

# OPEC Keeps Prices High, But Remains Caught in Mideast Politics

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## Brief Analysis

Last week's meeting of the Organization of Petroleum Exporting Countries (OPEC) revealed at once the new power of the organization to manage world oil prices, as well as the fault lines that could undermine the group's current consensus.

### Maintaining Discipline Keeps Prices High

By maintaining the production cuts that the Saudis and Iranians orchestrated in March 1999, OPEC members showed the world that their recent cooperation was not a fluke. Prices responded by touching a high of about \$25 per barrel, solidifying the recovery that has sharply improved oil producers' short-term economic situation.

Although not as powerful as in its heyday during the 1970s, OPEC is temporarily back in the driver's seat of the world oil market after a period of near irrelevance in the 1980s and early 1990s. This turnaround was clinched after the March 1999 Vienna meeting, when the Saudis abandoned their production floor of 8 million barrels per day (mbd) and convinced the Iranians to accept substantial cuts as well. Other OPEC members went along with the deal, and the price of oil quickly returned from lows of less than \$10 per barrel to more than \$20, staying at or above that level ever since.

Last week's agreement not to increase production confirmed the group's new-found discipline. In years past, OPEC had difficulty sustaining observance of quotas: When prices collapsed, OPEC members would cut back production, but when prices recovered, the temptation to cheat proved overwhelming. This time, despite the higher prices, OPEC members are observing the quotas quite well. Another factor in world oil supply is Iraq. In 1998, with the United Nations-approved oil-for-food program, Iraq's output rose quickly to 2.2 mbd from 1.2 mbd in 1997; the production by other OPEC members stayed flat at 28.5 mbd during that period. But by mid-1999, Iraqi production reached the country's capacity of about 3.0 mbd, so production will now grow only slowly. Furthermore, demand for oil is rising thanks to recovering economies in developing Asia and strong growth in the industrialized countries. The outlook is that oil prices will rise in the next few months as inventories dry up and winter approaches in the industrialized countries.

### Disputes Surface and Deadlock Ensues

At the same time, however, a contentious internal squabble erupted over the election of the OPEC secretary general for the next six-year term. At once, old hatreds appeared and deadlock quickly set in. Unable to reach an agreement, the decision as to who will hold the organization's top post has been postponed for at least six more months. This episode reveals how tenuous the current atmosphere of cooperation really is, and reminds observers that regional infighting could paralyze the group at any moment.

In the months before the OPEC meeting, all members but Iran and Iraq had backed the Saudi candidate for secretary general, Suleiman al-Herbish. In particular, the Algerians withdrew their nominee and threw their support behind the Saudis. In addition to having the world's largest oil reserves and being the world's biggest producer and exporter

of crude, the Saudis had not held the post for over thirty years. Moreover, the Saudis had played a major role in orchestrating last spring's production cuts which reinvigorated OPEC.

The Iranians were the first to throw a wrench into the Saudi plan by nominating their own OPEC governor, Kazempour Ardibili. By doing so, the government of Muhammad Khatami was depriving the Islamic Republic's domestic hardliners of ammunition, as the latter group generally accuses the government of kowtowing to the Saudis. As OPEC requires unanimous consensus in the election of secretary general, the meeting was transformed into a marathon race to agree on a candidate and to avoid undermining the newly found respect that OPEC has gained on the international stage. In the end, the partnership the Saudis and Iranians have established over the past two years provided the foundation for a compromise: The Iranians proposed that the two countries share the six-year appointment by each taking a three-year stint. The Saudis tacitly agreed to such an arrangement, as long as their nominee held the post for the first three years.

Although this proposal had wide support and would have salvaged the election, vehement opposition arose from Kuwait and the United Arab Emirates. This hostility was based not on the particular qualifications of the candidates, but on long-held antagonisms toward the Iranians.

If this problem were not enough, the Iraqis dropped their support of the Saudi candidate on Tuesday and instead nominated to the post Abdel-Amir al-Anbari, their former ambassador to the United Nations Educational, Scientific, and Cultural Organization (UNESCO).

That the Iraqis would antagonize the Saudis is surprising given that, in recent months, the Saudis have made several moves toward appeasing the Iraqis. First, in the beginning of the summer, the Saudi interior minister invited Iraq to a regional conference of Arab law enforcement agencies; Iraq sent its minister of justice. Second, the Saudis supported Iraq's participation in the Pan-Arab games in Jordan in August (Saudi Arabia also footed half of the bill for the games). And finally, last week, at the Arab Foreign Ministers Conference in Cairo, the Saudis relaxed some of their objections to lifting UN sanctions against Iraq. Despite these moves, the Iraqis withheld their support for the Saudi candidate. As it turned out, the opposition of Kuwait and the UAE sank the process before the Iraqi nomination had a chance to get anywhere. Nevertheless, the Iraqi action shows the difficulty that any party would have had gaining a consensus.

The election was stopped dead in its tracks, and the council was left with no choice but to postpone the issue until the head of state meeting planned for March 2000 in Caracas.

The squabble highlighted the fact that OPEC is still a prisoner of Middle Eastern politics. Despite its resources, experience, and power, Saudi Arabia was unable to construct a consensus. The Saudis have been able to build a partnership with the Iranians, but that has created complications with the other Gulf states. Unraveling the current deadlock in OPEC will not be easy. In fact, it will provide perhaps the most significant test of the new Saudi leadership so far. But if the kingdom's success in the recent past is any indication, there is a strong expectation that, irrespective of periodic squabbling, OPEC will be able to find a basis for cooperation--at least on prices. Certainly the short-term outlook is that prices will continue to be firm.

Nawaf Obaid is a former visiting fellow at The Washington Institute.

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