



MULTI-REGIONAL ECONOMIC INTEGRATION: AN ANALYSIS OF THE OPERATION OF THE ORGANISATION OF PETROLEUM EXPORTING COUNTRIES (OPEC)

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Abstract:

The paper examines the operation of the organisation of petroleum exporting countries (OPEC) under multi-regional economic integration, brought about by natural endowment such as oil and gas. The paper adopts the secondary method of data collection in order to investigate proper on the operation and activities of OPEC. Findings show that it is impossible to reach full economic integration among sovereign states whose domestic and foreign political policies are sometimes in conflict. The paper recommends that the organization need to accommodate new members who could together with the old members match the turbulence of oil market by using joint effort to control price and stabilization among other things.

Keywords: Oil, Economy, Producing, Organisation, Countries & Economy

Introduction:

International politics views the state as the most important actor on the world stage because it answers to no higher political authority. States are sovereign: they have supreme power over their territory and populace, and no other actor stands above them to wield legitimacy and coercive capability and govern the global system (Kegley and Blanton, 2013:24). Thus OPEC is no different from international political actors who over the years, have registered their significant influence and importance on the world stage especially in the area of international political economy of oil and gas since 1960's. After the Second World War by 1945, proliferation of regional organisations and corporations has assumed a centre stage. Such regional organizations do not necessary involve geographical proximity, but have common interest in socio-political, economic and joint partnership that may not be offensive to member states that constitute the organization. A good example of such regional organization is the North Atlantic Treaty Organization NATO, whose member states, predominately dominated world politics since the turned of 21st century.

The post- World War II era, has been a period when more and more states are getting together in regional groupings, voluntarily transferring some of the attributes of sovereignty from the state to the higher entity. Prakash (2004:239) is of the view that, in an anarchical world system based on competition among sovereign states, the strongest countries continue to dominate the weaker ones who either submits or parish. For others, an alliance of protection could be an option to express their right in the turbulence of uncertainties.

In the search for peace and economic protections, some of these weak nations emerge to establish a reputable economic organization such as OPEC to protect their economic interest against the seven sisters and other International Oil Companies that have exploited their local petroleum industry and monopolised the world market for decade.

Material and Method:

The material used in this research is library documented, which describes the secondary methodology. Books were used as well as journal articles, newspapers, periodicals and reports.

Results and Discussion:

Formation of OPEC:

The formation of OPEC was a weapon of economic comparative advantage by some oil producing countries, whose economic mainstay relies largely on crude oil production for both local and national development. The objectives or strategies of OPEC were to coordinate, the policies, supply and control the price of crude oil in the world market. Among other things, is the protection of its member states from the arbitrary exploitation of the seven sisters cartel that were firmly in control of their local petroleum resources prior to the formation of OPEC (Kegley and Blanton, 2013:24).

OPEC headquarters is located in Vienna, Austria and is worth 79.3% of global crude oil reserves and was responsible for 60.3% of the world's crude oil exports (www.opec.org).

According to Jamola (1949) Venezuela and Iran communicated Iraq, Kuwait and Saudi Arabia, suggesting the need to establish an organization, they could use as an avenue, to exchange world views and ideas on crude oil related matters. This they said should be on a more regular basis among petroleum-producing nations. Consequently the idea of OPEC was conceived and officially established in the Baghdad conference of 10 September 1960.

OPEC's primary objective was to protect its member interest, in addition to control and manipulate the supply and distribution of crude products in the energy market, since the world economy predominantly depends on petroleum resources for human and technological development (OPEC annual bulletin, (2015). According to OPEC statute (2012), its mission and objectives are clearly stated in the article below, which stipulates its operational framework among member states (Prakash, 2004:239):

Article 1 The Organization of the Petroleum Exporting Countries (OPEC), Hereinafter referred to as "the Organization", created as a permanent Inter-governmental organization in conformity with the Resolutions of the Conference of the Representatives of the Governments of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, held in Baghdad from September 10 to 14, 1960, shall carry out its functions in accordance with the Provisions set forth hereunder.

Article 2 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.

(B) The Organization shall devise ways and means of ensuring the Stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations.

(C) Due regard shall be given at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on their capital to those investing in the petroleum industry.

Article 3 The Organization shall be guided by the principle of the sovereign equality of its Member Countries. Member Countries shall fulfil, in good faith, the obligations assumed by them in accordance with this Statute.

Article 4 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.

Article 5 The Organization shall have its Headquarters at the place the Conference decides upon.

Article 6 English shall be the official language of the Organization. While ignoring article seven (7), article eight (8) provides below:

Article 8 No Member of the Organization may withdraw from membership without giving notice of its intention to do so to the Conference. Such notice shall take effect at the beginning of the next calendar year after the date of its receipt by the Conference; subject to the Member having at that time fulfilled all financial obligations arising out of its membership. B. In the event of any country having ceased to be a Member of the Organization, its admission to membership shall be made in accordance with Article 7, paragraph C.

OPEC Membership:

Since 1960, the membership of OPEC has grown to include additional nine members besides the original five founding countries of Iraq, Iran, Saudi Arabia, Kuwait and Venezuela respectively. Between 1960 and 1975 the listed countries below joined the membership of OPEC at a later date. They include, Qatar (1961) Indonesia (1962) and suspended its membership by January 2009. Libya (1962) United Arab Emirate (1967) Algeria (1969) Nigeria (1971) Ecuador (1973). Suspended its membership from Dec. 1992 to Oct. 2007 Gabon (1975) and Terminated her membership in 1995 and Angola (2007).

Organs of OPEC:

According to the statute, the structure of OPEC consisted of three principal's organs namely the Conference, the Board of Governors and the Secretariat.

(A) The Conference: This is the supreme authority of the organization. It consists of the Heads of delegation of member states, who usually consists of the sitting Ministers in charge of Petroleum Resources of individual countries. This body meets twice a year to discuss matters affecting their common interests; it mainly focuses on price stabilization of price of oil and steady income from oil exports. Decisions are taken based on a unanimous agreement of all member countries. Upon the formation of the preliminary meeting, the conference elects a chairman and also a deputy of chairman (Kegley and Blanton, 2013:24).

Conference is charged with the function of formulating the general policies of the Organization as well as determining the best means of implementing them. It is the Conference that equally decides on the admission of new members. Other functions of the conference include the confirmation of appointment of the Board of Governors, the appointment of the Secretary-General and other high ranking officers of the organization amendment of the Statutes, approval of budgets and consideration of statement of accounts and auditor's report.

(B) The Board of Governors: The board of governor is made up of the Governors nominated from member countries but confirmed by the Conference. The Board also meets twice a year to deliberate on matters affecting the Organization. More importantly,

the Board manages the day to day affairs of the organization including the implementations and decisions of the Conference.

Each member has one vote and decisions shall be approved by a majority of the Board and the tenure of each member is 2 years. The executive board forms at least 2 meetings at intervals to be determined by the Chairman of the Board in consultation with the Secretary-General in each year (Prakash, 2004:239).

(C) The Secretariat: The Secretariat is headed by the Secretary-General, who is regarded or popularly reference to as the Chief Officer. He is appointed by the unanimous decision of the Conference, and must be a national of one of the member states, and at the same time meet certain minimum conditions namely: Must be 35 years and above. A graduate of a recognized University in the disciplines of Economics, Law, Science, Engineering or Business Administration. The duties of the secretariat include carrying out the executive functions of the organization under the direct supervision of the Board of Governors. The secretariat is composed of Secretary General, Deputy Secretary General and required staffs. It was established at Headquarters. According to the statute, the Secretary General is the authorized representative of organization legally and also the head of the OPEC secretariat (Kegley and Blanton, 2013:24).

In this position, it can select the ministerial conference of Secretary-General for a term of three years and this tenure may be renewed once. This assignment is based on nominations presented by the Member States and the candidate's qualifications will be reviewed and compared. The Secretary-General is selected on the basis of competency and with consensus primarily and if no consensus is achieved for any reason, in 2nd time, selecting the Secretary-General is predicted in an intermittent rotation and for a non-renewal period of two years.

Major Achievements of OPEC:

The achievement of OPEC no doubt has be felt globally since its formation, among which are the OPEC Special Fund, created to assist developing member states in addition to building of a more and more sophisticated refineries round world. Arash (2014) is of the view that OPEC has contributed immensely to the development of petroleum industries of member nations including contributing about 40% of its member states production to the world consumption of petroleum product globally (CIPM.2013:142). Comparative Management Administration states, OPEC was instrumental for the establishment of Nigerian National Oil Corporation, NNOC) in 1971 by Decree No 18 as a direct response to OPEC resolutions and policy statements which required the existence of a State oil corporation before States participation in the oil industry as well as membership of OPEC.

1. OPEC has greatly facilitated the realization of the resolution on permanent sovereignty over natural resources as far as host countries exporting oil is concerned. This realization has been felt by the shift away from investor ownership of natural resources towards ownership and control by owners of petroleum resources, namely the host countries. Without the role of OPEC, it would have being difficulty for many countries like Nigeria to take control of her petroleum industry. OPEC's Resolution 90 of 1968 on petroleum policy went a long way in urging member nations to engage in State participation. All these can also be seen as achievements on the part of OPEC. Indeed OPEC is today a major player in world affairs. An organization that now controls more than 70% of the world's reserves of oil, including monopolizing the industry.

2. OPEC has succeeded in raising the price of oil. Between 1971 and 1974, went ahead to become one of the most influential cartel in modern history to have sustained it raising power price of crude oil from a paltry one dollar 50 cents to 11 dollars 65 cent to its present day pricing system formula.
3. Member states have come to reap increased revenue from the sale of crude oil, which to some extent has brought them economic prosperity. Nigeria has been a great beneficiary of OPEC, since its membership in 1971.
4. OPEC has greatly assisted its member nations to start negotiations on new royalties, which are more favorable to them than ever.
5. OPEC has succeeded in ensuring the participation of its member nations in oil exploitation and production. The various Joint Venture Agreements entered into between N.N.P.C, as an agent of the Federal Government and the I.O.Cs, like Shell, Agip and Elf, attest to this fact of state participation of OPEC.
6. The organization has to some extent achieved success in regulating and limiting the activities of MNOCs operating in member nations.
7. On the political front, OPEC and its member nations are formidable forces to reckon with in international politics, which lately is greatly influenced by events in the global oil market.
8. Member nations now speak with one voice on matters of petroleum policies. OPEC has established a common fund, which has often aided its needy member nations financially.
9. Its rank nine out of the ten world's biggest oil producers in the world
10. Today OPEC Secretariat boasts of various departments which enable it, not only to confront modern challenges in the petroleum industry, but also to find solutions to them scientifically.
11. It has been able to challenge the seven sister companies who before the formation of OPEC was dominating the oil market.

OPEC Challenges:

The formation of OPEC's primarily was to give member states, the opportunity to have a say, in the production of their states petroleum resources which was at the time predominantly controlled by the international oil companies, notably called the seven Sisters.

They were directly and indirectly tied to each other through a web of joint participations of oil production in the host communities? Unfortunately for the host countries, the seven sisters were frequent and more sophisticated producers and explorers of petroleum product at the time. They became influential world Cartel that was branded and mentioned in several successive inquiries of the US Congress. The seven sisters till date still constituted major threats to OPEC interest. These and other OPEC problem that shall be discuss below. According to international oil system II (Prakash, 2004:239).

The Seven Sisters Companies Are

1. Anglo-Iranian Oil Company (United Kingdom): under various merger and acquisition became British Petroleum, BP in 2000.
2. Gulf Oil (United States): later Balkanized and acquired by Standard Oil of California (SOCAL) and the rest by BP and Cumberland Farms.
3. Royal Dutch Shell (Netherlands/United Kingdom)
4. Standard Oil of California (SOCAL) (United States): The Company changed its name to Chevron in 1984 after acquiring Gulf Oil.

5. Standard Oil of New Jersey (Esso) (United States): As a result of acquiring stakes in other oil companies including Mobil, it changed its name to ExxonMobil in 1999.
6. Standard Oil Company of New York (Socony), United States: This Company subsequently became Mobil and with its acquisition by Exxon in 1999, it was integrated into ExxonMobil.
7. Texas Oil Company (Texaco) (United States): In 2001, this company was acquired by Chevron.

By 1949 the seven sisters controlled 90% of crude exports to world markets including controlling every important pipeline in the world. Owned 4/5 known reserves outside U.S. and U.S.S.R; Controlled 9/10 of oil production; 3/4 of refining capacity; 2/3 of oil-tanker fleet; and virtually all tanker fleet. The seven sisters also owned the pipelines across the world. For instance, the 753-mile Trans-Arabian Pipeline from Qaisuma in Saudi Arabia to the Mediterranean Sea was owned by Exxon, Chevron, Texaco, and Mobil. Also, Exxon owned the 100-mile Inter-provincial Pipeline in Canada and 143-mile pipeline in Venezuela (New York Times, 2014).

It is also notable that BP and Exxon owned the 799-mile Alaskan Pipeline. By owning and controlling these and other vital oil pipeline arteries, they could restrict and limit the flow of oil to refineries across the world. The seven sisters ensure that OPEC decision are thwarted from time to time in order to control the decisions of OPEC on oil polices and supply around the world (New York Times, 2014).

National interest of member states is another challenges confronting OPEC. In as much as the states have surrounds their petroleum related issue into the hand of the organization, it does not necessary mean they play by the book at all times. Several member states have suspended their membership voluntarily from the organization because of her polices of lopsided decision within member states. According to corporate Nigeria (2008:197) In 2002 Nigeria threaten to pull out from the organization as it was wildly rumoured that Nigeria wanted to increase her OPEC quota from 2.3 million barrel per day (bpd) to 4 million barrel and was denied by OPEC ceiling restriction calling Nigeria interest indiscipline polices (krutz, 2012:53).

Another crises facing OPEC is the use of quota restriction as a price mechanize that has hurt both it members and threaten their very unity as an organisation of equal opportunity. The increased in non- OPEC members such as Russian, Norway and Mexico is reducing the influence of OPEC by the day. The De-facto polices influence of Saudi Arabian over the rest members is a threat to OPEC unity. Her unilateral decision to cut oil price to the United States of America, was such a shocked to the member states that were left in a state of anarchy, as to how to stabilise the slopping price during the global oil fall of 2014 to 2015 was another threats to her members (krutz, 2012:53).

There is a general disaffection among the member states especially the smaller countries whose quota supply are constantly peg at a particular level even when, there is the desire need to increase national outputs for developmental polices. Some member countries feels they are be held-back by OPEC such country is Nigeria whose offshore production has been gaining momentum, amounting to 900,00 (bpd).

The dramatic production of America shale Oil which hits 70 percent production in 2014 automatically reduced America consumption of OPEC supply up to 50 percent. Besides, America that was ones, the biggest buyers of crude products has recently become the world biggest supplier. This world trends has serious challenge to OPEC monopoly and price stabilization in the world energy market. The quest for energy conservation is another nightmare for OPEC influence and control of the international

economy of oil and gas. All things be equal, and the search for biofuel succeed OPEC dominance will diminish from global economy to a mere economic policies (James, 2013)

International conspiracy of western power against OPEC. In the state of union address of Jimmy Carter, 23th January 1980. addressing the world, categorical expresses the desire of the united states, to protect its interest in the global oil market as quoted "let our position be absolutely clear: An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the entire interest of the United States of America, and such an assault will be repelled by any means necessary including military force" this state of union address was the direct consequence of the Israeli Yom-Kippur war that led the organization of the Arab Petroleum exporting countries placing embargo on western nations for 6 days. And ever since then, the western powers have used all means necessary to undermine the policies and interest of OPEC and they will not rest till OPEC influence is cut down (Barrend, 2009).

Conclusion:

There comes a point in economic integration when pressure builds to take steps toward political integration. One reason this occurs is that it is impossible to reach full economic integration among sovereign states whose domestic and foreign political policies are sometimes in conflict.

OPEC is not having the best of its time right now as some member states are threaten by polices of de-facto influence of few strong ones, who feel they can go contrary to the terms and agreement of the organization chartered. It is therefore in my opinion, that OPEC needs to reorganization it members and harmonise all interested parties otherwise, with the trend of event in the international market members, could pull out to be independent which to some members, they are better off without OPEC internal policies and politics.

Recommendation:

OPEC has no doubt become a formidable cartel in in the energy market across the global however, its need to re-strategies new polices that will accommodate modem challenges as they unfold.

The organization need to accommodate new members who could together with the old members match the turbulence of oil market by using joint effort to control price and stabilization.

It's also need reorientation towards the treatment of her smaller member states. The fear of the unknown pushed those countries to join the organization for protection and now some of them are be maltreated by same organization for policies and politics of interest.

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