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## POLITICAL TENSION IN OPEC<sup>1</sup>

*“Everyone does what they want from now on, says Iran”*<sup>2</sup>

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*The main purpose of this paper is to review the communication approach of the Organization of the Petroleum Exporting Countries (OPEC) and to link this evaluation to some important key events in the context of the energy market. The main conclusion of this discussion is that OPEC's communication power varies and it is politically oriented not economical. Apparently, there are many examples, especially during the oil price fluctuations, which give a clear clue that this organization failed to communicate internally, thus OPEC lost the power to price oil. As a pioneer energy organization which had power and policy for controlling and regulating energy markets by balancing the supply and demand, currently OPEC has no more influence due to the behaviour of its member states, which is based on political and national interests. OPEC is a weakened organization in the eye of international community stripped of its sovereignty in the energy market.*

### KEYWORDS:

Communication Barriers, OPEC, Saudi Arabia, Pricing Power

- 1 The Organization of the Petroleum Exporting Countries (OPEC) is a permanent, intergovernmental organization, established in Baghdad, Iraq, on 10–14 September, 1960. The Organization comprises 13 members: Algeria, Angola, Ecuador, the Islamic Republic of Iran, Iraq, Indonesia, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela. The Organization has its headquarters in Vienna, Austria.
- 2 Grant SMITH: *OPEC unshackled from quota could add millions of Barrels*, Bloomberg Business, December 7, 2015. Source: [www.bloomberg.com/news/articles/2015-12-07/pecc-unshackled-from-quota-could-add-millions-of-barrels-in-2016](http://www.bloomberg.com/news/articles/2015-12-07/pecc-unshackled-from-quota-could-add-millions-of-barrels-in-2016) (accessed 08.10.2016).

This study aims to analyse the tension in the Organization of the Petroleum Exporting Countries, and the communicative approach of its leadership; the study also highlights the main reasons for OPEC weakness, and the role of the member countries, especially Saudi Arabia as a member with pricing monopoly.

## 1. INTRODUCTION

The Organization of Petroleum Exporting Countries (OPEC) was established by a group of petro-states that wanted to protect their wealth and economic well-being. OPEC is established not only as an economic organization that regulates and formulates policies for its member countries, but more importantly, it came into being to weaken the role of certain multinational companies, known as the *Seven Sisters*, which had been dominating the international oil market for long. The *Seven Sisters* were Exxon, Shell, BP, Mobil, Texaco, Gulf and Chevron. The idea and strategy of controlling oil and production is plotted since 1928.<sup>3</sup> Accordingly, the Sisters used to control 85% of the world's oil reserves, while now only 10%, they produced a tenth of the world's oil, and control only three percent of the reserves. While, today the emerging Seven Sisters are different and more powerful, including; Saudi Arabia's Aramco; Russia's Gazprom, The China National Petroleum Corporation (CNPC), The National Iranian Oil Company, Venezuela's PDVSA, Brazil's Petrobras, Malaysia's Petronas. Those are the major leading state companies which have effective power control on their oil and reserves.<sup>4</sup> OPEC's main Objective "is to co-ordinate and unify petroleum policies among member countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry."<sup>5</sup> OPEC is not one nation, one voice; different nations joined for one common goal. It was created at the Baghdad Conference, September 10–14, 1960, with five member countries: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Later other countries joined: Qatar (1961), Indonesia (1962–2009, Dec 2015–), Libya (1962), United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973–1992, Oct 2007–), Angola (2007) and Gabon (1975–1994). OPEC had its headquarters in Geneva, Switzerland, in the first five years of its existence. This was moved to Vienna, Austria, on September 1, 1965.<sup>6</sup>

3 Emine DILEK: *The Secret Story of the World's Oil Domination: Who Are the Seven Sisters?* The Progressive Press, April 5, 2013. Source: [www.progressivepress.net/the-secret-story-of-the-worlds-oil-domination-who-are-the-seven-sisters](http://www.progressivepress.net/the-secret-story-of-the-worlds-oil-domination-who-are-the-seven-sisters) (accessed 08.10.2016).

4 Al-Jazeera: *The Secret of the Seven Sisters*, April 26, 2013. Source: [www.aljazeera.com/programmes/specialseries/2013/04/201344105231487582.html](http://www.aljazeera.com/programmes/specialseries/2013/04/201344105231487582.html) (accessed 08.10.2016).

5 OPEC history available online at: [mees.com/opec-history](http://mees.com/opec-history) (accessed 08.10.2016).

6 OPEC, Brief History, Source: [www.opec.org/opec\\_web/en/about\\_us/24.htm](http://www.opec.org/opec_web/en/about_us/24.htm) (accessed 08.10.2016).

## 2. THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC) – CONTINUAL DISAGREEMENT

Since the establishment of OPEC disagreement and miscommunication have been part of the organization. At the very first OPEC meeting Venezuela played the role of mediator between Iran and Saudi Arabia.<sup>7</sup> The member states have always been divided due to political and regional conflicts in the Middle East, which has affected OPEC's existence. OPEC seeks to "control the oil supply and thereby it keeps prices high", nonetheless, the production and price concern is not its only objective. Behind the scenes a political game is played by the member countries. Remarkably, in 1973 during the Yom Kippur War, also known as the October War, OPEC tried to deter the United States and world powers from arming Israel in the war. It was the first time in the history of the cartel to use oil as a political power to pressure the U.S. to avoid military aid to Israel. The oil embargo on the U.S and Netherlands<sup>8</sup> was the first signal for non-OPEC oil producers to think about more production to reduce the political power of OPEC. While thinking about a cartel like OPEC, there is a sense of common interest and protecting each other as members of the same organization. In their works Plato, Aristotle, Cicero talked about the sense of "common good" and recently, John Rawls has defined common good as "certain general conditions that are equal to everyone's advantage."<sup>9</sup> In accordance with this notion and within the logic of OPEN, there is no sense to think about Saudi Arabia as a manipulative member state that preserve its own interest above all other members. In an article on CNBC entitled *New Saudi Reality: OPEC is not a monopoly anymore* Yousef Gamal El-Din suggested that Saudi Arabia has little room to manoeuvre and may put up with lower oil prices.<sup>10</sup> In fact, OPEC has failed to agree on the common good many times during its 55 years of its existence. It enforced a quota of production to keep the balance between supply and demand and to keep prices high. In this context OPEC has internal and external concerns, the price on the one hand and market share on the other; price is a priority for many OPEC members, whereas for Saudi Arabia market share is more important. OPEC has to negotiate internally and externally based on the different needs of the parties. Accordingly, the first failure of OPEC occurred in 1973, during the year of the Arab Oil Embargo, when OPEC's market share was more than 50% of the World oil production. It is suggested that high oil prices and OPEC's reaction to it made non-OPEC producers emerge in the energy system. This increased production and gave market alternatives, decreasing OPEC's market share.<sup>11</sup>

7 *The first OPEC meeting held in Baghdad.* Source: mees.com/opec-history/1960/09/16/first-opec-meeting-held-in-baghdad (accessed 08.10.2016).

8 Lauren LEVY: *Oil: History and Overview of OPEC*, the Jewish Virtual Library. Source: www.jewishvirtuallibrary.org/jsourc/US-Israel/opec.html, (accessed 08.10.2016).

9 Manuel VELASQUEZ, Claire ANDRE, Thomas SHANKS, S. J., and Michael J. MEYER: *The Common Good*, August 2, 2014. Source: www.scu.edu/ethics/ethics-resources/ethical-decision-making/the-common-good (accessed 08.10.2016).

10 Yousef GAMAL EL-DIN: *New Saudi Reality: OPEC is not a monopoly anymore*, CNBC, October 16, 2014. Source: www.cnb.com/2014/10/16/crude-oils-new-reality-opec-no-longer-a-monopoly.html (accessed 08.10.2016).

11 WTRG: *Oil Price History and Analysis*, January 29, 1999. Source: www.wtrg.com/opec.html (accessed 08.10.2016).

As a reaction, in 1974, Henry Kissinger urged Western nations to form a counter cartel of consumers; as a result the International Energy Agency came about. It aimed at coordinating Western energy policies,<sup>12</sup> and at preparing for energy disruptions by the producers.

Apparently, cartels like OPEC have always had disagreements in which members seek their national interest and sovereignty. It is to be mentioned that Saudi Arabia was committed in 1980 to abide by OPEC's quota of production, as a result Saudi Arabia lost considerable market share.<sup>13</sup> It might be illusionary to think that it is possible to have two balls in one hand: high oil price and market share at the same time, as OPEC members tend to believe. When Saudi Arabia accepts low oil prices to have high market share, poorer OPEC member countries suffer economically. As explained in Reuters (2014) Saudi Arabia is fighting for market share in order to pressure higher cost producers to shut down as prices fall. This is exactly what Saudi Arabia is doing now: pursuing its own policy and strategy of protectionism as stated by Philip K. Verleger, president of consultancy PK Verleger LLC and a former advisor to President Carter. The emerging price war is a war of necessity.<sup>14</sup> The questions arises if it is all about Saudi Arabia or the OPEC's leadership faces challenges in communicating and settling disputes and finding suitable solutions. In fact, OPEC decided "to hold its production, while members at the Vienna meeting in December 4, 2015 refused to accept a supply cut."<sup>15</sup> This means that the division was quite clear and the output policy remained unchanged. The disagreement among the member countries made the situation harder, even Venezuela is negatively affected by the low price, yet it accepted the output cut by 5%. It was stated by Ecuador's oil minister Carlos Pareja that the meeting was "difficult and an agreement has not yet been reached."<sup>16</sup> Besides, Bloomberg reported that oil producers outside of OPEC, namely Russia and Mexico, do not see a production cut as viable.<sup>17</sup> The main concern is the unity of the oil cartel and their economic sustainability. Gulf producers before Vienna, including Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates, had come to an agreement, but it is still unknown whether those GCC Countries accept OPEC compliance or output cut.<sup>18</sup>

12 John G. STOESSINGER: *The might of Nations, world politics in our time*, Random House, New York, USA, 8<sup>th</sup> edition, 1986, 210.

13 *Ibid.*

14 Rania EL GAMAL: *Facing new oil glut, Saudis avoid 1980s mistakes to halt price slide*, Reuters, October 14, 2014. Source: [www.reuters.com/article/us-saudi-oil-policy-analysis-idUSKCN0I229320141014](http://www.reuters.com/article/us-saudi-oil-policy-analysis-idUSKCN0I229320141014) (accessed 08.10.2016).

15 Aditya KONDALAMAHANTY: *OPEC Meeting Heads For Deadlock As Members Clash Over Oil Production Cuts*, International Business Times, December 4, 2015. Source: [www.ibtimes.com/opec-meeting-heads-deadlock-members-clash-over-oil-production-cuts-2211220](http://www.ibtimes.com/opec-meeting-heads-deadlock-members-clash-over-oil-production-cuts-2211220) (accessed 08.10.2016).

16 Javier BLAS, Grant SMITH, Nayla RAZZOUK: *OPEC heads for status quo as members clash over crude output cut*, Bloomberg Business, December 3, 2015. Source: [www.bloomberg.com/news/articles/2015-12-03/opec-heads-for-status-quo-as-members-clash-over-crude-output-cut](http://www.bloomberg.com/news/articles/2015-12-03/opec-heads-for-status-quo-as-members-clash-over-crude-output-cut) (accessed 08.10.2016).

17 *Ibid.*

18 Alex LAWLER, Amena, Bakr and Rania El GAMAL: *OPEC heading for no output cut despite oil price plunge*, Reuters, November 26, 2014. Source: [www.reuters.com/article/us-opec-meeting-idUSKCN0JA0O320141126](http://www.reuters.com/article/us-opec-meeting-idUSKCN0JA0O320141126), (accessed 08.10.2016).

As a result of oversupply and pumping extra oil to the market the price collapsed; meanwhile, the return of Indonesia to OPEC means pumping almost 800,000 barrels more daily. What's more, Iran, after becoming free from sanctions, decided to produce more oil to boost its economy. As a consequence, with Iran's decision of adding 500,000 barrels, the overall production of OPEC will exceed 30 million barrels. Although, Iran needs investment in oil to boost its capacity, which takes time, Robin Mills, Manaaer energy head of consulting, mentioned that "Iran won't return to its pre-sanctions export levels, at least not until they have received substantial new investment, taking several years."<sup>19</sup> More importantly, in the World Oil Outlook (2015) OPEC emphasized its members' commitment and readiness to invest in developing new oil fields, in the maintenance of existing fields and in the building and expansion of the necessary infrastructure. In line with OPEC's commitment to security of supply for consumers, this needs to go hand-in-hand with security of demand for producers.<sup>20</sup> As opposed to Saudi Arabia, OPEC is not as concerned about the instability of the market share. Since 1970 the domination of some members in OPEC has become the routine and part of the cartel's strategy, the overall outcome is to keep the cartel's market share approximately to 40%. In case of market share loss, the members exceed their production quota to keep their share. In fact, "the low price of oil is a war with the U.S. shale oil sector, which is at risk currently and declined since 2015."<sup>21</sup> Shale oil production is quite costly compared to OPEC production costs.

### 3. POLITICAL COMMUNICATIONS OF OPEC MEMBERS

As an organization OPEC often failed to communicate efficiently and to reach agreements, typically during hard times of its member states. A very simple model of communication can be applied to understand the cultural complexity of OPEC as an organization. Lasswell's verbal model provides a tool to interpret the behaviour of OPEC member countries. In understanding each member state it is useful to know:

- Who says what?
- In what channel?
- To whom?
- With what effect?<sup>22</sup>

In OPEC the leadership of the organization could not settle the dispute among the member countries to foster cooperation. Indeed, Saudi Arabia conveys a very important

19 Huileng TAN, Sri JEGARAJAH: *How the lifting of Iran sanctions will hit oil: experts*, CNBC, January 18, 2016. Source: [www.cnn.com/2016/01/18/how-the-lifting-of-iran-sanctions-will-hit-oil-experts.html](http://www.cnn.com/2016/01/18/how-the-lifting-of-iran-sanctions-will-hit-oil-experts.html) (accessed 08.10.2016).

20 World Oil Outlook: *The Organization of petroleum Exporting Countries*, 2015. Source: [www.opec.org/opec\\_web/static\\_files\\_project/media/downloads/publications/WOO%202015.pdf](http://www.opec.org/opec_web/static_files_project/media/downloads/publications/WOO%202015.pdf) (accessed 08.10.2016).

21 Holly ELLYATT: *OPEC predicts rivals' supply to contract in 2016*, CNBC, December 10, 2015. Source: [www.cnn.com/2015/12/10/opec-predicts-rivals-supply-to-contract-in-2016.html](http://www.cnn.com/2015/12/10/opec-predicts-rivals-supply-to-contract-in-2016.html) (accessed 08.10.2016).

22 Frederick WILLIAMS: *The new communication*, Wadsworth Publishing Company, Belmont, California, 1989, 29 (accessed 08.10.2016).

message: OPEC cannot communicate with the World today, this is the appeal to reason, or rational appeal which was coded almost 2000 years ago by Aristotle.<sup>23</sup> Additionally, should OPEC communicate on behalf of the cartel or Saudi Arabia? How diversified is OPEC's communicative approach to its members, non-OPEC producers, and consumers? What does OPEC have to do to stay united? Those questions and many other questions need to be dealt with to get proper answers for the readers.

The OPEC's charter needs to be updated similarly to the Charter of the Natural Resource Governance Institute, which explicitly requires its member states' commitment to the charter precepts. The 12 precepts of the charter are organized very accurately to offer guidance on key decisions governments face. The set of principles inform governments and societies how to use their natural resources to maximize their economy and to obtain good returns for citizens.<sup>24</sup> To my understanding the charter is not very effective and to the date, *Article 2/A stipulates* that "the principal aim of the organization shall be the coordination and unification of the petroleum policies of member countries and the determination of the best means for safeguarding their interests, individually and collectively."<sup>25</sup> However, collective interest is not easy to achieve when interests are economic and politically oriented, and each member country tries to maximize its economic returns. Especially, when member countries retain their sovereignty, this is the same for all international organizations and even regional organizations such as the EU, OECD, etc. Besides, the OPEC quota has been unchanged for a long period of time, while an organization should keep their rules and principles updated following the developments and changes in the energy sector, the markets, the industry and the technology. Those changes have to be taken into account for the well-being of the organization. Additionally, the "lack of trust has always been a main concern for Saudi Arabia, since Saudi Arabia cannot trust Iran and also Iraq."<sup>26</sup> This lack of trust has roots in the history of OPEC. Stoessinger, in his book, the *Might of Nations*, has noticed that "OPEC's internal disunity put an end to the cartel's dominance by the 1980s."<sup>27</sup> As an energy organization OPEC has always understood market and focused on price monopoly by keeping production to the market demand and needs. At present OPEC cannot play this role any more while member countries of OPEC can still do. For instance, Saudi Arabia is the country that seeks to achieve power monopoly in the market. Notably, from an economic point of view, "Saudi Arabia tries to obtain the status to be the only seller of oil in a very low price, in fact this means being perfectly competitive in the market. This also means avoiding substitutes for replacing cheap oil in the markets. However, power monopoly does not mean

23 *Ibid*, 97.

24 Natural Resource Charter. Source: [www.resourcegovernance.org/sites/default/files/NRCJ1193\\_natural\\_resource\\_charter\\_19.6.14.pdf](http://www.resourcegovernance.org/sites/default/files/NRCJ1193_natural_resource_charter_19.6.14.pdf) (accessed 08.10.2016).

25 OPEC Charter/Article 2/A, Source: [www.opec.org/opec\\_web/static\\_files\\_project/media/downloads/publications/OPEC\\_Statute.pdf](http://www.opec.org/opec_web/static_files_project/media/downloads/publications/OPEC_Statute.pdf) (accessed 08.10.2016).

26 Sputniknews: *Saudi Arabia fears losing leadership, in oil market to Russia*, December 13, 2015. Source: [sputniknews.com/business/20151213/1031687582/saudi-arabia-russia-oil.html](http://sputniknews.com/business/20151213/1031687582/saudi-arabia-russia-oil.html) (accessed 08.10.2016).

27 John G. STOESSINGER: *The might of Nations, world politics in our time*, Random House, New York, the United States of America, 8<sup>th</sup> edition, P. 1986, 210.

efficiency benefits.”<sup>28</sup> Therefore, Saudi Arabia, as a leading member of OPEC encounters, is losing in economic terms, but determined to survive for its market monopoly of its product in the long run. Bear in mind that Saudi Arabia’s foreign reserves are estimated to be a total of \$700 billion, however, according to IMF Saudi Arabia will run out of money in five years, and the sizable surplus will turn to deficit.

**Figure 1 • Saudi Reserves<sup>29</sup>**



Meanwhile, the Saudi capacity in reserves is not only making it a leader in OPEC, but in the world of energy, According to the *Oil & Gas Journal* (OGJ), Saudi Arabia has approximately 266 billion barrels of proven oil reserves.<sup>30</sup> Besides, to the 2.5 billion barrels in the Saudi-Kuwaiti shared Neutral Zone, half of the total reserves in the Neutral Zone) as of January 1, 2014, amounting to 16% of proven world oil reserves. Although Saudi Arabia has about 100 major oil and gas fields, more than half of its oil reserves are contained in eight fields in the northeast portion of the country.<sup>31</sup> In essence, it seems that OPEC cannot control the monopoly policy of Saudi Arabia, which may be followed by Iran and Iraq in the near future. It might be quite fair to think about controlling competition and losing trust, which was coded in the Sherman Antitrust Act (Sherman Act). Article/2 articulated that “every person who shall monopolize, or attempt to monopolize, or combine or conspire with any person or persons, to monopolize any part of the trade or commerce among the several states, or

28 John M. BARRON, Gerald J. LYNCH: *Economics*, Times Mirror/Mosby College Publishing, Toronto, 1989, 195.

29 Tyler DURDEN: *Saudi Arabia will be broke in 5 years, IMF predicts*, Zero hedge, October 21, 2015. Source: [www.zerohedge.com/news/2015-10-21/saudi-arabia-will-be-broke-5-years-imf-predicts](http://www.zerohedge.com/news/2015-10-21/saudi-arabia-will-be-broke-5-years-imf-predicts) (accessed 08.10.2016).

30 Oil & Gas Journal: *Worldwide look at reserves and production*, January 1, 2014. Source: [www.eia.gov/beta/international/analysis.cfm?iso=SAU](http://www.eia.gov/beta/international/analysis.cfm?iso=SAU) (accessed 08.10.2016).

31 *Arab Oil and Gas Directory*, Saudi Arabia, 2013, 383.

with foreign nations, shall be deemed guilty of a misdemeanour.<sup>32</sup> The same notion is in the charter of OPEC, article 4 stipulated that:

If, as a result of the application of any decision of the Organization, sanctions are employed, directly or indirectly, by any interested company or companies against one or more Member Countries, no other Member shall accept any offer of a beneficial treatment, whether in the form of an increase in oil exports or in an improvement in prices, which may be made to it by such interested company or companies with the intention of discouraging the application of the decision of the Organization.<sup>33</sup>

In this context, there is a serious concern to measure the cartel's economic profit and the political gains of its member states. This is a study of a cartel's dilemma of self-monopoly, in the case of OPEC, a method is enforced for the member to follow to keep the price tight, "the quota for individual cartel members," in which some member countries are not happy with the compliance of this rule, because Saudi Arabia has already started bargaining for higher market percentage regardless of the quota.<sup>34</sup> As a result, the seller is not satisfied with its market share; thus, many member countries in OPEC are dissatisfied. In the light of this discussion self-interest of member states is taken into account seriously by members instead of one for all interest. In his book "one for all", chapter two, "group power" Russell Hardin explains three key ingredients of group power, the categories of strategic interactions: conflict, coordination, cooperation.<sup>35</sup> It can be said, Saudi Arabia wants to win the conflict with new producers in the oil market, however, this weakens the cooperation and coordination processes in OPEC. This urges other members to work on self-interest, regardless of the group's interest. According to OPEC monthly Oil Market Report, December, 2015, the world demand:

Demand for OPEC crude in 2015 is estimated to stand at 29.4 mb/d, an increase of 0.4 mb/d over last year and representing a downward revision of 0.2 mb/d compared to the previous report. In 2016, demand for OPEC crude is forecast at 30.8 mb/d, an increase of 1.5 mb/d over the current year and unchanged from the previous assessment.<sup>36</sup>

In fact, oversupply is a serious concern not for OPEC, but for other oil producers, typically those with high production costs. Notably, rentier states are willing to keep the public in line to stay in power; cutting social benefits of citizens in petro-states increases the threat of revolutions and unrest. This is a prominent phenomenon currently in Iraq, Syria, Nigeria, Yemen, etc., thus Saudi Arabia, like other petro-states, is unable to cut military expenditure, social benefits and public services; therefore, all countries in OPEC face serious economic challenges not only Venezuela. As a NATO article highlighted "states that used to 'buy off'

32 *Ibid.*, 196.

33 OPEC Charter/Article4, Source: [www.opec.org/opec\\_web/static\\_files\\_project/media/downloads/publications/OPEC\\_Statute.pdf](http://www.opec.org/opec_web/static_files_project/media/downloads/publications/OPEC_Statute.pdf) (accessed 08.10.2016).

34 John M. BARRON, Gerald J. LYNCH: *Economics*, Times Mirror/Mosby College Publishing, Toronto, 1989, 203.

35 Russell HARDIN: *One For all*, Princeton University Press, Princeton, 1995, 29.

36 OPEC Monthly oil market report: *Review of 2015, outlook for 2016*, December 10, 2015. Source: [/www.opec.org/opec\\_web/static\\_files\\_project/media/downloads/publications/MOMR\\_December\\_2015.pdf](http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_December_2015.pdf) (accessed 08.10.2016).



their populations through generous subsidies, a continuing global oil glut could translate into political unrest.<sup>37</sup> Not only that, regional powers have been involved in proxy wars, e.g. Iran in Iraqi affairs, Syria and Yemen by supporting the Shia sects, Saudi Arabia was involved in leading a *coalition* in Yemen. Current decisions and intentions to get involved in Syria might create further political and security tensions among OPEC members. The security situation of the oil producing countries might deteriorate the oil prices further. Because the regional powers of the Middle East, i.e. Iran and Saudi Arabia are members in OPEC, and the confrontation and tension have resulted in severe diplomatic ties between the two countries. “For peace to possibly exist in Yemen, it will have to get at least the consensus of at least Saudi Arabia and Iran.”<sup>38</sup> This tension is already indirectly moved to OPEC through the price war led by the Saudis. At the same time, Russia’s military intervention in Syria and its alliance with Iran frustrates Saudi Arabia and Arab countries in the region. Moran noticed that political security was significant in explaining Saudi Arabia’s production; the historical events of OPEC have highlighted that Saudi Arabia adjusted its behaviour to external and internal political pressure to avoid fomenting conflict within OPEC and with outsiders.<sup>39</sup> Although Russia and Iran are allies, and “Russia cooperated in the ‘P5+1 process’ the negotiations with Iran on its nuclear deal conducted by the UN Security Council’s five permanent members, China, France, Russia, the United Kingdom, and the United States”<sup>40</sup> for imposing sanctions on Iran, Russia and Iran do not agree on Iran’s oil production, which may affect Russia’s future, too. Although Russia has no intention to break friendship with Iran and Syria, Iran needs to use its production wisely not to interfere with Russia’s interest. In the meantime, very important points are made by Cameron (2015), Iran’s role as oil power is extremely crucial for the West and Asia too, however, Iran’s oil and gas sector needs between \$130 billion and \$145 billion in investments by 2020; with current oil prices so low, the price tag may be unpalatable for oil companies. Despite the sanctions Iran offered a discounts to buyers including China, India, Japan, South Korea and Turkey. In the post sanction era if Iran gets more buyers, this policy might change. The West should have more trust in Iran than in Russia as the future energy partner, especially as Iran showed its willingness to increase output, which may keep prices low.<sup>41</sup> More significantly, Iran holds a tremendous amount of natural resource, which makes it the second largest in OPEC after Saudi Arabia and an alternative for European markets after Russia (see figure 2.).

37 Michael RÜHLE, Julijus GRUBLIAUSKAS: *The low oil price environment: Implications for NATO*, NATO Review, Source: [www.nato.int/docu/review/2016/Also-in-2016/low-oil-price-russia-environment-implications/EN](http://www.nato.int/docu/review/2016/Also-in-2016/low-oil-price-russia-environment-implications/EN) (accessed 08.10.2016).

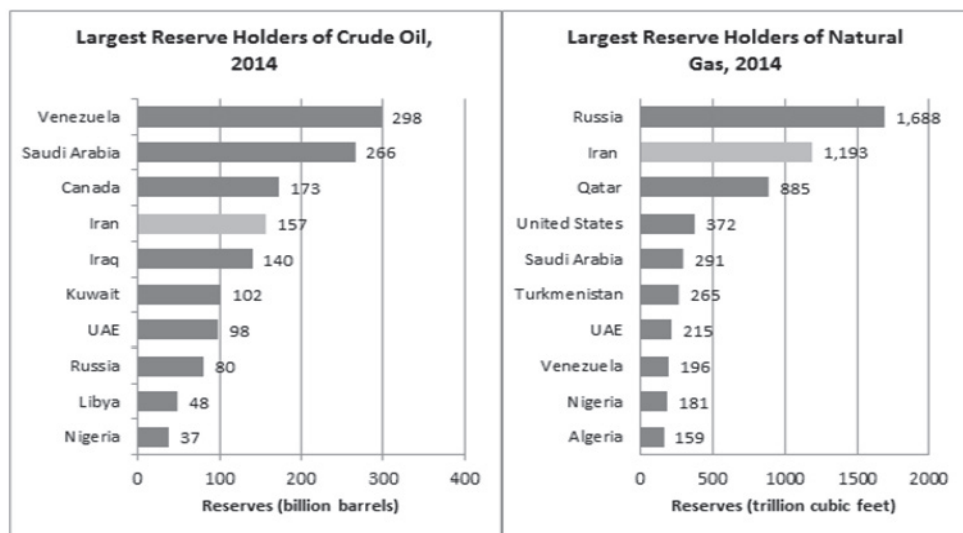
38 Jared MALSIN: *Yemen Is the Latest Victim of the Increase in Iran-Saudi Arabia Tension*, Time, January 11, 2016. Source: [time.com/4174837/yemen-analysis](http://time.com/4174837/yemen-analysis) (accessed 08.10.2016).

39 Theodore H. MORAN: *Modeling OPEC Behavior: Economic and Political Alternatives = OPEC Behavior and World Oil Prices*, eds. J. M. GRIFFIN, D. J. TEECE, Allen and Unwin, London, 1982.

40 *Ibid.*

41 Cameron GLENN: *After Sanctions: Iran Oil & Gas Boom?* The Iran Primer, May 8, 2015. Source: [iranprimer.usip.org/blog/2015/may/08/after-sanctions-iran-oil-gas-boom](http://iranprimer.usip.org/blog/2015/may/08/after-sanctions-iran-oil-gas-boom) (accessed 10.10.2016).

Figure 2 • Iran's Oil and Gas reserves<sup>42</sup>



Additionally, China was a friend and trade partner during severe sanctions against Iran. While Iran was internationally isolated, Mohammad Reza Sabzalipour, Iran's World Trade Center representative, said in response to Westerners who visited Iran and saw Iran's ambiguous project: "Well, we did it with the help of our Chinese friends."<sup>43</sup> Saudi Arabia recently lost Asian buyers, since China has boosted its oil purchase from Russia. In fact, Chinese-Russian cooperation endangers Saudi Arabia's market share as stated in the GAC that "Saudi oil supply to China decreased from 55 million to 50 million tons in 2014, while the supply of Russian crude surged 36 percent, to reach 34 million ton."<sup>44</sup> In line with this, Austria's Junge Welt Newspaper envisaged that "China's turn away from Saudi oil in favour of Russian supplies is a result of Chinese worries about Riyadh's malign political influence."<sup>45</sup> Clearly, the main supply shock was created by Middle Eastern powers and geopolitical unrest. In this perspective, what an individual member country did or intend to do can be considered as the *prisoner's dilemma*. Insofar, commitment to the OPEC cartel's interest is clearly overcome by the self-interest of members. In term of organizational theory the case of OPEC is rather a political process

42 EIA, see in: [iranprimer.usip.org/blog/2015/may/08/after-sanctions-iran-oil-gas-boom](http://iranprimer.usip.org/blog/2015/may/08/after-sanctions-iran-oil-gas-boom) (accessed 10.10.2016).

43 Thomas ERDBRINK: *China Deepens Its Footprint in Iran After Lifting of Sanctions*, The New York Times, January 24, 2016. Source: [www.nytimes.com/2016/01/25/world/middleeast/china-deepens-its-footprint-in-iran-after-lifting-of-sanctions.html?\\_r=0](http://www.nytimes.com/2016/01/25/world/middleeast/china-deepens-its-footprint-in-iran-after-lifting-of-sanctions.html?_r=0) (accessed 10.10.2016).

44 GAC cited in, *Russia and China sustain operations against terror with military & financial offensives*, Covert Geopolitics, December 29, 2015. Source: [geopolitics.co/2015/12/29/russia-china-sustain-operations-against-terror-with-military-financial-offensives](http://geopolitics.co/2015/12/29/russia-china-sustain-operations-against-terror-with-military-financial-offensives) (accessed 10.10.2016).

45 Rainer RUPP: *Independent from the US dollar, Russia and China strengthen trade and political relations*, Austria Junge Welt Newspaper, December 24, 2015. Source: [/www.jungewelt.de/2015/12-24/049.php](http://www.jungewelt.de/2015/12-24/049.php) (accessed 10.10.2016).

than a rational one because it is twisted with “uncertainty and disagreement.”<sup>46</sup> Besides, it can be argued that OPEC is threatened by new oil producers outside the net of OPEC and the low price, thus, “the uncertainty and volatility buffers the situation further, this have direct impact on the organizations in the long run, which is implacable for OPEC too.”<sup>47</sup> Moreover, it is interpreted that Saudi Arabia acts differently during the disruptions, to be quoted from the words of Khalid Alkhatlan of King Saud University and his co-authors described Saudi Arabia’s policy within the cartel: “Saudi Arabia’s output behavior has varied over time in a systematic way, in response to market conditions and also to interruptions within OPEC. Its behavior differed between ‘normal’ periods and periods with interruptions. In normal periods, when faced with reduced demand, Saudi Arabia cooperated with its OPEC partners to restrict output. During interruptions, however, it would increase its output to offset reductions in the rest of OPEC, not to match the reductions.”<sup>48</sup>

From this angle oil is a risky game; in the Vienna Meeting, 2014 OPEC could not reach a collective decision, while it was clear that there were cliques, in which gulf key oil producers, Kuwait, Qatar, United Arab Emirates, led by Saudi Arabia declared that low oil prices will not cause deficit in their economy, whereas Venezuela, Iraq, Ecuador and Nigeria expressed their concern for their national deficit in 2015. Furthermore, the disagreement between key gulf producers in OPEC and Iran is very clear; Iran failed to make other members convince Saudi Arabia and his supporters to reduce their production level, because these countries are concerned about the nuclear deal and the post sanctions period in which multi-national companies will invest in Iran affecting the Gulf oil producers’ future. Contrary to what many scholars and analysts say the main aim of Saudi Arabia is Iran because of their ideological differences. Saudi Arabia’s long term policy is accepting low oil prices, pushing international oil companies out of the market, companies including Chevron, Britain’s BP, Royal Dutch Shell, Exxon Mobil, reducing their investments and taking over their huge projects. The threat is encountered by most of those leading energy companies, in particular those who invest in shale oil, tar sand and deep water projects, which are very costly compared to what Saudi Arabia and other states have. In fact, Saudi Arabia follows the long-term strategy of OPEC, which is a long-term economic guarantee for market share. The same notion can be found in the behaviour of Iran and Iraq as both countries’ intention is to increase production. Iraq boosted its production regardless of the security crisis and the rise of the Islamic State in 2014, “the level of production is proposed to rise, Iraq aims to produce roughly 6 million barrels per day by 2020. In addition to Iraq, Iran’s target production will be nearly 5 mbpd, this means both Iran and Iraq’s production together almost 11 million barrels per day by 2020, that adds almost 5 to 6 million to OPEC production. The result will foster further internal tension in OPEC for the rivalry over the market share, this is to keep the Asian

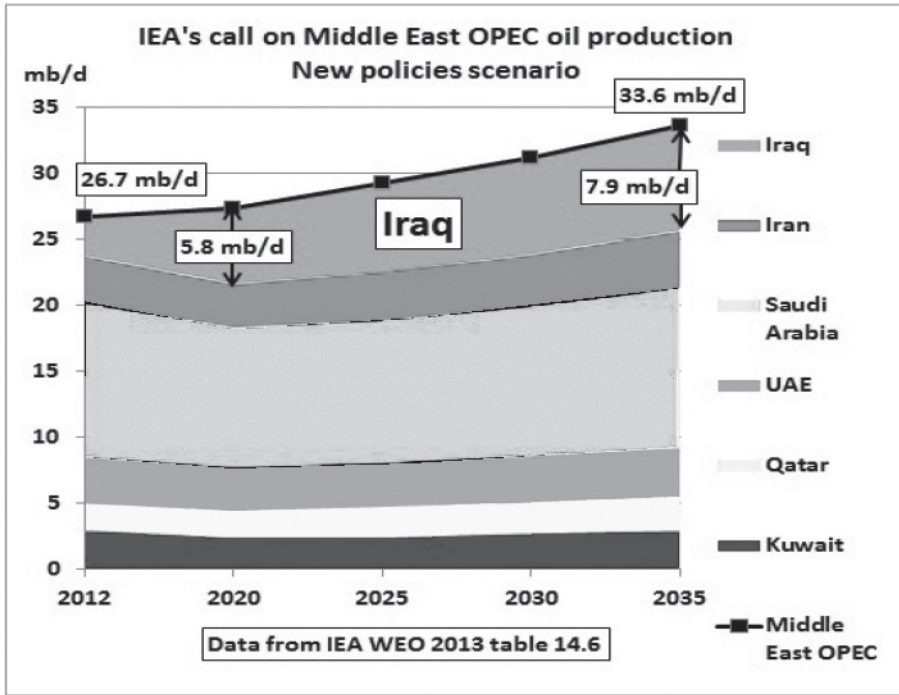
46 Richard L. DAFI, Kristen D. SKIVINGTON, Mark P. SHARFMAN: *Organization Theory, cases and applications*, West Publishing Company, St. Paul, the United States of America, 1987, 137.

47 Richard N. OSBORN, James G. HUNT, Lawrence R. JAUCH: *Organization theory: an integrated approach*, John Wiley & Sons, New York, the United States, 1980, 209.

48 Leonid BERSHIDSKY: *OPEC fights to stay relevant*, Bloomberg View, December 4, 2015. Source: [www.bloombergvew.com/articles/2015-12-04/pec-fights-to-stay-relevant](http://www.bloombergvew.com/articles/2015-12-04/pec-fights-to-stay-relevant) (accessed 10.10.2016).

consumers and to reduce dependency on Shale and other expensive energy resources as an alternative to OPEC's oil.<sup>49</sup>

Figure 3 • IEA's call on Middle East OPEC oil production<sup>50</sup>



This view is seen in the words stated by Chevron Chief Executive Officer John Watson, who remarked that “in terms of longer-cycle projects, we aren’t initiating. We aren’t initiating any. You are going to see us preferentially favour short-cycle investments, and if they don’t meet our hurdles, we won’t invest.”<sup>51</sup> Accordingly, many OPEC member countries are affected by a national budget deficit, while many of them had a surplus during high oil prices. As noted by the International Monetary Fund (IMF) “UAE has enough fiscal buffers to withstand \$50 oil for nearly 30 years. Qatar and Kuwait can sustain cheap oil for almost 25 years.”<sup>52</sup> Those small states have a tremendous amount of money from oil from the high price period and can survive for a while. However the IMF states that in five years’ time the Middle

49 Stratfor Global Intelligence: *The future of OPEC*, December 4, 2013. Source: [www.stratfor.com/analysis/future-opec](http://www.stratfor.com/analysis/future-opec) (accessed 10.10.2016).

50 Figure available at: [crudeoilpeak.info/worlds-untested-assumption-on-6-mbd-iraqi-oil-by-2020](http://crudeoilpeak.info/worlds-untested-assumption-on-6-mbd-iraqi-oil-by-2020).

51 Joseph KEEFE: *Big oil shrinks and plots the way forward*, World Energy News, February 8, 2016. Source: [www.worldenergynews.com/news/big-oil-shrinks-and-plots-the-way-640228](http://www.worldenergynews.com/news/big-oil-shrinks-and-plots-the-way-640228) (accessed 10.10.2016).

52 Matt EGAN: *Saudi Arabia to run out of cash in less than 5 years*, CNN, October 26, 2016. Source: [money.cnn.com/2015/10/25/investing/oil-prices-saudi-arabia-cash-opec-middle-east](http://money.cnn.com/2015/10/25/investing/oil-prices-saudi-arabia-cash-opec-middle-east) (accessed 10.10.2016).

East region will run out of cash, including Saudi Arabia and other countries.<sup>53</sup> Eventually, Saudi Arabia will not cut the output, and will not endanger its market share; this is to be understood by OPEC members and outsiders. Since OPEC member countries “retain their absolute sovereignty over their oil production, besides decisions on production ceilings and their allocations to be according to the perspective of member countries.”<sup>54</sup> Regardless of the geopolitical instability of the Middle East, the alliance of Saudi Arabia and the US is ambiguous. The Financial Times reported that Saudi Arabia plays the American cards: “it was rooted in geopolitics: one theory held that the Saudis, acting under the US influence, deliberately sought to undermine rivals Russia and Iran. But a close examination of Saudi actions suggests unexpected series of global political events and crucially a misreading of the market were the driving forces behind Riyadh’s gamble.”<sup>55</sup> This goes against America’s economic interest, since shale oil production and the companies in the United States suffer from the lower prices, and people lose jobs in the sector, and production declines! In this regard, this brings more disadvantages to American Shale oil. Eric reckoned that “the Saudi oil war has indeed badly damaged the US shale and regular oil industry but has not put them out of business.”<sup>56</sup> Though many think that “this is a deliberate and well planned collusion between the United State and Saudi Arabia to push Russia and Iran from supporting Assad regime in Syria,”<sup>57</sup> yet this cannot be the only reason for the oil slap.

The World Oil Outlook (2015) stressed that oil will remain central to the global energy mix over the next 25 years.<sup>58</sup> And Saudi Arabia wants to compete in this equation to have its cheap oil as a core of the global energy system in the coming future. More specifically, prior to the 168 OPEC meeting in Vienna December the fourth, it was mentioned that “some fear makes the kingdom’s (Saudi Arabia) policy more unpredictable.”<sup>59</sup> The UAE Minister Suhail Mohamed Al Mazrouei in line with Saudi Arabia stated that “low cost producers within OPEC should not attempt to prop up prices for Russia, and other non-OPEC producers.”<sup>60</sup> a rational choice for Saudi Arabia is his bargaining power, and this is not only political, but it is a real fact that “Saudi Arabia is the world’s largest oil exporter, and its proven reserves exceed the combined total of those of the United States, Russia, Venezuela, Mexico and Canada. The reserves are estimated to comprise 150 trillion barrels of oil and 85,000 trillion cubic feet of natural gas enough to last

53 *Ibid.*

54 Information about OPEC. Source: [www.eppo.go.th/inter/opec/OPEC-about.html](http://www.eppo.go.th/inter/opec/OPEC-about.html).

55 Anjali RAVAL: *The big drop: Riyadh’s oil gamble*, The Financial Times, March 9, 2015. Source: [www.ft.com/cms/s/2/25f2d7d6-c3f8-11e4-a02e-00144feab7de.html#axzz3zhNsK8M2](http://www.ft.com/cms/s/2/25f2d7d6-c3f8-11e4-a02e-00144feab7de.html#axzz3zhNsK8M2).

56 Eric MARGOLIS: *Saudi-stop the oil flood or else*, February 6, 2016. Source: [ericmargolis.com/2016/02/saudis-stop-the-oil-flood-or-else](http://ericmargolis.com/2016/02/saudis-stop-the-oil-flood-or-else).

57 Andrew TOPF: *Did The Saudis And The US Collude In Dropping Oil Prices?* Oil Price, December 23, 2014. Source: [oilprice.com/Energy/Oil-Prices/Did-The-Saudis-And-The-US-Collude-In-Dropping-Oil-Prices.html](http://oilprice.com/Energy/Oil-Prices/Did-The-Saudis-And-The-US-Collude-In-Dropping-Oil-Prices.html).

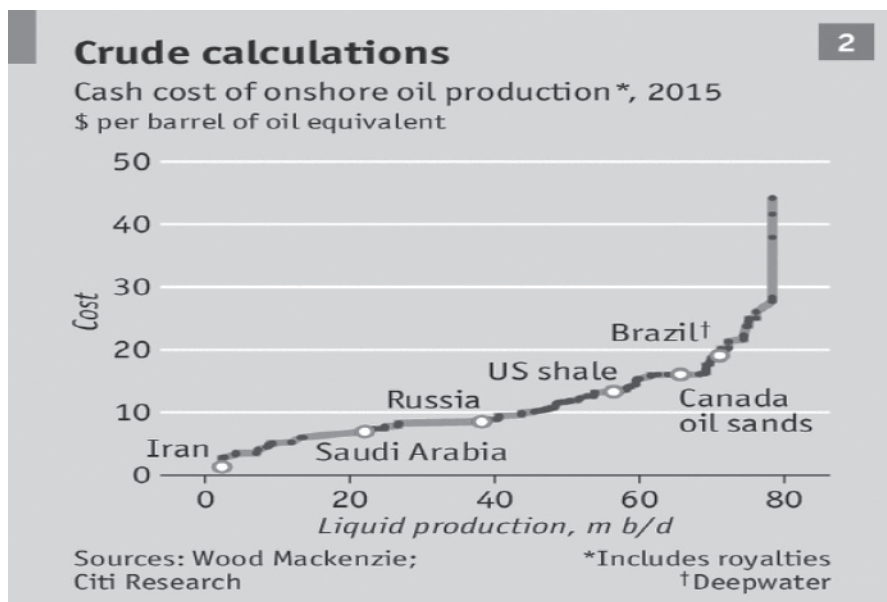
58 World Oil Outlook (WOO), OPEC, 2015, 32.

59 The Economist: *Tensions in the Saudi royal family add to the gloom over OPEC*, December 3, 2015. Source: [www.economist.com/news/business-and-finance/21679525-tensions-saudi-royal-family-add-pall-over-opec-house-divided?zid=298&ah=0bc99f9da8f185b2964b6cef412227be](http://www.economist.com/news/business-and-finance/21679525-tensions-saudi-royal-family-add-pall-over-opec-house-divided?zid=298&ah=0bc99f9da8f185b2964b6cef412227be) (accessed 10.10.2016).

60 John DEFTERIOS: *Saudi Arabia’s oil strategy tears OPEC apart*, CNN Money, January 15, 2016. Source: [money.cnn.com/2016/01/15/news/economy/oil-opec-crisis-davos](http://money.cnn.com/2016/01/15/news/economy/oil-opec-crisis-davos) (accessed 10.10.2016).

almost 100 years.”<sup>61</sup> Ultimately, the political club of OPEC has internal and external concerns, which are not easy to solve to stay strong and effective. OPEC has only one role to play as proposed by First Deputy Secretary General Dr Fadhil Al-Chalabi: cut production when prices are down. While, OPEC’s Second Deputy Secretary-General Dr Ramzi Salman mentioned that OPEC should set some sort of price anchor for the markets by stating that “OPEC will have to decide, sooner or later what it wants, and let the world know clearly that this is its objective, its target, it has to have two levels again like when it had \$22-\$28pb for the price band... but then we had the price collapse after that, because of other elements, fundamentals no longer rule the market, thus it is not a fundamental thing just to cut production. In declaring its target, OPEC will have to go for a minimum and maximum price, the minimum will not be set by OPEC, it will be set by others... OPEC will have to set the Ceiling.”<sup>62</sup> It can be highlighted that OPEC is a weak and a strong cartel at the same time: OPEC controls 40% of production, which is less than the 60% of other producers. Whereas, in terms of reserve capacity more than 70% of oil reserves left to be extracted is controlled by OPEC member countries. As Tanmoy reckoned that “being powerful does not mean you always win.”<sup>63</sup> The data in the following charts show the capacity of OPEC member countries, and OPEC compared to the world.

Figure 4 • Crude calculations<sup>64</sup>



61 Gene LINDSEY: *Saudi Arabia*, Hippocrene Books, New York, The United States of America, 1991, 146.

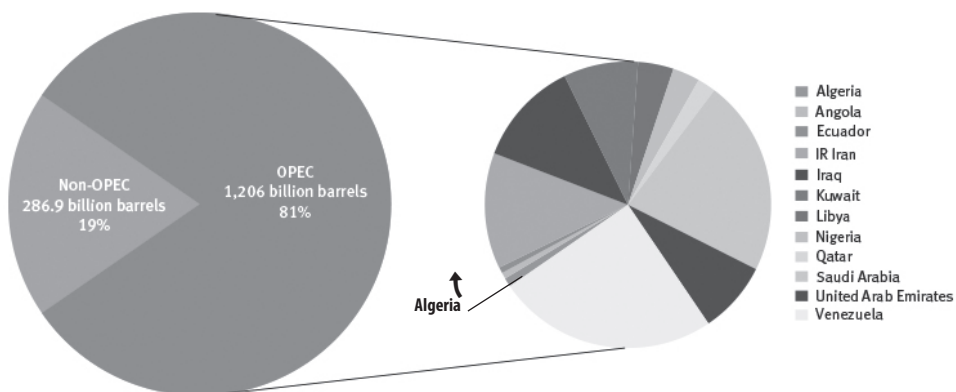
62 Mohamed RAMADY, Wael MAHDI: *OPEC in a shale oil world, where to next?* Springer, 2015, 236.

63 Tanmoy ROY: *From an OPEC economy to a market economy*, Commodity HQ, December 11, 2015. Source: commodityhq.com/news/2015/12/11/from-an-opec-economy-to-a-market-economy (accessed 10.10.2016).

64 Figure available at: [www.economist.com/news/briefing/21688919-plunging-prices-have-neither-halted-oil-production-nor-stimulated-surge-global-growth](http://www.economist.com/news/briefing/21688919-plunging-prices-have-neither-halted-oil-production-nor-stimulated-surge-global-growth) (accessed 10.10.2016).

**Figure 5 • OPEC share of world crude oil reserves<sup>65</sup>**

**OPEC share of world crude oil reserves, 2014**



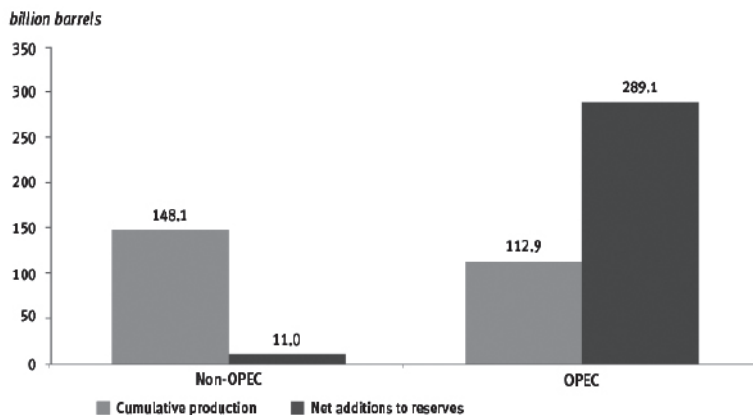
OPEC proven crude oil reserves, at end of 2014 (billion barrels, OPEC share)

Venezuela	299.95	24.9%	Iraq	143.07	11.9%	Libya	48.36	4.0%	Algeria	12.20	1.0%
Saudi Arabia	266.58	22.1%	Kuwait	101.50	8.4%	Nigeria	37.07	3.1%	Angola	8.42	0.7%
IR Iran	157.53	13.1%	UAE	97.80	8.1%	Qatar	25.24	2.1%	Ecuador	8.27	0.7%

Source: OPEC Annual Statistical Bulletin 2015.

**Figure 6 • World proven crude oil reserves<sup>66</sup>**

**World proven crude oil reserves:  
Cumulative production versus net additions, 2005–2014**



Source: OPEC Annual Statistical Bulletin 2015.

65 Figure available at: [www.opec.org/opec\\_web/en/data\\_graphs/330.htm](http://www.opec.org/opec_web/en/data_graphs/330.htm) (accessed 10.10.2016).

66 Figure available at: [www.opec.org/opec\\_web/en/data\\_graphs/330.htm](http://www.opec.org/opec_web/en/data_graphs/330.htm).

#### 4. CONCLUSION

OPEC member countries cannot reach consensus on their market output; member countries pursue their individual country quota policy, which means the group does not cooperate. As the Iraqi Oil Minister Adel Abdul Mahdi pointed out “Americans don’t have any ceiling. Russians don’t have any ceiling. Why should OPEC have a ceiling?” Throughout the history of OPEC “price and output” have been the main concerns. As an organization no steps are taken to enhance unity and collaboration among the members to be more competitive, instead division becomes the routine. Furthermore, they say history repeats itself; Edward remarked that “during 1975 oil price declined due to the world recession, OPEC found itself powerless to stop its members from undercutting each other and competing for sales.”<sup>67</sup> Currently, OPEC is powerless and has no influence on the member countries, members act freely based on their policies and strategies, no sense of collective cartel is left. The cartel can never reach a collective agreement to regulate either price or output. President Jimmy Carter once said that OPEC “has now become such an institutionalized structure that it would be very doubtful that anyone could break it down.” OPEC was turned into an undefeatable foe.<sup>68</sup> Unlike in 1979, in 2015 the OPEC member countries are dissolving and weakening the undefeatable foe of the world and America. The intervention policy of Saudi Arabia to secure its the market share and keep the prices low becomes the inevitable reality, which even OPEC members are not happy with it.

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67 Edward Jay EPSTEIN: *OPEC: the cartel that never was*, the Atlantic, March, 1983. Source: edwardjayepstein.com/archived/ope3.htm (accessed 10.10.2016).

68 *Ibid.*



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