

# OPEC as a Southern Bargaining Organization: The Case of International Oil Politics

Goke Lalude, Ph.D  
Political Science Department, Fountain University, Osogbo  
gokelalude@yahoo.com

## Abstract

The Organization of Petroleum Exporting Countries (OPEC) was put in place principally to serve as a bargaining power of the South. The historical antecedence of OPEC indicates an Organization that was necessary because of the exploitation of the Northern developed countries through their oil companies. In essence, OPEC came to put a stop to what was considered as those tendencies by the Northern developed countries at ensuring that those years of colonialism and slavery which put the South at a disadvantage continued with oil. One interesting thing about international oil politics is that developing nations that were at a disadvantage in the structuring of international relations and in particular international economic system of the globe were appreciably at an advantage in oil politics. This is because reserves as well as production of oil benefit the Southern developing nations while the North with a large appetite in consumption is appreciably at a disadvantage. One would have expected therefore that in this particular area where the South was at an advantage it would automatically be in control, a situation that was unfortunately not so before OPEC came into being. Invariably, OPEC would have ordinarily been expected to serve the interest of the South by coordinating Southern interests in oil and ensuring that the North is put in its normal place as far as issues relating to oil are concerned. This work therefore is aimed at relating OPEC's formative years to its performance after coming into existence. It is meant to confirm and affirm whether or not OPEC has been able to meet up to its expectation of a Southern bargaining organization which it was meant to be at inception. The work employs an analytical methodology in which it relates those basic elements that necessitated an OPEC with those different areas in which it has performed with a view to determining whether or not the organization had lived up to expectation. The work finds out that certain internal crisis within OPEC have made it impossible for the organization to live up to expectation. It concludes that until OPEC moves away from viewing issues from Arab-non-Arab perspective it will not be able to serve its purpose effectively as a Southern bargaining organization.

**Keywords:** OPEC, oil companies, dependency, exploitative tendency and bargaining power.

## INTRODUCTION

OPEC is one of those few organizations in the global community that serves the interest of a particular group of nations and by implication there cannot be any effective and efficient assessment of OPEC except through the responsibility it holds as a bargaining organization. How much OPEC has been able to perform in the sphere can be linked to both internal and external issues within the organization. Internal because even OPEC as an organization has not helped matters in some areas especially in terms of its relations with member countries treating them not as one but as different units where some are favoured well above and over others. External challenges are in the area of the Northern countries that could have been said to be displaced by an OPEC coming into being that fought considerably at making the organization as ineffective and inefficient as possible. The work therefore is divided into four different sections. The first views what was in place before OPEC ever came into being, the second looked at the basis of an OPEC while the third analyzes the performance of the organization. The fourth section concludes.

## Oil Under a Northern Control

The period before the OPEC control of the 1970s was extensively used by the Northern developed nations to control all activities that relate to oil. This period was therefore one in which the Northern control of Southern developing nations was extended to the politics of oil. This was because their home countries backed virtually every action of oil companies.

For most of the twentieth century, the international oil system was controlled by a producer cartel<sup>1</sup>. By 1973, the cartel consisted of an oligopoly of seven international oil companies<sup>2</sup>. The "Seven Sisters" were made

<sup>1</sup> Spero, J. E.1990. *The Politics of International Economic Relations*. New York, St. Martins Press..261

<sup>2</sup> See Adelman A. M.1972. *The World Petroleum Market*.

Baltimore, John Hopkins University ; Hartshorn J.E. 1967..*Politics and World Oil Economies: An Account of the International Oil Industry in its political environment*. New York, Praeger; Penrose T. E.1969. *The Large International Firm in Developing Industry*. Cambridge, MIT Press; Sampson, A.1978. *The Seven Sisters;The Great Oil Companies and the World they made*. New York, Viking.

up of five American (Standard oil of New Jersey now known as Exxon, Standard oil of California, now known as Chevron; Gulf now part of Chevron; Mobil and Texaco), one British (British Petroleum) and one Anglo-Dutch (Royal Dutch-Shell). This was reinforced by the fact that by the early twentieth century, even though oil production continued to climb and by 1920, production had reached 450 million barrels, the US produced between 60 and 70 percent of the world's oil supply. Oil was only discovered in Mexico at the beginning of the twentieth century, in Iran in 1908, in Venezuela during World War I and in Iraq in 1927. By the early twentieth century therefore the control of oil was almost absolutely in the hands of the North, the oil companies had their headquarters in the North while reserves also favoured the North.

It can hardly be doubted therefore that the home countries of these companies extended the existing control and authority over the Southern States where the oil reserves were situated and also effectively used the period to ensure that the "Seven Sisters" controlled oil activities in the international community. To the North therefore, only by maintaining and retaining the control can the status quo be firmly rooted. From the period in which oil became a critical product to the international community and until OPEC took firm control; the North extended its political and economic authority to oil.

What clearly demonstrates that the "Seven Sisters" represented an extension of the Northern hold on the South was that by the late 19<sup>th</sup> century, the oil companies had moved abroad to obtain control of foreign supplies on extremely favourable terms<sup>1</sup>. To ensure that such control was as firm as possible, immediately after World War I, the seven companies had moved further forming joint ventures to explore for foreign oil fields and eventually in the 1920s they began to divide up sources of supply by explicit agreements.

The companies did this by dividing markets and fixing world prices and by discriminating against outsiders<sup>2</sup>. The discrimination not only indicated that the "Seven Sisters" intended to be in firm control but was a strategy to make it impossible for the new sources of supply to form the same type of cartel. This clearly shows two things, the first being that the cartelisation that the North consistently opposes and condemns in OPEC was not only in existence in the days of the "Seven Sisters" but was in fact given strong support by the North. The second is that the "Seven Sisters", and by extension the North, had, several years before the formation of the OPEC envisaged its formation and had worked extensively against its establishment.

This the "Seven Sisters" did by not only keeping outsiders out of all operations of the Seven Sisters but in giving every support it could muster for the oil industries. The evidence that the North saw in these seven companies, an opportunity to extend the initial control it had on the South is in the fact that governments in the North (the USA, Britain and Holland) provided a favourable political and military environment to actively support the oil companies owned by their nationals. In Iran for instance, the crisis over a new agreement with the Anglo-Iranian Oil Company, which invariably necessitated a nationalization of the Company's assets, brought the British government in confrontation with the Iranian government and actually contributed immensely to the demise of the then Iranian government. The United States which played a notable role in bringing the Iranian government down also did all within its power to ensure that her (US) companies replaced the Anglo-Iranian Company.<sup>3</sup>

It could not have therefore come as a surprise that in bargaining with the oil companies, the less developed oil producing countries were confronted with two major and fundamental obstacles; an oligopoly supported by powerful Northern governments as well as uncertainty about the success of oil exploration and the availability of alternative sources of supply.<sup>4</sup>

Unfortunately, because new discoveries when they came were made during colonialism, the hold of the North on the South did not reduce with those discoveries. Since many of the new oil discoveries occurred in areas dominated by Britain and the Netherlands; in the Dutch East Indies, as well as Iran and British mandates in the Middle East it only increased the Northern control on the South. Invariably, by 1919, Britain controlled 50 percent of the world's proven oil reserves.<sup>5</sup> In essence, both production and reserves favoured the North.

Invariably, even when policy makers and the oil industry focused their attention on the Middle East, particularly the Persian Gulf, which they believed would be the center of post war oil production; it did not in any way alter the Northern control on oil. As early as the 1930s therefore, Britain had gained control over Iran's oil fields, while the United States discovered oil in Kuwait and Saudi Arabia.

The struggle for control of the Middle Eastern oil fields was followed by the formation of a cartel by

---

<sup>1</sup> Mikdashi, Z. 1966. *A Financial Analysis of Middle Eastern Oil Concessions: 1901 – 1965*. New York, Praeger; Issawi C. and Yegaleh M. 1962. *The Economics of Middle Eastern Oil*. New York, Praeger. 24-40.

<sup>2</sup> Penrose T. E. 1969. *The Large International Firm in Developing Industry*. Cambridge, MIT Press. 223.

<sup>3</sup> Schwadran, B. 1955. *The Middle east, Oil and the Great Powers*, New York, Council for Middle Eastern Affairs. 103-152.

<sup>4</sup> Edwards G. G. 1971. Foreign Petroleum Companies and the State in Venezuela. *Foreign Investment in the Petroleum and Mineral Industries* M. F. Raymond et al; Eds. Baltimore, John Hopkins University Press. 101-128.

<sup>5</sup> Ibid. 115.

the seven major oil companies. Efforts of the companies to establish a monopoly, or rather an oligopoly over the production, refining, marketing, etc. of oil were aimed at establishing an international cartel to regulate prices and competition in such a way as to guarantee profits to all members of the cartel.<sup>1</sup>

There were however clear indications of the lack of consensus of the Northern nations even in these early years. For instance, after the First World War, a bitter struggle for control of World oil reserves erupted. The British, the Dutch and the French excluded American companies from purchasing oil field in territories under their control. The United States' Congress had to retaliate in 1920 by adopting the Mineral Levy Act, which denied access to American oil reserves to any foreign country that restricted American access to its reserves. Probably due to the congress' decision, the dispute was ultimately resolved in 1920 when American oil companies were finally allowed to drill the British Middle East and the Dutch East Indies.<sup>2</sup>

Events immediately after the Second World War however introduced dramatic changes to the position of oil in the international community. In the first place, relatively inexpensive imported oil became the primary source of energy for the developed World, and both Western Europe and Japan, with virtually no oil supplies of their own, became significant importers of oil.<sup>3</sup>

Secondly, when by 1950, US oil consumption outdistanced its vast domestic production; the United States had very little choice but to become a net importer of oil. Thirdly, the 1950s coincided with when growing nationalism and the great success of oil exploration made it imperative that the host countries insist on better concessionary agreements. The effect was a redefining of the basis for royalty payments at a fifty-fifty division of profits between the companies and their respective host governments.<sup>4</sup> Invariably, profits accruing to host governments increased significantly, with the per-barrel payment to Saudi Arabia rising from \$0.17, which it was in 1946 to \$0.80 in 1956.<sup>5</sup>

In spite of these perceived achievements that can be viewed as remarkable, the "Seven Sisters", also known as the Majors, continued to dominate the system. By controlling almost all the World's oil reserves, they were able to manage the price of oil. They were also able to continue maintaining control over both the upstream and downstream operations by ensuring that outsiders were blocked from crude oil exploration and production as well as from refining, transportation and marketing operations.<sup>6</sup> Certain other events however introduced dramatic changes to the oil industry.

By the mid-1950, for instance, companies that were initially and previously not active in the international oil business obtained and successfully developed concessions with nations such as Algeria, Libya and Nigeria. Between 1952 and 1968, the production of the "seven sisters" reduced from 90 percent to 75 percent.<sup>7</sup>

In the oil producing states also, changes in elite attitudes, improved skills, less uncertainty and more especially, the emergence of new competitors, increased the bargaining power of the host governments<sup>8</sup>. The producer states now obtained larger percentages of earning and provisions for relinquishing exploited parts of concessions in the negotiations with emerging oil companies<sup>9</sup>.

As would be expected, the oil producing states, especially large producers such as Libya and Saudi Arabia increased their earnings and began to accumulate significant foreign exchange reserves<sup>10</sup>. The foreign exchange reserves gave the governments the strength and power needed to absorb any short-term loss of earnings from an embargo or production reduction, designed to increase the price of oil or to obtain other concessions<sup>11</sup>.

To worsen the reduction of the "Seven Sisters" control on the oil industry, changes that occurred at three different levels (the international oil industry, the oil producing states and the oil consuming states) invariably affected the control and authority of the "Seven Sisters"<sup>12</sup>. The first change was that competition

<sup>1</sup> Ibid.126.

<sup>2</sup> Ibid.

<sup>3</sup> Wells, D. A. 1971. *Aramco; The Evolution of an Oil Concession*. *Foreign Investment in the Petroleum and Mineral Industries* Mikesell et al Eds; Baltimore, John Hopkins University Press.87.

<sup>4</sup> Ibid,89.

<sup>5</sup> Adelman A. M.1972. *The World Petroleum Market*. Baltimore, John Hopkins University.207.

<sup>6</sup> Richard, A. & Waterbury, J. 1990. *A Political Economy of the Middle East: State, Class and Economic Development*.Boulder: Westview Press.115.

<sup>7</sup> Wilkins M,1974. *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970*. Cambridge, Mass; Harvard University Press. 386-387.

<sup>8</sup> Spero.1990.264, op cit.

<sup>9</sup> Ibid 264.

<sup>10</sup> Ibid.266.

<sup>11</sup> Ibid.267.

<sup>12</sup> Penrose, .1966.248-263. op. cit.

increased upstream, with new players seeking concessions to explore for and produce crude oil. The second change was that in the downstream operation, more refineries were built with competition growing in markets for refined oil<sup>1</sup>.

More than any other issue however, the depreciation of oil prices served as the major event, which introduced a cartel of oil producers as against the cartel of oil companies that existed before it. Even though oil prices went through a steady increase during World War II, it faced a sharp decline after the war. While the oil majors were successful in avoiding sharp changes in prices in the 1950s, increased supplies of oil from North Africa and a rise in exports from the Soviet Union, forced the oil companies to reduce the posted prices of oil in 1959 by 18 cents and again in 1960 by 10 cents<sup>2</sup>.

While the reductions were not large, their impact was a shock to the producing countries. The most outstanding change was that it provided the oil producing governments that unique opportunity to co-operate with each other. Frustrated with the price cuts which invariably reduced their tax receipts, five of the major petroleum – exporting countries – Iran, Iraq, Kuwait, Saudi Arabia and Venezuela – met in 1960 to discuss unilateral action by oil companies and decided to form an Organisation of Petroleum Exporting Countries, to protect the price of oil and revenues of their governments<sup>3</sup>.

### **The Coming of OPEC**

The most successful effort of Southern countries to alter their dependency relationship with the North was the common action of OPEC in seizing control over the World's oil market. By acting together in a producer cartel, the Southern oil-exporting states were able to increase not only their economic rewards but also their political power.

The five nations that formed OPEC met in Baghdad in what can be referred to as a mood of excited confidence. Sampson quoted the owner-editor of the Middle East Economic Survey, Fuad Itayim, as stating, "the price cuts might precipitate the establishment of what some delegates chose to call "a cartel to confront the cartel" and Sampson agreed, "it had precisely that effect"<sup>4</sup>.

The first resolution of OPEC made it clear that their chief enemy was the oil Companies as they declared

That members can no longer remain indifferent to the attitude heretofore adopted by the oil companies in effecting price modifications; that members shall demand that oil companies maintain their prices steady and free from all unnecessary fluctuation; that members shall endeavour, by all means available to them, to restore present prices to the levels prevailing before their reductions.<sup>5</sup>

The establishment of OPEC in September 1960 came not only as a protective reaction following the unilateral reduction of the export price of oil by the transnational companies, but was also aimed at gaining economic sovereignty in the development of its members' major and sometimes sole source of livelihood.<sup>6</sup>

Six major forces actually existed in the oil industry before the emergence of OPEC in 1973.<sup>7</sup> The first major force were the giant international companies which straddle the whole industry, both across geographical and across economic levels. The oil companies were grouped into two by Tanzer; the first being the seven major integrated international oil industries (the "international major") such as Standard Oil of New Jersey, Royal Dutch Shell, Mobil, Texaco, Gulf Oil, Standard Oil of California and British Petroleum. The second were the 20 – 30 generally smaller oil companies that have ventures into the international oil industry during the 1950s and 1960s in a significant way, they were companies otherwise referred to as "new comers" or the "international minors" such as Phillips Petroleum, Standard Oil of Indiana, ENI etc."

The second major force was the home government of the international oil companies either headquartered in their country or controlled by their citizens. The United States was by far the most important Western government for the international oil industry since it was home to five of the seven majors and most of the important newcomers. Great Britain was the second most important Western Oil power, having a Government-owned) majority share in one of the seven majors (British Petroleum) and a 40 percent share in the remaining one (Royal Dutch Shell). The 60 percent share of Royal Dutch Shell controlled by Dutch citizens gave Holland an important stake, even if it was a passive role, in international oil. The stake of France resided both in the state-owned ERAP and in the partially government-owned Compagnie Francaise des Petroles (CFP), which

---

<sup>1</sup> Spero, 1990.263, op cit.

<sup>2</sup> Ibid.30.

<sup>3</sup> Mikdashi, 1962, op cit.

<sup>4</sup> Sampson, A.1978. *The Seven Sisters; The Great Oil Companies and the World they made*. New York, Viking.174.

<sup>5</sup> Ibid.175.

<sup>6</sup> Mikdashi.1980.1, op.cit.

<sup>7</sup> Ibid, 21-29.

was sometimes considered by eight of the international majors because even though small, shared production facilities with the Seven Majors in the Middle East. Japan was home to one of the important newcomers, the Japanese Arabian Oil Company, while Italy was equally home to the ENI. West-Germany, Spain and other Western European countries also sought to promote newly formed oil companies controlled by their own citizens.

The third major force was the group of oil-exporting underdeveloped nations which were the well-spring of the enormously profitable international oil flows; the most important of which before the 1973 oil embargo were four Middle Eastern countries of Saudi Arabia, Kuwait, Iran and Iraq, as well as two North Africa nations (Libya and Algeria).

The fourth major force was the Soviet Union, which Tanzer claimed derived much of its influence from resurgence in the 1950s to its historical position as an important oil exporter.

The fifth force was the group of international organisations such as the International Monetary Fund (IMF), The World Bank and The United Nations.

The sixth was the underdeveloped oil-importing nations such as Communist China, Poland, Brazil, Tanzania, India and Ceylon.

For both the founder members and those who joined later, OPEC provided a means for collective defence vis-à-vis a number of shared threats. These include; the pricing and production policies of the transnational companies, which affected the budgetary receipts of the Organisation and the economic policies of their major trading partners – the Western industrialized countries that maintain oil-exporting countries in a relationship of dependence as mere suppliers of raw materials<sup>1</sup>.

On a more general level, OPEC members had to face the predicament of poverty among their populations and the sense of vulnerability, which is derived from the fact that their economies are narrowly based on oil. Moreover, OPEC has proved to be their means of defence against a repetition of the collective boycott faced by Iran between 1951 and 1953, which was imposed by the transnational oil companies. It has also served as a mechanism for coordinating the members' strategies with respect to prices, industrialization and aids<sup>2</sup>.

*The advantages of such collective deliberation and action are unfortunately translated only into larger oil revenues, mainly through increased prices. This has served as one of the greatest deficiencies of OPEC. This is because almost from the onset had it been very clear that OPEC was to serve the purpose of a revenue generation rather than being employed as a weapon. It is interesting to note that in spite of tremendous achievements recorded by OPEC at the early stage of presentation of demands for a new international economic order, the importance of oil more as a weapon than an income was not fully established.*

It could not have therefore come as a surprise that within the first ten years, and in spite of the fact that OPEC expanded from five to thirteen members and accounted for 85 percent of the World's oil exports<sup>3</sup>, it met with very little success. All that the individual oil-producing states were able to achieve in those thirteen years was an increase in their revenues. The only remarkable achievement therefore was that the attitude of lowering oil prices died with the emergence of OPEC and the oil producing states also expanded their experience in cooperation<sup>4</sup>.

In the final analysis, the fact that Western consuming countries became vulnerable to the threat of supply interruption or reduction was not fully exploited to OPEC's favour. Unfortunately a focus on generation of income diminished the fact that oil became the primary source of energy. The focus on oil as a source of revenue did not also strongly establish the fact that the United States' reserves and production had considerably reduced. In spite of the fact that the developed market economies became increasingly dependent on foreign oil, especially oil from the Middle East and North Africa, virtually all-Arab nations<sup>5</sup>, very little positive result was attained until 1973 when the Arab oil producers imposed an embargo on industrialized nations.

By 1972, Western Europe derived almost 60 percent of its energy from oil almost all of which was imported<sup>6</sup>. Oil from abroad supplied 73 percent of Japan's energy needs and 46 percent of US energy came from from oil, and at least one-third of this was imported<sup>7</sup>. And by this year (1972), 80 percent of Western Europe and Japanese oil imports came from the Middle East and North Africa. The United States also relied on the Middle East and North Africa for 15 percent of its oil imports<sup>8</sup>. It was only the adoption of a totally changed

<sup>1</sup> Mikdashi, 1980.2., op cit.

<sup>2</sup> Migdal, J. 1980. *Strong Societies and Weak States: State Society Relations & State Capabilities in the Third World*, Princeton, Princeton University Press, 85, 1980.

<sup>3</sup> Mikdashi, 1975.203. Op cit.

<sup>4</sup> Harbeson, J. and Rothchild, D.1991. *Africa in World Politics*. Boulder, Westview Press.107.

<sup>5</sup> Spero, 1990.265, op cit.

<sup>6</sup> Darmstadter J. and Landsberg H.1975. The Economic Background. *Daedalus*..104.21.

<sup>7</sup> Spero.1990., 265. op cit.

<sup>8</sup> Darmstadter J.and Landsberg H. 1975.Op.Cit.23.

strategy by OPEC from 1973 that reverted the North-South relations. Invariably therefore rather than reserves that favoured the South, if OPEC had not taken its destiny into its own hands, very little would still have been achieved.

One can therefore conveniently ascertain that the earlier Third World bargaining strategy of moderate diplomacy through the presentation of joint positions in international forums had to undergo a radical change before any appreciable gain; achievement, progress and advancement could be attained. The new feeling became securing resource transfers from the North through the threat of disruptions in the primary commodity markets, as opposed to mere appeals to Northern conscience.<sup>1</sup> It was therefore only when Southern oil producing nations saw reason with a strategy that employs disruption of a critical primary product, that any noticeable achievement was recorded.

As far as the South was concerned, the new oil power coordinated by OPEC suggests that a departure be made from appealing to the Northern conscience into antagonising the North; a change from persuasion to insistence.<sup>2</sup> Interestingly, antagonism to the North seemed to have yielded positive results as attacks on the North, North, within the framework of a united front, established the fact that the North was primarily to be blamed for the poverty of the South.<sup>3</sup>

Coercive diplomacy of the Third World was therefore by far more effective in securing positive responses from the developed countries than the earlier recourse to persuasions as evident in the OPEC quadrupling of oil price between 1973 and 1974 and the success at changing the European nations' alliance to Israel.<sup>4</sup>

Indeed, the North became inclined towards proposing changes and reforms in the international economic system, unlike the old strategy of only responding to Third World demands.<sup>5</sup> In February 1975 for instance, the Lome Convention was signed between members of the European Community and African, Caribbean and Pacific States.<sup>6</sup> This happened to be the first major agreement between any part of the South and the North. What made the agreement more significant and an offshoot of the new oil power was that it not only accepted basic tenets of the NIEO proposals of the Less Developed Countries, but also "provided mechanisms, of varying degrees of effectiveness, for putting them into effect".<sup>7</sup> It is not surprising that the agreements of the Convention were hailed as "a new model for relations between developed and developing states, compatible with the aspirations of the international community towards a more just and balanced economic order"<sup>8</sup>

In Kingston, Jamaica, at the May 1975 Commonwealth Summit, Prime Minister Harold Wilson of Great Britain unfolded a package fashioned "a new deal in world economy", declaring British support for minimum earning guarantees for countries which depended upon a few key exports.<sup>9</sup> In October of the same year at the Ecole Polytechnique, French President Giscard d'Estaing called for "normalisation of raw material export prices and for stable export earnings for the South"<sup>10</sup>.

The United States' opposition to the demand for a new economic order, also considerably reduced. The US Secretary of State, Henry Kissinger stated the United States was more willing to engage in constructive dialogue with countries in the South.<sup>11</sup> The United States was also going to be forthcoming with new initiatives within the GATT, new financial arrangements within the IMF, and a new system of international food reserves.<sup>12</sup>

The Secretary of State further declared that:

*We have heard and begun to understand your concerns. We want to be responsive.  
We are prepared to undertake joint efforts to alleviate your economic problems  
clearly this requires a posture of cooperation*<sup>13</sup>

<sup>1</sup> Danielsen, A. L. 1982. *The Evolution of OPEC*. New York: Harcourt Brace Jonanovich. 115.

<sup>2</sup> Ghanem, S. 1986. *OPEC : The Rise and Fall of an Exclusive Club*. London, New York and Sidney KPI, 219.

<sup>3</sup> Zindani, op cit.

<sup>4</sup> Deagle, E. A. Jr. 1983. *The Future of the International Oil Market*. New York: Group of Thirty, 113.

<sup>5</sup> Kelly, J. B. 1980. *Arabia, the Gulf, and the West: A Critical View of the Arabs and Their Oil Policy*. New York: Basic Books. 7.

<sup>6</sup> Lome Dossier, 1975. The Courier, European Community-Africa-Caribbean-Pacific (Brussels: European Commission), 31, Special Issue. 1975.

<sup>7</sup> Ibid.

<sup>8</sup> Aribisala, F. 1983. *Nigeria and OPEC. Nigeria's External Relationships: The first twenty-five years*. Olusanya G.O and Akindele R. Eds. Ibadan, Ibadan University Press .136.

<sup>9</sup> Ghadar, F. 1977. *The Evolution of OPEC Strategy*. Lexington, Mass.: Lexington Books. 215.

<sup>10</sup> Ibid. 221.

<sup>11</sup> Kissinger H. A. 1975. Before the Wisconsin Institute of World Affairs. Milwaukee, Washington DC, US Department of States. Press Release .370, 1975, 117.

<sup>12</sup> Ibid. 117.

<sup>13</sup> Aribisala, op. cit., 138.

### **The Ineffectiveness of the South's Oil Power: A Critical Analysis.**

The failure of the South at realising the agenda of a New International Economic Order and thus reduce its dependent status, is a testimony of the Southern deficient handling of North-South issues. The NIEO was not only a subtle threat to the Northern developed nations but was also a direct confrontation of what the developing nations perceived as an inequitable distribution of resources. It is therefore important to note from the onset that the issue of redesigning the economic order indicates certain important facts in international economic relations. The first is that the demands for a new international economic order emanated directly from the South. Secondly, the demands are of immense benefit to the South and may in fact reduce some of the powers, control and authority of the Northern developed nations. Third is that it is only through a Southern solution that the problem of the inequitable distribution of resources could be tackled. What this suggests is that since the North extensively and considerably benefits from the economic order as it presently stands, it can only be unrealistic expecting a solution to what does not constitute a problem to the North from the developed nations. It can thus be emphatically stated that the unrealistic and unimpressive handling of demands for a New International Economic Order by the South has a very direct linkage on the continued domination of the South by the North. Rather than the South maintaining a posture, which would signify determination at a continued pressure on the North for a re-designing of the international economic system, the North was viewed as the only possibility of effecting such changes.

Invariably therefore the brief 1973 episode in which the North-South relation was appreciably beneficial to the South could not be maintained. The radical approach at dealing with the North, which necessitated a departure from appealing to the Northern conscience to antagonising the North, dramatically changed again from 1975. The third World diplomacy reverted to a relatively more moderate tenor, basically because of the forthcoming approach to the Southern demands by the North. Also, even though OPEC still retained the power to increase the price of their oil, the fact that the investment of surplus petrol-dollar assets in the West tied the fortunes of the OPEC countries to the economic well being of the developed market-economy countries, had a boomerang effect on the proceeds from OPEC investments<sup>1</sup>.

*Consequently, the emergence of a new Southern dependency in the age of inter-dependence reduced the power the South had on the North. Since virtually all that was gained in the oil proceeds was spent on investments in the North, there was the need to employ a more moderate and by far softer approach to dealing with the North. This adversely affected the results that previous antagonism to the North had achieved.*

In the Paris Conference of 1975 therefore, talks between the North and the South degenerated into a long and frustrating standstill which lasted a better part of eighteen months. Actually, the Conference remained deadlocked on most of the issues it addressed<sup>2</sup>.

A basic impediment was the attitude of the South in bargaining with the North. This is because the South was only represented by only 19 countries that were afraid to negotiate on behalf of the Southern nations that did not attend the Conference and rather felt more comfortable sticking to positions already coordinated in advance<sup>3</sup>.

As could be expected, this reluctance negatively affected extensive bargaining as maximal Southern appeal met with minimum Northern concessions, and the North-South dialogue moved back to the period where there was a total reliance and dependence on Northern acquiescence to Southern demands; what was described as a "cacophony of monologues often taking place simultaneously in the same room"<sup>4</sup>.

The United Nations Conference on Trade and Development (UNCTAD) also continued in the earlier tradition of Southern demands and Northern denials, with Third World bloc-politics within the UNCTAD reverting to the gradualist approach to change, as opposed to the radical framework envisaged in earlier discussions and declarations. From UNCTAD IV in Nairobi in 1979, third world demands were discussed with very little or no substance achieved<sup>5</sup>.

Between 1980 and 1985, discussions did not yield any result as the recommendations of the Brandt Commission Report of 1980, the short exchange of views between the North and the South at the Cancun Summit in 1981 and the UNCTAD VI in Belgrade in 1983, were all rhetoric without any serious action. In fact the UNCTAD VI fell far short of expectations and was a far cry from what was achieved a little less than ten years earlier, when the Southern approach was radical, that it was described as "the most comprehensive failure

<sup>1</sup> Aribisala, F. 1990. Collective Bargaining Strategies of Third World countries in international economic relations, 1964-1987. *Nigerian Journal of International Affairs*. 14. 2: 135.

<sup>2</sup> Amuzegar J. 1977. A Requiem for the North South Conference. *Foreign Affairs*. 56. 1: 97.

<sup>3</sup> Ibid, 97.

<sup>4</sup> Ibid, 101.

<sup>5</sup> UNCTAD doc TD/195; 1976.

in 20 years of UNCTAD Conferences”<sup>1</sup>

The Northern domination of the South by the North has therefore continued in spite of substantial reserves of oil that favour the South even though its need is mainly in the North. The declaration at the second summit of Heads of State in 2000 for instance revealed OPEC's continued dream like hope in a Northern solution to the North- South issue. This was because OPEC at the summit stressed “the need for the industrialized countries to recognize their responsibility in helping to alleviate the crushing poverty”<sup>2</sup>.

At the conclusion of the Third United Nations Conference on Least Developed Countries (LDCs) in Brussels in 2001, the 43 countries that were in attendance adopted a declaration committing themselves to the eradication of poverty in the world's poorest countries. As noted by the OPEC Bulletin (of May 2001), this type of commitment from countries on both sides of the North-South divide has been seen many times over the years and yet despite all these good intentions, it sometimes appears that the gap between the world's rich and poor is not shrinking but becoming pronounced. This declaration goes to show that OPEC strongly believes that, (considering the fact that the gap between the North and South has continued to increase in spite of extraordinary levels of assistance by OPEC as an organization and as individual members), the only solution lies with a Northern cooperation. The reliance on the North for so long has not only been unsuccessful but can hardly be seen or viewed as a possible solution, as a reliance on a North that benefits greatly from the inequitable distribution of resources can only be fruitless. The solution can only be a Southern one and cannot but be radical, forceful and revolutionary. The OPEC Secretary-General is of the opinion that OPEC has done a lot in improving the North-South relation, declaring that “*OPEC is mostly involved in the oil market, but it has long been aware of the need for improvements in world trade.*” He claimed that in 1975, OPEC was part of the calls for the creation of a new international economic order which was premised on justice, mutual understanding and a genuine concern for the well being of all people of the world. He declared that OPEC also called on the industrialised and developing countries to get together in order to solve the problems facing the poor countries and to look for a way to establish a better economic system by allowing more trade and more exchange of knowledge between developing and OECD countries. He stated that it was for this purpose that OPEC Member Countries established the OPEC Fund for International Development in 1976 in order to assist non-OPEC developing countries to improve their economies, including their trade.

The OPEC member countries, themselves developing nations, have always believed that the issue of economic and social developments in the world's Less Developed Countries and the eradication of poverty should be an overriding global priority. The issue was for instance raised in 1975 at the first summit of OPEC Heads of States in Algiers where the organization as an expression of solidarity with non-OPEC developing nations, decided to establish the OPEC Fund to provide financial resources to assist these countries in their economic and social development. In the first 25 years of existence the OPEC Fund extended development assistance worth over \$5.8 Billion to more than one hundred countries in Africa, Asia, Latin America and the Caribbean, as well as the Middle East and parts of Europe. Individual OPEC members have also established a number of other aid institutions with similar aims<sup>3</sup>.

To indicate that a far more extensive measure needs be taken to considerably reduce the gap, the OPEC Bulletin (of May 2001) notes that in spite of the assistance from the OPEC Fund, the gap between the world's rich and poor nations remains a yawning one.<sup>4</sup>

Invariably, therefore, 25 years after the Fund was established, OPEC once again deemed it necessary to emphasize this issue in the organization's Solemn Declaration at the second summit of Heads of State held in Caracas, Venezuela in 2000. To OPEC, solidarity among the Southern countries can only be about cooperation. OPEC Bulletin (October 2000) in discussing about OPEC's way of solidarity with the Third world or developing nations proposed that the OPEC member countries extend development assistance to other developing nations, and specially referred to the OPEC Fund as the means by which OPEC countries could promote the development of the South.

According to Abdullahi (2000), the creation of the OPEC Fund stemmed from the condition that the southern cooperation should work in conjunction with the North - South dialogue.

Perez-Cuerrero declared September 1984 that

---

<sup>1</sup> Brandt W. 1981. North – South; A Programme for Survival. *The Report of the Independent Commission of International Development Issues*. London; Pan Books, 205.

<sup>2</sup> OPEC Bulletin, May 2001, 3.

<sup>3</sup> Ibid,3.

<sup>4</sup> Ibid,3.



The concept of collective self reliance (among developing countries) has become an indispensable instrument to complement *efforts at the North - South levels to promote the development to the third world countries.*<sup>1</sup>

According to OPEC, much has been done in the area of building a strong Southern solidarity, as Abudullahi, the Director General of the OPEC Fund stated that

*We have, in very close cooperation with beneficiary countries built infrastructure and funded works and schemes and research all in expression of solidarity with non -OPEC developing countries. We are carrying on a long tradition of OPEC aid, which did not begin with the OPEC fund. The Fund is only the culmination of series of endeavours, which saw the creation of several bilateral and multilateral agencies, some longer in business than the OPEC fund, itself.*<sup>2</sup>

The OPEC Fund serves as OPEC's answer, at least to some extent, to the poverty that the inequitable distribution of the present world order introduces. The Fund was conceived as a multilateral aid organization of OPEC States dedicated to promoting socio-economic advancement in the world's underprivileged areas and contributing to the global fight against poverty. The Fund was given an adaptable mandate to direct its financial resources to where they are most needed and is likely to make the greatest impact.<sup>3</sup>

The Fund by 2000 had operated in 107 countries worldwide with commitments standing at \$5.60 billion and disbursements of \$3.8 billion. The fact that the gap has continued to widen between the North and the South however clearly shows that only by employing other strategies aimed at employing oil as a total, absolute and complete Southern weapon, can there be a reduction of the gap. This can hardly be attained by distributing the profits of oil to needy developing nations but through the effective utilization of the commodity as a weapon in a strategy of politics of scarcity. Not realizing the importance of changing the focus of the global community from its attitude to the raw material which the South is noted for, OPEC has continued to provide aid and assistance to other non-OPEC, non-oil producing developing nations, an action that has failed to yield the perceived results, as the poverty in the South has remained. Invariably therefore, in spite of OPEC's aid, which is older than OPEC itself, not much has been achieved in bridging the gap.

OPEC aid can be traced back to programmes and projects initiated in the mid-1950, by Kuwait and Saudi Arabia, initially motivated by moral commitment, toward their neighbours. The deep sense of regional community, evident in the two countries, and their awareness of the socio-economic requirements of regional stability and security led them to act as donors almost at the same time as they began to accumulate income.<sup>4</sup>

Kuwait took the lead in formalizing instruments for aid delivery, setting up a national aid organization and was soon followed by the Kuwait Fund for Arab Economic Development in December 1961. Ten years later, in 1971, the United Arab Emirates created the Abu Dhabi Fund for Arab Economic Development. In 1974, Saudi Arabia, Venezuela and Iraq followed suit, establishing respectively, the Saudi Fund for Development, the Venezuelan Investment Fund and the Iraqi Fund for External Development. In spite of these efforts however the gap between the Rich and Poor nations has continued to widen.

Finally, the problem with the South is that issues relating to its disadvantaged position in the international economic system have never assumed a primary contradiction to Southern developing nations. The issue of contradictions must be fully and firmly in place for the Southern dependent status to be considerably reduced. The international community moves around in contradictions and what presently is viewed as a primary contradiction may become secondary when a more critical, important and significant issue or event takes over from it. In essence, what exists in the international system is actually a permanent problem without any notable permanent solution.

Only when the issue of dependency becomes a Southern primary contradiction that surpasses other contradictions such as the division in the South and the different interests of Southern developing nations to the developed nations can the oil potential be fully exploited. The division of Southern oil producing nations into OPEC and non-OPEC as well as the division of OPEC into the radical and the moderate and even the Arab and non-Arab, is an evidence of lingering dependent status of the South. One of the critical problems of OPEC that brings to the fore the effects of long years of dependency in the South is the issue of non-OPEC nations. It can be adduced that since having both OPEC and non-OPEC nations within an organisation would have strengthened the oil power and by implication the bargaining power of the South vis-avis the North, it would have been more

<sup>1</sup> OPEC BULLETIN OCTOBER, 2000.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

logical and beneficial for the Southern oil producers to operate within a group. Interestingly, however, due to interests and dependencies of the Southern oil producing nations to the North, it has become easier and more convenient for them to exist as OPEC and non-OPEC nations, a division that has been extensively employed by the North at considerably reducing the oil power. It must be emphasised that the issue of non-OPEC nations can be viewed from two angles. One is OPEC's position on membership and how OPEC itself views additional membership into the organization. Two, is how enthusiastic those critical oil-producing states within the South are, in joining the organization. The issue of an OPEC focus on additional membership as well as the lack of enthusiasm by critical Southern oil producers are the evidences of deep deficiencies in the Southern position to oil issues. Both are also directly linked, as the negative position of OPEC on membership and the not too eager attitude of critical Southern oil producers in joining OPEC indicate how deficient a presently structured OPEC is. It also shows how easily a division is created in the South along old cleavages to destroy the common front that would be critical to employing oil as a weapon. Both positions by OPEC and non-OPEC nations have therefore continued to have seriously negative effects on whatever possibility exists in using oil as a weapon at restructuring the economic system. To worsen this is the fundamental issue represented in lack of technical expertise in oil exploration and production. This greatly affects whatever advantage may have existed in terms of reserves in the Southern oil producing nations.

### **CONCLUSION**

OPEC which started as a Southern bargaining organization has considerably been weakened by its focus on certain member states as more important than others and thereby dividing itself into Arab- non-Arab countries and even the radicals and the conservatives. This has appreciably affected the organization in being effective and has made it practically impossible for OPEC to serve the interests of all oil producing nations in the South. It can only be logical to expect that an organization that does not treat all its member states equally cannot also serve their interests in the same way and manner. By implication, OPEC could not have been expected to be a bargaining organization for the whole of the South if it does not view the entirety of the Southern nation equally. This has been the greatest challenge of the Southern bargaining responsibility of OPEC.

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:  
<http://www.iiste.org>

## CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

**Prospective authors of journals can find the submission instruction on the following page:** <http://www.iiste.org/journals/> All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

## MORE RESOURCES

Book publication information: <http://www.iiste.org/book/>

## IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

