in non-OPEC oil production. Such projections would argue for relatively flat oil prices through 2002.

Figure 1



Source: Energy Information Agency, OPEC fact sheet, December 6<sup>th</sup>, 2001  
found <http://www.eia.doe.gov/emeu/cabs/opec.html>

In the past, OPEC was able to rely on non-OPEC members, particularly Russia, for support in reducing production and increasing oil prices. The days of Russia's support of OPEC policies, however, appear to be coming to an end.

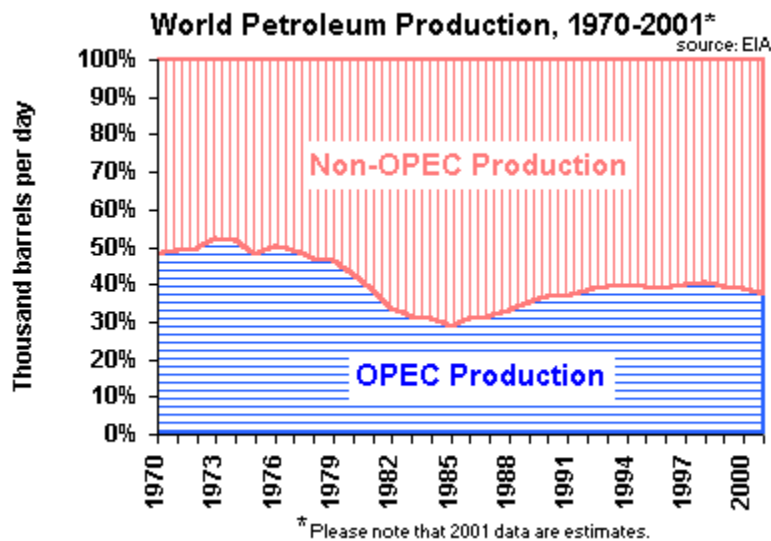
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As the second-largest oil producer in the world, Russia appears intent on distancing itself from association with the OPEC cartel. This appears especially true following the terrorist attacks of September 11, 2001, and given Russia’s new role with the coalition in the war in Afghanistan.

In a recent request by OPEC for approximately 500,000 barrels of oil per day to be taken off the world market, Russia responded with a reduction of only 30,000 barrels per day. This relatively meager response by Russia, while saving face diplomatically with its OPEC friends, also opens a diplomatic door to the U.S. oil market. There is speculation that the U.S. will one day turn away from Saudi Arabia and towards Russia for its oil needs.<sup>2</sup>

As can be seen from Figure 2, below, OPEC’s world market share has fallen to the range of 40%.

**Figure 2**



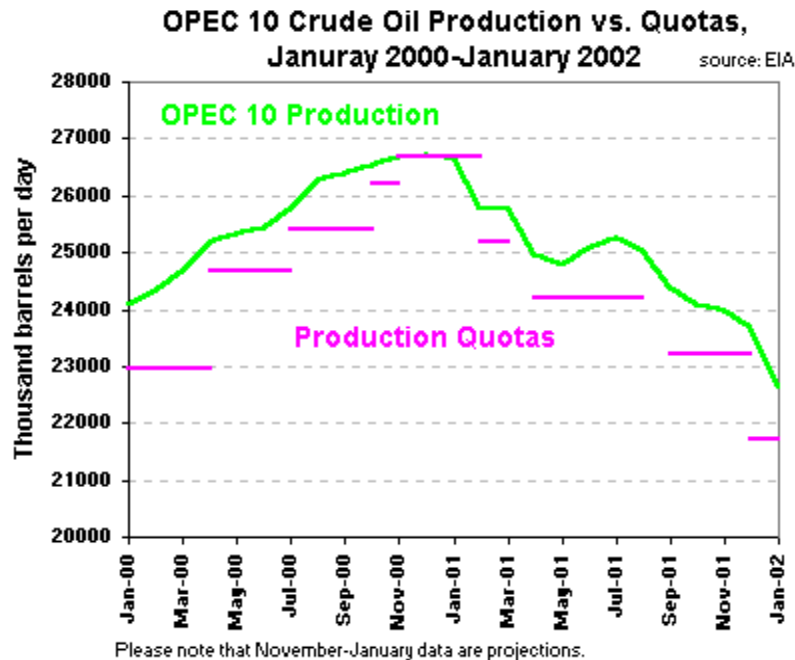
\* Please note that 2001 data are estimates.  
 Source: Energy Information Agency, OPEC fact sheet, December 6<sup>th</sup>, 2001  
 found <http://www.eia.doe.gov/emeu/cabs/opec.html>

For this to happen though, we need to stress that Russian would need a large of capital inflow into its oil sector as well as U.S. technology to help it sustain a high oil production rate. Russia’s oil wells are known to be in need of repair and U.S. technology can go a long way in restoring the high daily production rates that the country use to achieve.

As a cartel, OPEC oil producers have at times acted in unison; that is, as a single oil producer, in achieving oil production and pricing goals. Such cohesion is difficult to enforce and maintain. Currently, for example, there appears to be general agreement among OPEC members on the goal of increasing oil prices, and the need for reducing production in order to do so. While OPEC members have agreed in principle to reduced production quotas, the reality of this situation is far different.

Figure 3, below, clearly shows OPEC’s basic problem and dilemma. Cartels rarely succeed in enforcing discipline within their ranks and thus cheating takes place. As Figure 3 clearly demonstrates, OPEC has been unable to stick to its own oil production decisions, and thus ends up over producing.

Figure 3



Source: Energy Information Agency, OPEC fact sheet, December 6<sup>th</sup>, 2001  
found <http://www.eia.doe.gov/emeu/cabs/opec.html>

This overproduction by OPEC further adds to a softening of oil prices. In addition, OPEC's inability to cut it's own production makes non-OPEC countries less likely to go along with OPEC requests for production cuts.

Given the global recession and the decline in travel both in the United States and overseas following the September 11 attacks, overall demand for oil is headed down, pointing to further decline in oil prices. With little or no help from the non-OPEC group, there appears little OPEC can do to prevent further oil price drops. 📖

### Endnotes

- <sup>1</sup> Or least some from within like Saudi Arabia, Kuwait and the other Gulf states. It is difficult for them to argue for an increase in oil prices given the new circumstances (both economic and in light of the tragic events of September 11<sup>th</sup>.) This, however, has not stopped Saudi Arabia from asking some non-OPEC members to join them in reducing output but this has not been met with overwhelming support from the Non-OPEC group.
- <sup>2</sup> For this to happen, though, we need to stress that Russian would need a large of capital inflow into its oil sector as well as U.S. technology to help it sustain a high oil production rate. Russia's oil wells are known to be in need of repair and U.S. technology can go a long way in restoring the high daily production rates that the country use to achieve.

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