8 Divergence in Petroleum Policies

Every petroleum producing country in the Middle East is deeply concerned with the fact that petroleum is a diminishing resource. They are equally aware that petroleum is more or less the only natural resource they have. Therefore, it goes without saying that the first and biggest economic preoccupation for the producers consists of the value of their petroleum reserves, and how to extract the highest possible price for them and conserve them for as long as possible. A standard producer rhetoric has always spoken of managing the national asset as ‘a trust for the generations yet unborn’.

These issues are matched by an equally obsessive concern with petroleum income that accounts for nearly all revenues and all but a fraction of the countries’ foreign exchange receipts, although many producers have been trying to diversify their sources of income from non-petroleum sectors. In 1995, and according to OPEC statistics, petroleum exports were still representing 81.4 per cent of the total value of exports in Iran, 93.7 per cent in Kuwait, and 84.7 per cent in Saudi Arabia. Future evolution of the economic situation in petroleum producing and exporting countries thus remains largely dependent on petroleum prices.

At the same time, however, Middle Eastern producers, especially in the GCC, have been pursuing a policy that can only make diversification of income sources more difficult and put off the day when their economies might be self-sufficient without petroleum revenues. This policy has consisted of the wholesale enrichment of their own citizens. But the richer the populations become, the more dependent they are on a high petroleum income to maintain the standard of living to which they have made themselves accustomed. One might say that petroleum producers have set themselves the almost impossible task of not only diversifying the sources of revenue, but diversifying while maintaining their populations as some of the richest in the world.

With that in mind, petroleum policy, and especially the issue of price (and revenues), becomes critical. In an attempt to consolidate a strong petroleum policy and to co-ordinate with other producers in form of an international cartel, governments of petroleum producing countries in the region together with few from other areas established the Organisation of Petroleum Exporting Countries (OPEC) in September 1960 (see Box 8.1).
Box 8.1 The Structure of OPEC and OAPEC

OPEC Structure

For the Organisation of Petroleum Exporting Countries (OPEC), supreme authority is vested in the Conference that consists of the heads of delegation of member countries, usually the ministers of oil or energy. The Conference, which meets at least twice a year at a venue of its own choosing, and operates on the principle of unanimity, is responsible for the formulation and implementation of the Organisation's policy. It also decides on applications for membership, and on recommendations made by the Board of Governors on the affairs of the Organisation. The Conference approves the appointment of the OPEC governor for each member country, elects the chairman of the Board of Governors, appoints the Secretary General and the Deputy Secretary General, and decides on the Organisation's budget, as submitted by the Board of Governors.

The effective management of the Organisation is carried out by the Board of Governors, each of whose members is appointed for a period of two years, but can be reappointed. It is the Board that implements the resolutions of the Conference, approves the annual budget, decides on reports submitted by the Secretary General, and ensures the proper and timely preparation of reports and recommendations to the Conference.

The Secretariat (in Vienna, Austria, with around 250 staff) carries out the executive functions of the Organisation in accordance with the provisions of the OPEC statute and under the direction of the Board of Governors. It provides the Conference with support facilities of various kinds, and carries out research into energy, economics and finance; prepares reports and statistics; provides information on the Organisation and its activities in the shape of publications, and organises seminars, briefings and lectures. The Secretariat is financed by member countries, each paying the same amount of contribution irrespective of its size or oil production.

The chief executive of the OPEC Secretariat is the Secretary General, who is the legally authorised representative of the Organisation. He can delegate some of his authority to the Deputy Secretary General. The Secretary General is appointed, either on merit or by rotation, by the Conference. If on merit, he is appointed for a period of three years, which term may be renewed once for the same period. The appointment is made on nomination by member countries and based on the qualifications, experience and background of the nominee. If by rotation, the Secretary General is appointed alphabetically, for a term of two years, without prejudice to the required qualifications.

The Secretary General is assisted in the discharge of his duties by the Deputy Secretary General, who is appointed by the Conference for a term of three years, which term may be extended for a period of one year or more on the recommendation of the Board of Governors. The Deputy Secretary General is responsible to the Secretary General for the co-ordination of the research and administrative activities of the Secretariat.