



Maximizing oil revenues for OPEC Members, Associated and Observer States

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INTRODUCTION

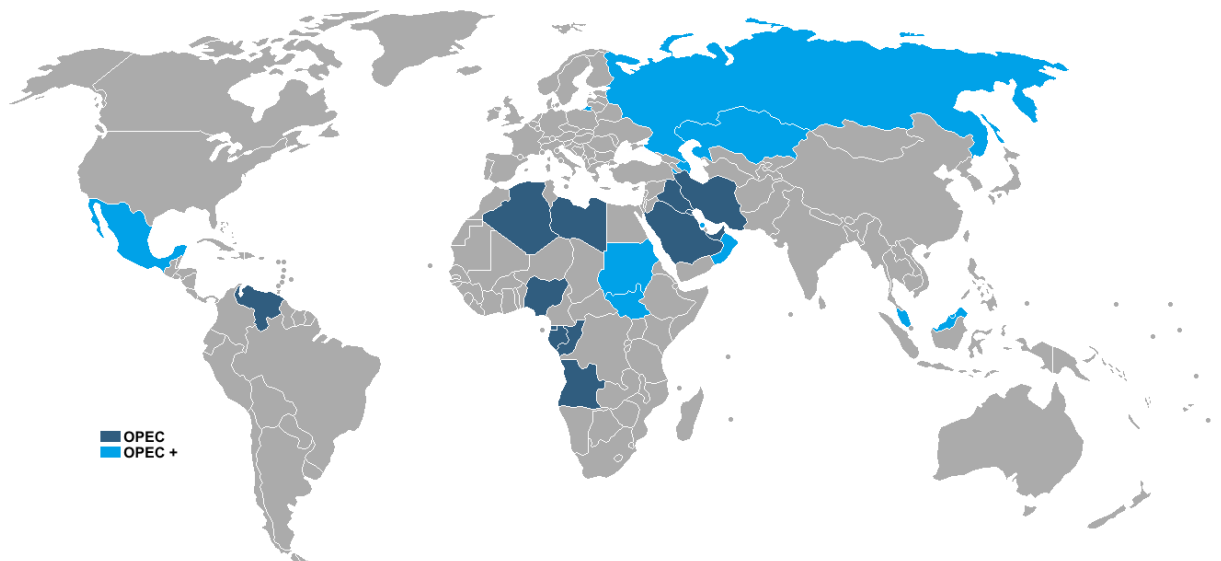
As a global cartel of petroleum enriched nations, the main purpose of the Organization of Petroleum Exporting Countries (OPEC) is to maximize oil prices and enrich its member states. OPEC states meet to coordinate their national oil exports, to keep global prices as high as possible and avoid a price collapse that would hurt them all. Usually this means they agree to limit their exports, to avoid a global *oversupply*, or a glutted market, that would undermine prices per barrel.

In other words, OPEC countries coordinate exports to minimize competition among each

other, as they strive to make the most money they can exporting and selling crude oil (petroleum) to the rest of the world. They seek to create a *perfect cartel*, an organization of suppliers to eliminate free competition in oil prices.

Traditional competition would push down prices, helping buyers, but hurting suppliers. While the rest of world trade is based on free trade, oil is carefully regulated by OPEC. To *petro-states*, a free market would be a disaster, bringing poverty and eliminating their global influence.

OPEC Member States and OPEC+ Members



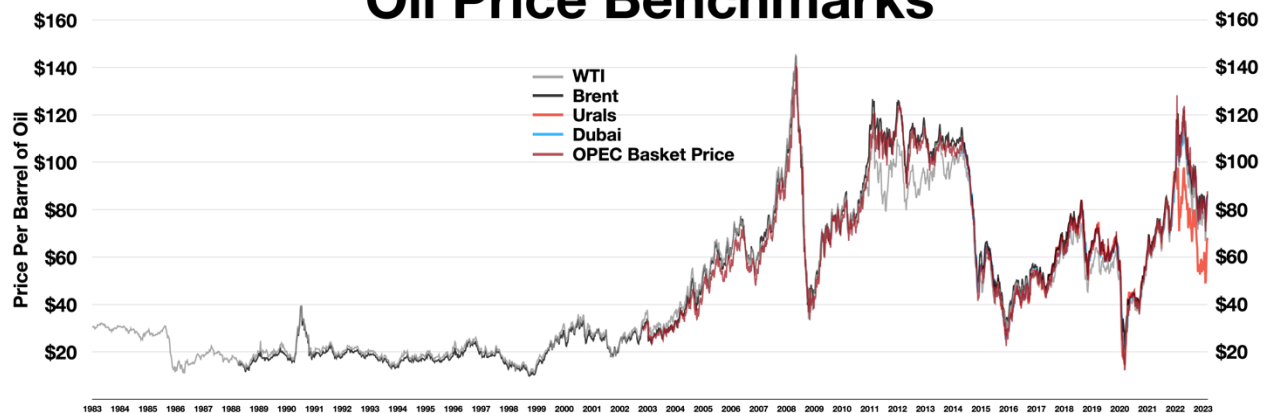
Because petroleum is not rare or restricted, the global supply is generous. If free markets alone set prices, oil would be cheap. By maintaining an artificial shortage, OPEC can keep prices high. The cartel forces them to pay exaggerated prices for an essential raw material. In effect, OPEC helps transfer wealth from the rest of the world, from rich and poor alike, to benefit a couple dozen oil exporters. Most of the world would delight in the collapse of OPEC.

Global oil markets—and OPEC influence—are highly influenced by geopolitical developments and economic events.¹ These variables are wild cards, the unpredictable events that shape global demand and prices. Political events led to piercing changes in oil supply and demand, driving oil price fluctuations and brings forth global economic instability and recessions, as seen with the 1973 Arab oil embargo, the 1980-

88 Iran-Iraq War, the 1990-91 Gulf War, the Asian financial crisis of 1997, the 11 September 2001 attacks, the US invasion of Iraq in 2003, the global financial crisis of 2007-08, the Arab revolutions of 2011, and the Russian invasion of Ukraine in 2022.

OPEC power is based on its oil reserves. According to an Energy Information Agency’s 2021 report, ‘More than 80 percent of the world’s crude oil reserves lie within the boundaries of OPEC countries. Further, OPEC’s oil exports account for roughly 60 percent of the total petroleum traded worldwide.’² When global oil demand is high, and OPEC can keep supply low, prices can increase quickly. For OPEC countries, every oil price increase is a victory. OPEC victories hurt everybody else, the poorest oil important countries worst of all. But that is not a problem for OPEC.

Oil Price Benchmarks



The COVID-19 pandemic and Russia’s War in Ukraine are two current examples of how geopolitical and economic developments impact on OPEC and the world’s oil trade. As a major report noted, ‘The coronavirus has reduced global oil demand by as much as 4 percent or 4.1

million barrels a day in February 2020 for the full year, to one million barrels. As of early April 2021, Brent crude, the most commonly used price benchmark, was trading at USD 30 per barrel.’³ As the world economy recovered from the Coronavirus pandemic and energy use grew

¹ Ganti, A., K. Khartit, and K. Munichello. (2022). ‘How OPEC (and Non-OPEC) Production Affects Oil Prices, p. 1. <https://www.investopedia.com/articles/investing/0122>

[16/how-pec-and-nonpec-production-affects-oil-prices.asp](https://www.investopedia.com/articles/investing/0122).

² Ibid.

³ Arshizadeh, S., et al. (2021). ‘The Impact of COVID-19 on Oil Supply in the Short Term.’ 120.

again, prices increased, rising to USD 75 per barrel for West Texas Intermediate as of 13 December 2023.⁴ For the future, avoiding comparable price drops, maximizing oil revenue, is essential to OPEC, as the world's biggest exception to the global doctrine of free and equal trade.

OPEC strives to keep oil production low and revenues up. Saudi Arabia is the most powerful member, the largest crude oil exporter in the world with the upper hand in determining the direction of oil prices. As Saudi Arabia goes, so goes global oil prices, 'Each time there is a cut in Saudi oil production, there is a sharp rise in oil prices, while an increase in Saudi oil production results in a global drop in oil prices.'⁵

Saudi leadership has support from non-OPEC member states, led by the Russian Federation—which has also become a major driving force to stimulating the direction of worldwide oil prices. Riyadh and Kremlin cooperation sets to regulate efficient oil production/trade within the OPEC and non-OPEC world.⁶



Russian President Vladimir Putin, and Saudi Crown Prince Mohammed bin Salman meet in 2020.

<https://sciengpub.com/adv-j-sci-eng/article/view/advjscieng21022120>.

⁴ Macrotrends. (Accessed 20 December 2023). "Crude Oil Prices Today- Live Chart." *Macrotrends*. 1: <https://www.macrotrends.net/2566/crude-oil-prices-today-live-chart>.

⁵ Ganti, A., K. Khartit, and K. Munichello. *op.cit.*, p. 1.

Saudi Arabia and Russia cooperate to achieve this efficiency through OPEC+. Non-Member States like Russia and Mexico like it because, unlike formal Member States, they have no formal export quotas. All cooperation is completely voluntary. But the effect is much the same. This also diminishes the influence of oil producers completely outside OPEC, exporters like Canada, Guyana and the United States. Since their export firms bargain alone, they have little global influence. It also reduces the bargaining clout of major buyers like China.

This collaboration gives OPEC+, the coordination of Members, Associates and Observers, a higher level of global influence over the global economy than any could achieve alone. According to senior analyst at PVM Oil Associates Tamas Varga, 'OPEC+ controls over 50 percent of global oil supplies.'

Despite this collaboration, major disputes happen, typically over export quantities. Usually, it is small OPEC states that exceed their export quotas to maximize revenue. But the biggies can do the same. After Russia's 24 February 2022 attack on Ukraine, global crude oil prices rose briefly to USD 110 per barrel.⁷ Worried about its situation in the face of Western sanctions, banning purchases of Russian oil, Russia panicked. The Russian government and its oil firms increased production to take advantage of the high price.⁸ Normally, Saudi Arabia, as the world's dominant exporter, would cut its production sharply to maintain the high price. But Saudi leaders refused this time, resentful of Russian self-enrichment and unwilling to lose market share. As a result, the

⁶ Ibid.

⁷ Hamisu, A., B. Shadrach, and N.J Jaimu. (2022). 'Role of OPEC+ on Oil Prices in the Russia-Ukraine Invasion', p. 131. <https://www.j.arabianjbm.com>.

⁸ Ibid, p. 131.



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price of oil fell rapidly to what it had been before.

Background

The largest OPEC countries usually cooperate smoothly. The most common disputes pit OPEC giants against smaller exporters, the Middle East against Africa, rich versus poor. But the giants--Saudi Arabia and Russia--also clash sometimes. An example came on 20 April 2020, when the temporary lack of Riyadh-Moscow coordination resulted in crude oil prices dropping briefly to negative USD 38 (-38) a barrel on the New York Mercantile Exchange. In other words, the glut of oil supply exceeded global demand so much, nobody would buy more at normal prices. Sellers, whether they were OPEC countries or others like Canada and the United States, had to pay to find takers for their production.⁹ This was a brief exception to the usual situation, where OPEC can cooperate effectively to keep prices artificially high.

Formed in 1960, OPEC meets in Vienna, Austria. It began with five Founding Members: Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. In the past OPEC grew to as many as fifteen members, with the lapsed entry of such countries like Ecuador (1973-1992, 2007-2020) Indonesia (1962-2008, Jan-Nov. 2016) and Qatar (1961-2019). Now, its membership is steadily at thirteen, listed as follows below¹⁰, along ten additional Associate Members and Observers.

At ODUMUNC, all states within the OPEC community have equal voting rights at OPEC meetings. Voting follows the OPEC Charter, where each member country has *one vote*. Oil export agreements must garner *unanimous consent* from the cartel.

OPEC itself has no independent power. The organization basically is an organization for coordinating policy among the exporters. They respect the sovereign rights of nations. Neither OPEC or its members can demand full compliance from its Members, Associates, or Observers.

OPEC Member States, Associated Members and Observer States

Algeria
Angola
Azerbaijan
Bahrain
Brunei
Congo, Republic of
Egypt
Equatorial Guinea
Gabon
Iran
Iraq
Kazakhstan
Kuwait
Libya
Malaysia
Mexico
Nigeria
Oman
Russian Federation
Saudi Arabia
South Sudan
Sudan
United Arab Emirates
Venezuela

⁹ Ganti, A., K. Khartit, and K. Munichello. op.cit., p. 1.

¹⁰ Organization of Petroleum Exporting Countries (OPEC). (2023). 'Member Countries', p. 1. <https://www.britannica.com/topic/OPEC>.

This lack of enforcement shows a preference for consensus building. Thus, having shared interests in maximizing overall oil revenue for each of these member countries is key. As previously stated, many challenges compromise OPEC-OPEC+'s ability to cooperate to offset within and out-group clashes.

Yet, in real-life situations it is important to note that while smaller members like Iran, Iraq, Kuwait, and the UAE collectively have larger reserves than Russia or Saudi Arabia, and are financially robust enough to adjust their own oil exports as they wish, the giants have enormous influence. Saudi Arabia is the one member that can cut its exports at will, because its excess capacity is so great. Saudi Arabia has used its muscle to convince smaller members like Kuwait or UAE to scale back their oil production too. It has less success bullying members like Egypt and Iran, which have larger populations and cannot manage without steady revenue.¹¹

Equatorial Guinea is a smaller, poorer OPEC country, and an example of some the problems that come with oil wealth. Under President Teodoro Obiang Nguema, oil wealth has brought political stability and wealth for some. For others, oil power exacerbates poverty and human rights abuses. Foreign oil companies walk a tightrope, and do not dare antagonize the Obiang's government, which can ultimately expel foreign giants like Marathon, Chevron, Saudi Aramco or Russia's GazProm Neft if it feels they pose risks to the government staying in power. OPEC historically pays no attention to the domestic policy of its members.

Equatorial Guinea's oil made it the fourth largest oil producer in Sub-Saharan Africa, behind Angola, Nigeria and Sudan. It became a magnet for foreign investment. Equatorial Guinea's Gross Domestic Product (GDP) per capita is on par with developed world countries like Italy and Spain.¹² Yet, due to government mismanagement and corruption, oil revenues have been used for their personal gain at the expense of providing key social services to the country's population. As a World Bank study found, 'Over 50% of the population lacks access to clean water. Life expectancy decreased between 2000 and 2004. Most of the country's impoverished citizens depend on subsistence agriculture. Also, Equatorial Guinea ranked 120 out of 177 countries on the UN Development Program's 2006 Human Development Index (HDI).'¹³ This has further exacerbated ethnic conflicts. The Bubi and Annobón minorities have been dispossessed and violently persecuted.

Some possible proposals for action

To guarantee that OPEC Members, Associates and Observer countries can maximize their oil revenue to their fullest potential, without having to alienating smaller exporters like Equatorial Guinea (by taking drastic independent actions), or succumbing to full-on non-OPEC member controls to secure greater international efficiency, here are some recommendations for the OPEC Secretariat and OPEC allies to consider when it comes to *petro-diplomacy*.¹⁴

¹¹ OPEC. (2023). 'OPEC: Introduction', p. 1.

¹² Human Rights Watch (HRW). (2009). *Well Oiled: Oil and Human Rights in Equatorial Guinea*, p. 4. <https://www.refworld.org/docid/4a559aa22.html>.

¹³ Freedom House. (2007). *Worst of the Worst 2007 - Equatorial Guinea*. RefWorld, p. 4. <https://www.refworld.org/docid/47387fed0.html>.

¹⁴ Clem, R., and A.P. Maingot. (2011). *Venezuela's Petro-Diplomacy: Hugo Chávez's Foreign Policy*, p. 1. <https://upf.com/book.asp?id=CLEMX001>.

* A term coined by (Clem & Maingot, 2011) to describe positive linkages between petro-industries and cordial diplomatic relations between countries on the international stage. Where foreign policies are established that create favorable oil supply programs



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Below are some possible proposals for action. But OPEC countries have complete freedom to image others.

Declare a new oil embargo: the extraordinary price hikes of 1971-73, culminating in the 1973 global oil export embargo, is what made OPEC a global player. Why not do it again? Many analysts agree that oil prices of USD 300 or 400 per barrel are possible. Because world demand is inelastic, users cannot greatly adjust their oil needs as prices go up. They will have to pay more.

One problem is all exporters have contracts to supply oil at a specific price. A sudden embargo with mean violating their contracts. The loss of good faith would undermine their long-term credibility on world markets. Some suppliers could find it hard to find new contracts because of the sudden distrust. Russia, for example, may not be willing to embargo its new contracts with China. And pro-American countries like Kuwait and the UAE might be unwilling to risk losing their protection by the United States. But others might think such a gamble worthwhile.

Another problem is much higher prices would attract many new oil suppliers. It would make it profitable to extract oil previously too costly to drill for. The predictable results—within a year or two—would be a massive glut of world oil. Prices would crash. But some OPEC states might gamble such swings will work in their favor.

Countries likely to favor: Russia (with exceptions for particular clients like China), Saudi Arabia, and Venezuela.

Countries likely to oppose: Iraq, Kuwait, Mexico, Nigeria, Oman, United Arab Emirates.

Reduce the influence of mega-exporters, especially Russia and Saudi Arabia, and create a

that lead to the maximization of a producer/buyer nation's social well-being.

weighted voting system that favors poorer OPEC states, to ensure fairer distribution of power within OPEC: The dominance of mega-exporters reduces smaller exporters—mostly poorer states in the Middle East, North and Central Africa, and Latin America. The OPEC voting formula, one-state-one vote, is based on national sovereignty alone. It ignores populations and the special needs of poorer OPEC states. An alternative is a weighted voting formula that allows something other than the one-nation-one-vote. Alternatives are basing voting power on population, which would elevate countries like Algeria, Kazakhstan, Mexico and Nigeria. Alternatively, voting could be weighed with extra votes to give more influence to poorer OPEC countries like Equatorial Guinea and Libya.

Countries likely to favor: Algeria, Brunei Darussalam, Equatorial Guinea, Iran, Mexico, Nigeria, Oman, United Arab Emirates.

Countries likely to oppose: Azerbaijan, Iraq, Kuwait, Russia, Saudi Arabia and Venezuela.

Keep OPEC functioning as it is. Many OPEC countries are satisfied with current policies, which allow each state to explore and develop their oil resources independently, with no oversight or influence from OPEC, while the organization only negotiates on exports, setting targets that many OPEC exporting countries ignore. This especially helps the dominant oil exporters, Russia, Saudi Arabia and their allies.

Some OPEC states have revolutionary governments, such as Algeria and Venezuela, and strongly support Moscow. They and others want to maintain Russia's place in OPEC. Friction between Russia and some OPEC states like Kuwait and UAE may continue, but others want to maintain the bipolar Russia-Saudi Arabia alliance at the heart of the organization.

Some like DR Congo and Egypt depend on aid from Saudi Arabia and do not dare antagonize it.

However, with non-OPEC countries like Canada, China, India, Norway, the United Kingdom and United States influencing global crude oil prices more and more, many OPEC states feel growing pressure to re-organization and unify for a better global position to keep oil prices high.¹⁵ These OPEC states worry that continuing ineptness will impoverish all of them the poorest OPEC states especially. They want reorganization to reduce the dominance of Russia and Saudi Arabia, and elevate their own influence.

Countries likely to favor: Algeria, Brunei Darussalam, DR Congo, Egypt, Equatorial Guinea, Russia, Saudi Arabia, Venezuela.

Countries likely to oppose: Iran, Kuwait, Mexico, Nigeria, United Arab Emirates.

Shift Middle Eastern primacy within OPEC to raise the influence of African, Asian and Latin American states: While two-thirds of the world's petroleum is located in the Middle East, most Members, Associates and Observers are in other regions.¹⁶ OPEC could expand its membership, by attracting more non-Middle Eastern countries. OPEC can either reinstall former members like Ecuador and Indonesia, or add completely new ones like Brazil and Ghana.

Countries likely to favor: Ghana, Iran, Sudan, Turkmenistan, and Venezuela

Countries likely to oppose: Azerbaijan, Kazakhstan, Oman, Kuwait and Saudi Arabia.

Create a new system of technical help and loans to help poorer OPEC states invest more in oil exploration, drilling and refining. To help its poorer members, OPEC could create and

investment institutions, like the World Bank in Washington, DC, to support oil-related infrastructure development. This would be very popular with the smaller and poorer OPEC countries. Wealthier countries can be expected to be skeptical about increasing competition and accelerating a global oil glut. But they might fund such a fund hard to oppose completely. Specific issues to be resolved:

- A new banking institution to collect and distribute investment funds
- Criteria for contributions for wealthier members, and rules on their ability to control how the money is invested.
- Criteria for deciding which countries benefit.
- Rules on how exploration, drilling and refining fund can be spent.

Conclusion

OPEC faces many key challenges as it strives to maximize oil revenues for all OPEC states. Can OPEC raise prices in the long term without attracting new rival suppliers, which would lower prices? The capacity of non-OPEC members to drive a wrench between OPEC states to influence international oil prices and revenue is not so definitive, yet it is important for these states to be wary of their interventions.

To ensure sustainable growth of oil revenue among its members, OPEC must make sure that its most obstructive members comply with the export limits set by OPEC. Weaker members may want to band together to overcome the dominance of stronger members. But if they undermine leadership, will there be a replacement? How can OPEC countries make the most of the lucky endowments from nature that gave them huge advantages over other countries?

¹⁵ Ganti, A., K. Khartit, and K. Munichiello. *op.cit.*, p. 1.

¹⁶ Ibid.



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