The future of the Organization of Petroleum Exporting Countries (OPEC) has become unclear. The oil cartel is suffering from growing internal strains which may threaten its future. In particular the crash of the dollar is undermining the dominant position of ‘moderate’ member Saudi Arabia and strengthening the lobby of ‘price hawks’ Iran and Venezuela.

OPEC weakened by internal turmoil

By Cyril Widdershoven

It was only for the third time that the Heads of State of the 13 OPEC-members met in the history of the oil cartel. The Summit on November 15-18, as well as the regular OPEC Ministerial meeting on December 5 in Abu Dhabi, has given analysts much food for thought. Clearly, OPEC is looking for a new role in a landscape that has changed a lot since the last Heads of State Summit in Venezuela in September 2000, when Hugo Chávez had only just been elected president.

The Summit in Riyadh revealed the competing forces at play, with Saudi Arabia and the other Arab Gulf states advocating measured and responsible steps, focusing on dialogue with consumers and on setting up a new fund for carbon capture research. On the other side, countries such as Venezuela and Iran, backed by newcomer Ecuador, took the opportunity of banging the drum of anti-American rhetoric.

The increased power of the hardliners has become an issue of concern to observers. Until now, Saudi Arabia has been able to prevent OPEC from becoming a political tool and a forum of anti-Americanism. The increased strength of the radical axis can be partly ascribed to the high oil prices. Increased oil revenues have given the hawks in OPEC more room to present their views. The increased power of the national oil companies (NOC’s), such as PDVSA of Venezuela and NIOC of Iran, vis-à-vis the western multinationals, has also strengthened their hand.

But perhaps the most important new factor in this power struggle is the steady slide of the dollar against other international currencies, which is weakening the pro-American camp. The linkage between oil and the dollar has become one of the most important concerns of OPEC. Oil has always been traded in US dollars of course. Now for the first time in OPEC’s history, two member countries - Venezuela and Iran - have reportedly proposed to delink crude oil from the dollar. Even though the proposal has been dismissed, several other member-countries have urged OPEC to carry out a study into the option in the coming months. Predictably, Saudi Arabia refuses to discuss the issue. Still, some analysts believe that the Saudis are merely trying to make a good impression on powerbrokers in Washington and London. The fact is that they have let the cat out of the bag. The possibility of a delinkage will be hanging over the oil market from now on. Asian traders are already asked by Iran to have contracts set up in euros or yen. Incidentally, Saudi Arabia and the Arab Gulf states do not only oppose delinkage out of concern for the US. They have invested hundreds of billions of dollars in the American economy, via bonds, shares and other assets. It would be an enormous loss to them if the dollar plunged even further. Some financial analysts have pointed out that the dollar can keep its dominant position in the world only because it is the main currency oil is traded in. If this foundation were taking away, the dollar might crash.

Something which all OPEC members do agree on, is that OPEC is not to blame for high oil prices. OPEC ministers continue to insist, as they have been doing a long time, that the increased influence of financial parties in the oil market is to blame for this. In Riyadh, Pierre Terzian, owner of Paris-based consultancy Petrostrategies, came out with a report that argued that instability in the oil market has increased since 2004, when hedge funds and pension funds started to invest massively in the oil market. Terzian said that this proves that the influence of “speculators” or “non-commercial parties” is one of the main causes of expensive oil.

Many analysts disagree, however. They point out that financial players are only

The thirteen members of OPEC: Algeria, Angola, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela.

interested in the oil market because of the volatility of the prices. This presents an opportunity to traders. But this volatility occurs only because the market is intransparent - which is primarily the fault of OPEC itself. If the market were transparent and clear, there would be very little volatility, hence a lot less interest from speculators, this reasoning goes. Even though the influence of speculators cannot be dismissed, the main price driver according to most market watchers is high demand, intransparency and the decline of spare capacity.

For now, the conflict between the moderates and the hawks remains unresolved. The main official message coming out of the Riyadh Summit has been that the cartel has left its "guiding principles" unchanged. That is to say, issues such as politics and poverty remain taboo for OPEC, Hugo Chávez's attempts at playing politics with OPEC notwithstanding. Chávez held a very emotional speech at the start of the Heads of State Summit, but this was countered by short but clear speech from King Abdallah of Saudi Arabia, who did not mention politics or geopolitical issues at all. Instead, the Saudi King concentrated on the new role that he likes to see for OPEC, namely as leader of the environmental movement.

The King even promised to put $300 million in a fund for carbon capture and storage. This was followed by a pledge of $150 million each from Kuwait, Qatar and the UAE. Observers have reacted with skepticism to this sudden 'green' image of OPEC, which seems to be largely a diversionary maneuver, to draw attention away from the much more difficult subjects of resource nationalism and dollar linkage. The diversion comes fairly cheap, given the fact that OPEC expects to invest $650 billion in oil and gas production in the coming years. ■

Country	National Oil Company	Reserve base (billion barrels)	Production 2006 (million barrels p/day)	Reserve to production ratio (in years)
Algeria	Sonatrach	12.3	2	16.8
Angola	Sonangol	9	1.4	17.6
Ecuador	Petroecuador	4.7	0.5	23.4
Indonesia	Pertamina	4.3	1	11
Iran	INOC	137.5	4.3	86.7
Iraq	NIOC	115	2	100+
Kuwait	KNOC	101.5	2.7	100+
Lybia	Nat. Oil Cor. Lybia	41.5	1.8	61.9
Nigeria	NNPC	36.2	2.5	40.3
Qatar	Qatar Petroleum	15.2	1.1	36.8
Saudi Arabia	Saudi Aramco	264.3	10.9	66.7
U. Arab Emirates	ADNOC	97.8	3	90.2
Venezuela	PDVSA	80	2.8	77.6
Total		**919.3**	**36**	**72.5**

Source: BP Statistical Review 2007.

Spare capacity

Global spare production capacity is one of the main factors driving world oil prices. Only if OPEC has sufficient spare capacity, can it play the role of 'stabilizing' the oil market. The OPEC-members did not discuss spare capacity in public in Riyadh and Abu Dhabi. Secretary General Al Hamli did say that the cartel has increased its spare capacity to 3 million barrels per day. This message was received with some skepticism. The International Energy Agency (IEA) said the OPEC figures are based on unrealistic assessments, such as taking into account currently shut in production capacity in countries like Nigeria and Iraq. In Riyadh, the discussion heated up after Ali Aissaoui, Head of Research of the Arab Petroleum Investments Corporation (Apicorp), the main financing arm of OPEC, said in a presentation that the cartel only had a spare capacity of around 810,000 barrels per day. If true, it would at least in part explain current high prices.