**Oil: Key Figures**

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|---|
| World production | | | | | | | | | |
| In million metric tons | 2,888 | 2,896 | 2,752 | 2,979 | 3,093 | 3,124 | 3,229 | 3,059 | 2,859 |
| In mbd[a] | 58 | 58.2 | 55.3 | 59.8 | 62.1 | 62.7 | 64.6 | 62.5 | 58.5 |
| *Production in mbd* | | | | | | | | | |
| OECD | | 11.1 | 11.5 | 11.5 | 12.1 | 13.6 | 14.2 | 14.1 | 15.0 |
| USSR | 8.6 | 9.2 | 9.8 | 10.4 | 10.9 | 11.6 | 11.5 | 11.7 | 12.1 |
| OPEC | 31.0 | 30.7 | 27.2 | 30.6 | 31.4 | 29.9 | 30.8 | 27.1 | 22.5 |
| World Consumption | | | | | | | | | |
| In million metric tons | 2,733 | 2,730 | 2,700 | 2,881 | 2,981 | 3,083 | 3,121 | 3,001 | 2,868 |
| In mbd | 54.9 | 54.8 | 54.2 | 57.9 | 59.9 | 61.9 | 62.7 | 60.3 | 57.6 |
| *Consumption in mbd* | | | | | | | | | |
| OECD | 39.2 | 37.3 | 36.5 | 38.9 | 37.7 | 40.8 | 40.9 | 37.7 | — |
| Communist countries[b] | 8.6 | 9.4 | 10.1 | 10.7 | 11.5 | 12.1 | 12.7 | 12.9 | 12.7 |
| OPEC | 1.0 | 1.1 | 1.3 | 1.6 | 1.8 | 2.0 | 2.2 | 2.3 | — |
| Non-oil developing countries | — | — | — | — | — | 5.1 | 5.3 | 5.1 | — |

a. Conversion factor: 49.80 million metric tons = 1 mbd.

b. Eastern Europe, the USSR, and China.

*Sources: Pétrole 1981,* Comité Professionel du Pétrole; *OECD Economic Outlook; IEA Energy Balances of OECD Countries, 1975–79,* 1981 edition: and *Petroleum Economist.*

alized countries cut back their oil consumption in 1980 and 1981 by 7.5 percent and 5 percent respectively. This reflects, in proportions that are hard to determine, not only the effect of economic stagnation but also major energy conservation efforts. At the same time, the industrialized countries intensified their oil exploration activities not only in North American offshore areas but also in several non-OPEC developing countries. With the high price levels, it was possible to bring fields into production that had hitherto been economically unviable.

With a production increase in the rest of the noncommunist world of 1 million barrels of oil per day (mbd), the OPEC countries saw the demand for their oil dwindle from 30.8 mbd in 1979 to an average of 22.5 mbd in 1981. The market share still held by OPEC (around 54 percent in 1981) is still important but demand for OPEC oil may not exceed 30 mbd between now and the year 2000 (whereas the 1979 production was 30.9 mbd), even allowing for the rise in domestic consumption requirements of the producer countries, which is likely to increase from 2.3 mbd in 1980 to 7 mbd by the year 2000.

## *1979–80: The oil price increases the Saudis did not want*

OPEC is too often regarded as a cartel, whereas it is formed of member countries whose long-term policies may diverge depending on their level of economic and social development and their concern with preserving for future generations a large proportion of their reserves. Short-term policies also diverge, depending on the country's financial needs, strategic situation, and external pressures. It is worth remembering the discussions within OPEC ranks that accompanied the second oil shock and its aftermath.

In 1979 the OPEC hard-liners were able to impose numerous price rises by taking advantage of a tight market. In 1980 and 1981, however, Saudi Arabia, which alone produces over 40 percent of the organization's oil, intended to limit

**Oil Production in OPEC Countries**
(million barrels per day)

| | 1974 | 1975 | 1977 | 1978 | 1979 | 1980 | 1981 | Upper Limits April 1982 |
|---|---|---|---|---|---|---|---|---|
| Total | (30.682) | (27.217) | (31.446) | (29.881) | (30.786) | (27.148) | (22.490) | (17.500) |
| Saudi Arabia | 8.480 | 7.075 | 9.200 | 8.301 | 9.526 | 9.954 | 9.811 | 7.000 |
| Iran | 6.057 | 5.385 | 5.699 | 5.234 | 3.057 | 1.547 | 1.315 | 1.200 |
| Kuwait | 2.548 | 2.085 | 1.973 | 2.097 | 2.496 | 1.658 | 1.201 | 800 |
| Iraq | 1.865 | 2.248 | 2.493 | 2.629 | 3.431 | 2.708 | 897 | 1.200 |
| U.A.E. | 1.679 | 1.695 | 2.014 | 1.832 | 1.831 | 1.709 | 1.124 | 1.000 |
| Lybia | 1.509 | 1.510 | 2.077 | 1.977 | 2.064 | 1.793 | 1.117 | 750 |
| Nigeria | 2.254 | 1.786 | 2.097 | 1.908 | 2.304 | 2.066 | 1.444 | 300 |
| Venezuela | 2.976 | 2.343 | 2.238 | 2.165 | 2.356 | 2.166 | 2.101 | 1.500 |
| Indonesia | 1.375 | 1.319 | 1.686 | 1.637 | 1.593 | 1.581 | 1.603 | 1.300 |

*Source:* Petroleum Economist, Petroleum Intelligence Weekly.

price rises and make them more predictable to discourage the development of substitute energy sources. The explicit goal was to apply OPEC's long-term strategy, developed under the leadership of Sheik Yamani and for which a coherent price structure within the organization would have been an essential prerequisite. Yet, at the OPEC meeting of March 1979, the organization's members had been authorized to employ surcharges depending on the level of spot-market prices: this led to the breakdown of the price scale.

During the summer of 1980, 4.4 mbd were sold under contract at prices from $1 to $9 higher than the official sale prices which already incorporated a differential of up to $6 by comparison with Arabian Light[2] in some cases. The Saudis accordingly caused a market glut, which they then exploited to curtail the amount of premiums and realign the price of the OPEC reference barrel with the price of Arabian Light. In this task, the Saudis were aided by the fact that Iraq, traditionally among the toughest of the hardliners, was induced to moderation by Saudi prodigality, allowed by overproduction.

Three times, in December 1979($6) and subsequently in February and May 1980 ($2), Saudi Arabia tried to consolidate the OPEC price structure by readjusting the price of its crude upward. Three times this attempt resulted in a general price rise, in spite of an increasingly bearish spot market.

In addition to these failures, in May 1980, the price formula for the long-term strategy was rejected at Taif. Iran (whose production had declined from 1.9 mbd to 1.3 mbd following the rejection of the latest price rise by the European and Japanese oil companies), was joined in its extreme opposition by Libya and Algeria, who no doubt gave voice to the unexpressed hesitations of other producers such as Kuwait.

Consequently, Saudi Arabia was forced to take a tougher stand. At the Algiers meeting of June 1980, Riyadh managed to obtain a price ceiling of $32 for the various reference barrels on the basis of which the exporting countries calculate their official price. Arabian Light, the former OPEC reference barrel, remained at $28. Concerning the so-called proximity or quality premiums that may be added to the official prices, a limit of $5 was fixed. Throughout the summer, as a result of increased production by Saudi Arabia and Iraq over the previous eighteen months, supply exceeded demand by 2 to 3 mbd. The pressure placed on the official prices by the spot market enabled the Saudis to obtain, at the Vienna conference in September, a fixed price of $30 for the reference barrel for all other crudes until the end of the year.