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OPEC Handbook

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A Reference Aid

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GI 86-10004
March 1986

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OPEC Handbook

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This paper was prepared by [redacted] Office of Global Issues, with contributions from the Office of Central Reference and the Office of Current Production and Analytic Support.

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Comment and queries are welcome and may be directed to the Chief, Strategic Resources Division, OGI,

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OPEC Handbook

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Preface

The OPEC Handbook (GI 86-10004) covers the history of OPEC, its individual members, and its national oil companies,

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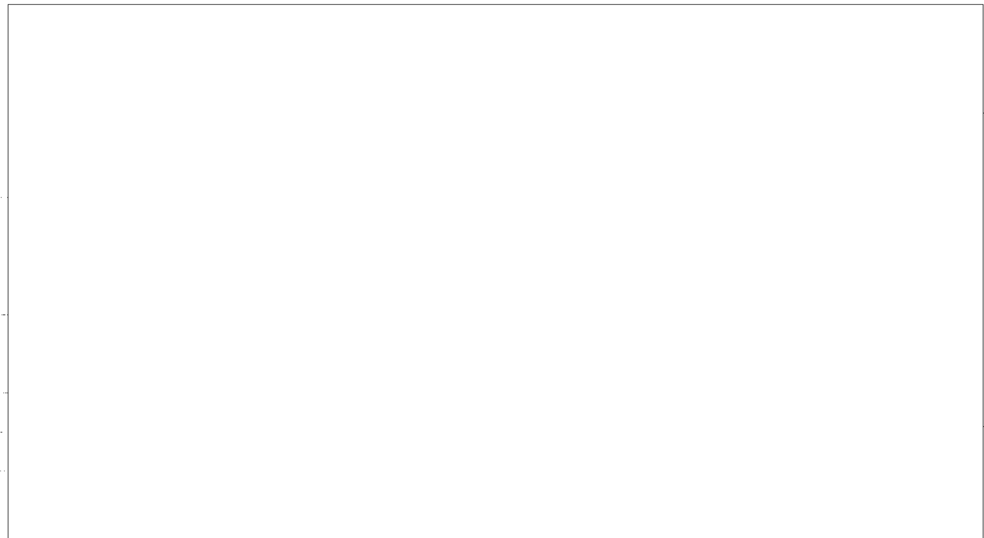

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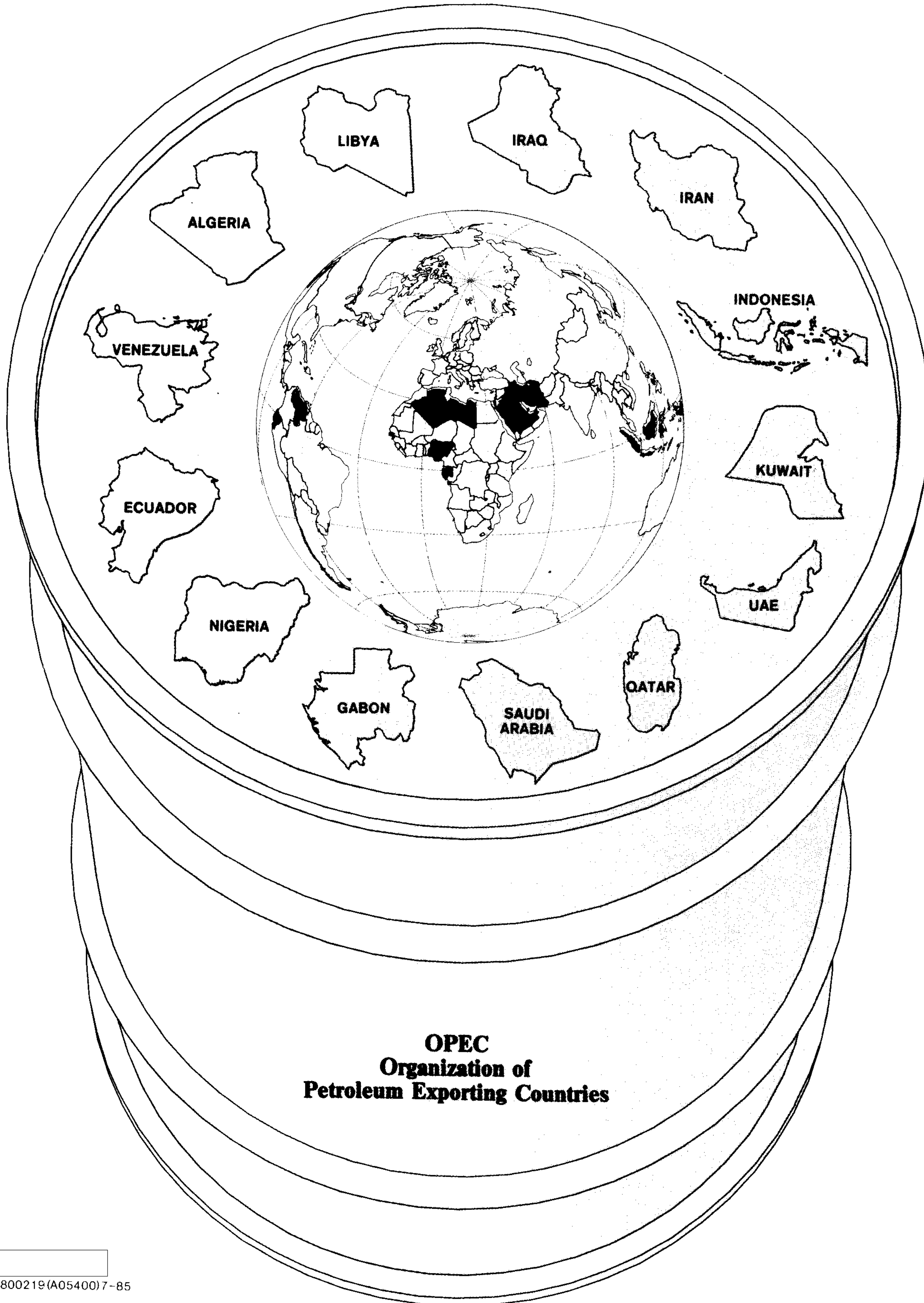

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I. OPEC: Origins and Evolution

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I. OPEC: Origins and Evolution

The 1960s

The Organization of Petroleum Exporting Countries (OPEC) was created mainly to stem unilateral price cuts by the major oil companies. Increased competition from smaller, independent companies that discounted prices at a time of surplus productive capacity forced the major oil companies to lower prices in February 1959 and again in August 1960 to preserve market share. Declining world oil prices caused a serious loss of revenue for oil-producing countries.

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To gain greater control over this situation, representatives of Saudi Arabia, Iran, Iraq, Kuwait, and Venezuela met in Baghdad in September 1960 to form OPEC. The principal objective of the organization, as stated in the charter, was "the unification of the petroleum policies of the member countries and the determination of the best means of safeguarding their interests." Recognizing their dependence on oil revenues to finance development programs, the founders concentrated on the administration of oil prices. They demanded that the oil companies maintain stable prices and consult with them before adjusting prices. In addition, the OPEC members agreed in principle to devise a system of production controls for stabilizing oil prices.

As membership grew, OPEC began to pressure the oil companies for greater control over pricing and production. It increased royalties and tax rates, and reduced marketing allowances. OPEC's initial objective of stabilizing crude oil prices eventually gave way to demanding higher crude oil prices. In so doing, the OPEC members argued that the price of oil should reflect the value of an exhaustible resource—not just the costs of production and transportation. They also maintained that the ability to keep world oil prices and revenues high could best be achieved by a strong international cartel rather than a competitive market.

In addition to assuming greater control over prices, OPEC vigorously expanded control over the management of oil, urging members to transfer the decision-making power that foreign companies exercised over their oil operations to the governments of the producing countries. A large part of this transfer was accomplished in the 1960s and early 1970s. The most radical method of transferring power was nationalization, which ended or reduced the role of the concessionaire companies. Several OPEC members—Iran, Iraq, Kuwait, Libya, Algeria, and Venezuela—chose this route, while others such as Saudi Arabia and Indonesia preferred a more gradual approach—to participate in the operations of the oil companies and receive a share of their output. Even in OPEC countries where the foreign oil companies still operate, companies have lost the power to set production levels, to determine productive capacity, and to decide

OPEC Members

Date of Membership	*Country*
September 1960	*Iran*
	Iraq
	Kuwait
	Saudi Arabia
	Venezuela
January 1961	*Qatar*
April 1962	*Indonesia*
	Libya
November 1967	*Abu Dhabi*
July 1969	*Algeria*
July 1971	*Nigeria*
November 1973	*Ecuador*
June 1975	*Gabon*

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Table 1
OPEC at a Glance, 1970-84

	1970	1971	1972	1973	1974	1975	1976	1977
OPEC available capacity (*thousand b/d*)	28,065	30,055	31,875	33,480	33,680	33,680	33,915	34,770
Crude oil production (*thousand b/d*)	23,413.2	25,326.3	27,094.4	30,988.5	30,729.2	27,155.0	30,737.7	31,253.4
Natural gas production [b] (*million cubic meters/d*)	175,453	198,402	215,142	252,229	250,553	222,219	254,555	271,411
NGL production (*thousand b/d*)	185	224	271	357	371	388	498	520
Crude oil and products exports (*thousand b/d*)	20,139.9	23,474.8	24,942.4	28,579.5	27,963.5	25,085.2	28,714.3	28,708.9
Natural gas exports (*million cubic meters/d*)	2,396	7,005	12,118	13,806	14,611	16,317	18,108	19,354
Domestic oil consumption (*thousand b/d*)	1,165.5	1,276.4	1,336.4	1,603.2	1,682.0	1,707.1	1,959.8	2,213.6
Crude oil reserves (*million barrels*)	391,750	431,900	425,251	463,623	421,815	484,970	449,870	440,395
Average crude oil price (*US $/barrel*)	1.94	2.42	2.76	3.65	11.28	11.02	11.77	12.88

when and where to engage in exploration. As a result, the foreign oil companies assumed the role of oil buyers, contractors, and technical consultants. 25X1

The Arab Oil Embargo
As the oil market began to tighten in the late 1960s and early 1970s, several OPEC members followed Libya in negotiating higher oil prices with the companies operating in their countries. In 1971, for example, the six Persian Gulf producers, meeting in Tehran, agreed with the companies to raise crude oil prices to $2.18 per barrel and pressed the companies to make modest annual price increases over the next five years.

The Arab-Israeli war in October 1973 set the stage for OPEC to emerge from a loose conglomeration of countries into a strong, cohesive organization. On 16 October, two weeks after the start of the war, the Persian Gulf members of OPEC met in Kuwait and declared that posted prices would be determined by the producing countries rather than through negotiation with foreign oil companies. The Gulf members agreed to raise the posted price of Saudi Light to $5.12 per barrel, an action soon accepted by the other OPEC members. The following day, several Arab members of OPEC embargoed crude oil exports to the United States and the Netherlands and selectively cut production. 25X1

These price increases, coupled with the psychological shock of the initial oil price jump, drove up consumer and industrial prices. As inflation eroded the purchasing power of the dollar—the unit for crude oil payment—a new factor was introduced into OPEC's pricing strategy by the end of 1973. No longer content with maintaining nominal prices, some OPEC members advocated maintaining real oil prices as a hedge against inflation in Western industrialized countries. At the December meeting in Tehran, Iran argued for an increase in crude oil prices to offset higher priced manufactured goods imported from industrial countries and to increase earnings to meet domestic development needs. As a result, OPEC raised posted oil prices to $11.65 per barrel—more than double the October 1973 price. 25X1

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The Mid-1970s: Saudi Moderation
Saudi Arabia, however, preferred to freeze prices to maintain long-term markets and protect the value of earnings and investments. In the spring of 1974, the

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Table 1 (continued)

	1978	1979	1980	1981	1982	1983	1984 [a]
OPEC available capacity (*thousand b/d*)	34,425	31,955	30,930	29,650	28,430	28,035	27,035
Crude oil production (*thousand b/d*)	29,805.3	30,928.8	27,073.1	22,663.8	19,004.2	17,735.8	17,764.0
Natural gas production [b] (*million cubic meters/d*)	271,127	305,248	273,012	264,545	264,833	268,263	276,310
NGL production (*thousand b/d*)	570	732	843	966	1,006	1,036	1,100
Crude oil and products exports (*thousand b/d*)	26,938.9	27,567.4	22,904.5	18,626.1	14,202.8	12,653.3	12,650.0
Natural gas exports (*million cubic meters/d*)	23,827	29,124	22,976	22,734	26,417	35,567	35,700
Domestic oil consumption (*thousand b/d*)	2,415.9	2,587.2	2,860.3	2,986.7	3,250.0	3,460.7	3,539.0
Crude oil reserves (*million barrels*)	439,915	444,936	435,591	434,355	436,500	445,157	448,420
Average crude oil price (*US $/barrel*)	12.93	18.67	30.87	34.50	33.63	29.31	28.70

[a] Estimated.
[b] Includes gas flared, reinjected, or vented.

Sources: OPEC Statistical Bulletins, Oil and Gas Journal, OECD Oil and Gas Statistics, and CIA estimates.

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Saudis publicly stated that the price of oil was too high and threatened an oil auction whereby companies would be allowed to bid down the price of a certain volume of Saudi output. The Saudis—probably unwilling to risk political isolation and jeopardize OPEC solidarity—failed to carry out their threat and, retroactively, raised prices to stay in line with the rest of OPEC.

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In the fall of 1975, Saudi Arabia again fought and won a major battle to confine the October price increase to 10 percent. The opposition—led by Iran, Venezuela, and Algeria—argued strongly for a 15-percent hike to compensate for inflation. The price hawks capitulated with the understanding that prices would remain fixed for only nine months—until June 1976. In effect, prices remained frozen until December 1976 largely because of Riyadh's promise to go along with a substantial price rise in 1977 if conditions warranted.

Some months before the December 1976 meeting, the Saudis promised the oil ministers of Iran, Venezuela, and Algeria that Riyadh would support a price increase of 10 percent and not veto an increase of 15 percent. Sharply rising oil demand and indications that the industrialized West was recovering from the recession probably contributed to Saudi backing of a price increase. By early November 1976, however, the Saudis decided to break with the OPEC majority to support a price increase of not more than 5 percent and to veto any increase above 10 percent. This reversal—which was not made known to the other OPEC members until immediately before the December meeting —was probably the result of Saudi concern over the pace of Western economic recovery. By early December, the Saudis changed their position again, indicating they would veto any price increase.

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Failing at the meeting to convince the price hawks to hold the line on prices, Saudi Arabia, joined by the UAE, broke with the other members, causing the first major split in OPEC since the organization was created. While the price hawks agreed to a 10-percent increase to be followed by an additional 5-percent increase in July 1977, Saudi Arabia and the UAE agreed to only a 5-percent rise, with Arab Light rising to $12.09 per barrel.

Following the meeting, the Saudis tried to resolve the pricing schism quickly by ordering an immediate increase in their lower priced output, which they hoped would dampen demand for higher priced crudes produced by the other 12 OPEC members and weaken their ability to keep prices high. The Saudis also hoped that the West would draw down stocks—built up by the oil companies in anticipation of a December OPEC price increase—to meet consumption needs during the first quarter of 1977. Physical constraints encountered in raising output to the level desired, in addition to abnormally cold weather in the United States and Europe, thwarted Riyadh's plans to break the price. The Saudis agreed to a price compromise. They decided to raise prices an additional 5 percent in exchange for agreement from the other OPEC members to forgo the 5-percent increase scheduled for July and to freeze prices for the remainder of 1977. This compromise—which ended the six-month, two-tier price structure—was ratified by OPEC at its July 1977 meeting in Stockholm. Prices stood at $13.30 per barrel for the benchmark.

Riyadh's efforts to hold OPEC to a price freeze at least part way into 1978 were supported by Tehran, which in the past led the movement for higher prices. Other members—Venezuela, Iraq, Libya, Algeria, and Nigeria—pushed for a price increase of about 5 percent. Soft oil market conditions during the first half of 1978 and the Saudis' willingness to restrict production to allow increased output by other OPEC members whose revenues had begun to shrink because of slack demand assured an OPEC price freeze through 1978.

The Iranian Revolution

As the market tightened during the fourth quarter of 1978 with the Islamic revolution and the subsequent cutoff of Iranian oil exports, Algeria, Libya, and Nigeria pushed for a price increase. OPEC, at its meeting in Abu Dhabi in December, established a series of quarterly price increases for 1979. First-quarter prices were set at 5 percent above fourth-quarter 1978 levels—raising the OPEC benchmark price to $13.34—to be followed by quarterly increases of 2 to 3 percent, yielding a total price hike of 14.5 percent by yearend 1979.

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Although the Saudis indicated in early January that they would produce at capacity as long as possible to minimize the effects of the Iranian cutoff, Riyadh announced later that month that it would apply fourth-quarter 1979 prices to the extra 1 million b/d produced over the Saudi official output ceiling of 8.5 million b/d—set in 1974. In the second quarter the Saudis, despite spiraling spot market prices, announced a 1-million-b/d production cut to 8.5 million b/d, to allow the resumption of Iranian crude exports. OPEC members took advantage of the chaotic market conditions by adding surcharges of $4 to $6 per barrel, perpetuating a multitiered pricing structure.

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Although the resumption of Iranian exports helped stabilize the market and, in some cases, reduced spot prices, most OPEC members did not intend to rescind the surcharges already applied. As a result, at its March 1979 meeting, OPEC agreed to raise the benchmark to $14.54 per barrel—six months ahead of schedule—and allow members to add additional surcharges. By June, most OPEC members favored raising prices again. Despite public statements that it would make any effort to hold prices to at most $17.50 per barrel and might consider limiting its own price increase, risking a two-tier pricing system, Riyadh decided to go along with the other members. As a result, the Saudis agreed to support the OPEC decision in June 1979 to raise prices to $18 per barrel and allow members to add surcharges.

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During 1979, strong demand, fueled mainly by consumption growth in Western Europe and Japan and widespread stock building because of uncertainty over future supply, exerted continuous upward pressure on

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prices. Escalating spot prices and price increases by such non-OPEC producers as Mexico, Egypt, and the United Kingdom indicated market support for additional hikes. Near the end of the year, many OPEC members that had been unilaterally raising prices—some charged as much as $26 per barrel—sought to take advantage of these pressures and pushed for a substantial increase in crude oil prices at the December meeting in Caracas. Even the Saudis, whose prices were still pegged to an $18 benchmark, agreed to raise the benchmark to $24. The Saudis refused, however, to agree to a higher benchmark unless the other members committed themselves to a rigid set of price differentials that would limit the price of high-quality crudes to $29 per barrel. Price hawks, led by Iran and Libya, rejected the compromise and as a result OPEC failed to unify prices, leaving most producers at a $27 benchmark, as compared with the $24 Saudi price.

The Early 1980s

Despite repeated attempts, OPEC failed to establish an orderly oil price system in 1980. The arrangements hammered out in June—allowing the benchmark price to range from $28 to $32 per barrel—and in September—raising the benchmark base to $30—left OPEC's price structure in disarray because the organization continued to allow different prices to be charged for comparable quality crudes and allowed the differential between light and heavy crudes to widen. OPEC's efforts to unify prices were probably complicated by the initiation of hostilities between Iran and Iraq and by uncertainty over demand for OPEC oil as economic recession in the industrialized West was beginning to take hold and conservation, induced by high oil prices, started to make gains.

Although no agreement on uniform price guidelines for 1981 was reached at the December 1980 meeting in Bali, OPEC continued to push the benchmark base price higher—to $32. The new price agreement tended to satisfy both moderates and price hawks and allowed some flexibility to adjust to changing market conditions. Members retained the option of adding surcharges if the market tightened. OPEC's decision to opt for a relatively moderate price increase was probably due to the continuing decline in Western oil consumption as a result of the weakening US economy and the slow recovery in Western Europe and Japan. Efforts by Iran and Iraq to regain crude exports lost early in the war also helped keep prices down.

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Downward price pressures gained momentum over the coming months. The continuing decline in Western oil consumption and high inventory levels created soft market conditions, causing marketing difficulties for some members—the African nations and Kuwait—with relatively overpriced crudes. Saudi Arabia, which continued to use a $32 per barrel benchmark, urged the other members, who now based their prices on a $36 per barrel benchmark, to reduce prices to arrest the weakening in the oil market. Despite Saudi efforts to force a compromise—including flooding the market with oil—the other OPEC members, apparently believing demand would soon begin to rebound, refused to adjust prices.

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After several false starts, OPEC finally reunified prices around a $34 per barrel benchmark in October 1981. Concerned that some members would shave prices to boost output, given continued slack demand, OPEC agreed to allow Libya and Algeria to charge up to $4 above the benchmark for their light crudes but required that the differential not fall below $2.50. Nigeria was allowed to lower its prices for the same quality crudes, giving financially strapped Lagos an edge over other African producers. The Saudis agreed to trim output 1 million b/d to 8.5 million b/d and hinted of future cuts as needed to allow other members to expand their sales.

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Despite these efforts, however, worsening economic recession in the industrialized countries, gains in conservation, and substitution of other energy sources for oil coupled with increasing supplies from non-OPEC producers—notably the United Kingdom, Mexico, and the Soviet Union—and the drawdown of inventories in consuming countries weakened demand for OPEC oil. As a result, OPEC's share of Western oil demand declined from 60.3 percent in 1979 to 42.5 percent in 1982. This trend dramatically weakened

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the competitive position of OPEC and undermined its ability to influence oil prices. Throughout the first quarter of 1982, the financially hard-pressed OPEC members started offering discounts to boost export volumes and revenues. Nigeria, Libya, and Iran—once OPEC's leading price hawks—shaved prices either directly or indirectly by bartering and offering deferred payments.

To stem these downward price pressures and defend the $34 per barrel benchmark, OPEC agreed at its March 1982 meeting in Vienna to limit production to 18 million b/d—about 1 million b/d below current levels. In a surprise announcement, Saudi Arabia unilaterally decided to cut its output by 500,000 b/d, bringing the OPEC ceiling down to 17.5 million b/d. In addition, OPEC adjusted the official price differential between the OPEC benchmark and higher quality African crudes produced by Algeria, Nigeria, and Libya, narrowing the gap to about $1.50 per barrel over the benchmark.

Flagrant disregard of these March 1982 production quotas by several OPEC members at a time of continued weak oil demand largely contributed to OPEC's difficulties of holding the $34 benchmark. In July and December 1982, and once again in January 1983, OPEC met to try to hammer out a new agreement that would restore equilibrium to the market. Each time OPEC failed in its bid to reach an agreement. By February 1983 persistent weak market conditions caused the United Kingdom, followed by Norway, to cut the price of North Sea crude to $30.50 per barrel. Within a few days, Nigeria, a key OPEC member and competitor with the United Kingdom and Norway, broke ranks with OPEC and unilaterally slashed its price by $5.50 per barrel to $30 to avert a buyer exodus.

Fears of a price war within OPEC led to hectic consultations and an emergency meeting in March 1983. Hoping to prevent a price collapse, OPEC agreed to a major price cut. It lowered the official price of the benchmark crude by $5 to $29 per barrel—a 15-percent reduction. In addition, OPEC agreed to limit the group's average crude output for the rest of the year to 17.5 million b/d. More realistic production quotas were also renegotiated for each OPEC member except Saudi Arabia, which was designated as swing producer to balance supply and demand within the overall OPEC output ceiling. OPEC also agreed to retain price differentials established a year earlier, except for Nigeria, which was allowed a $1 price differential over the benchmark.

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The Recent Past

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Continued sluggish demand growth and high stock levels in consuming countries prompted OPEC at its meeting in July 1984 to reaffirm the $29 per barrel price as well as the organization's production ceiling of 17.5 million b/d. To alleviate mounting financial pressures on Nigeria, hard hit by the prolonged soft market, OPEC agreed to accord Lagos special treatment. Saudi Arabia, the group's swing producer, agreed to cut its output by 100,000 b/d in August and by an additional 50,000 b/d in September to allow financially pressed Nigeria to exceed its 1.3-million-b/d quota by the same amounts.

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The unwillingness of most OPEC members to adhere strictly to production and pricing guidelines helped exert downward pressure on the organization's official price structure during the third quarter of 1984. Persistent market weakness eventually led to reductions in official North Sea prices—first in Norway, then in the United Kingdom. Because Nigerian and North Sea crudes compete directly, Lagos quickly followed with a price cut. To avert a general price decline, OPEC convened an emergency meeting in October. After protracted and sometimes difficult negotiations, the organization agreed to reduce temporarily its 17.5-million-b/d output ceiling by 1.5 million b/d in the hope that the onset of colder weather would spur demand and firm prices around the $29 per barrel benchmark. Saudi Arabia agreed to a 13-percent reduction in its implicit quota of 5 million b/d and indicated a willingness to cut production further if necessary to prop up prices. Most other members also agreed to reduce their quotas. Because of their serious financial problems, however, Iraq and Nigeria were exempted from lowering their quotas.

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Table 2
OPEC Price/Production Decisions

Date	Meeting Location	Outcome
1960		
10-14 September	Baghdad	OPEC founded. Five charter members agreed on a statement of policy and objectives.
1961		
15-21 January	Caracas	Directed members to negotiate separately with companies for a floor on posted prices—the August 1960 level of $1.80/bbl for Arab Light. Divided Board of Governors to devise a scheme to link crude oil prices to an index of prices of manufactured goods imported by member countries.
1962		
5-8 April and 4-8 June	Geneva	Reiterated need to negotiate with companies to restore crude oil prices to levels prevailing before August 1960.
1964		
23-28 November	Jakarta	Established an Economic Commission to monitor crude oil price levels.
1965		
7-13 July	Tripoli	Resolved to develop a crude oil production program to stabilize prices.
1967		
27-29 November	Vienna	Instructed the Economic Commission to develop a system for the implementation of a crude oil production program.
1968		
24-25 June	Vienna	Gave members the exclusive right to set posted prices. Resolved that, except for quality and transportation differentials, crude oil prices should be consistent throughout OPEC.
8-9 July	Vienna	Called for the elimination of disparities in crude oil prices.
9-10 November	Baghdad	Urged member countries to ensure that crude oil export prices were consistent with each other.
1970		
24-26 June	Algiers	Recommended a five-year crude oil production plan designed to meet estimated increases in world demand.
9-12 December	Caracas	Urged elimination of crude oil price disparities and called for a general price increase to reflect improved market conditions.
1971		
14 February	Tehran	Companies signed five-year agreement with six Persian Gulf members to raise posted prices to $2.18/bbl. Accord included a flat increase of 5 cents annually, an increase of 2.5 percent annually for inflation, and called for the realignment of Gulf crude prices using Arab Light as a reference or benchmark.
14 July	Vienna	Deferred implementation of the crude oil production program.
22 September	Beirut	Directed members to negotiate crude oil price increases with companies to offset the devaluation of the US dollar.
1972		
20 January	Geneva	Middle East members and companies agreed to adjust prices quarterly.
9 June	Beirut	Resolved to prevent companies whose interests were nationalized in Iraq from increasing production in other member countries.
1973		
1 June	Geneva	Agreed with companies to review prices monthly.
15-16 September	Vienna	Directed members to negotiate with companies revisions to all previous crude oil pricing agreements.

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Table 2
OPEC Price/Production Decisions (continued)

Date	Meeting Location	Outcome
1973 (continued)		
16 October	Kuwait	Failing to reach agreement with the companies, unilaterally announced an increase in posted prices, raising the benchmark price to $5.12/bbl.
17 October		Arab oil embargo.
22-23 December	Tehran	Six Gulf members, along with Algeria, Indonesia, Libya, Nigeria, and Venezuela raised prices to $11.65/bbl.
1974		
7-8 January	Geneva	Decided to maintain crude oil prices at prevailing current level until 1 April 1974.
16-17 March	Vienna	Decided to maintain current crude oil prices for the second quarter in the hope that industrialized countries would control inflation level.
15-17 June	Quito	Froze prices for the third quarter.
12-13 September	Vienna	Froze prices for the fourth quarter.
1975		
9-11 June	Libreville	Decided to maintain crude oil prices until October 1975.
27 September	Vienna	Raised the benchmark price by 10 percent and agreed to freeze this level until 30 June 1976. (Price freeze later extended until December 1976.)
1976		
15-17 December	Doha	Despite objections of Saudi Arabia and UAE, other members raised the benchmark to $12.70/bbl effective 1 January 1977 and agreed to raise benchmark to $13.30/bbl effective 1 July 1977. Saudi Arabia and UAE raised prices by only 5 percent, resulting in a two-tier pricing system.
1977		
9 June	Vienna	Some members agreed to forgo July price increase.
12-13 July	Stockholm	Saudi Arabia and UAE adjusted their prices upward, while other members agreed to forgo July price increase. End of two-tier price system.
1977 (continued)		
20-21 December	Caracas	Failed to reach a consensus on price increase.
1978		
19 June	Geneva	Froze prices for the remainder of the year.
16-17 December	Abu Dhabi	Decided to raise benchmark an average of 10 percent in 1979 as follows: 5 percent on 1 January to $13.33/bbl; 3.8 percent on 1 April to $13.84/bbl; 2.2 percent on 1 July to $14.16/bbl; and 2.6 percent on 1 October to $14.54/bbl.
1979		
26-27 March	Geneva	Raised benchmark to $14.54/bbl beginning 1 April, six months ahead of schedule. Members allowed to add surcharges to official prices.
26-28 June	Geneva	Raised benchmark to $18/bbl and members permitted to add a maximum of $2/bbl over and above their differentials. Set a maximum price of $23.50/bbl for OPEC crudes.
17-20 December	Caracas	Price unification efforts fail.
1980		
7-8 May	Taif	OPEC Committee of Experts on Long-Term Strategy presents draft report recommending a floor price, indexation, currency adjustments, and predictable price hikes.
9-11 June	Algiers	Allowed benchmark price to range up to $32/bbl with a maximum of $5/bbl for differentials.
17 September	Vienna	Set the benchmark at $30/bbl with a maximum of $7/bbl for differentials.
15-16 December	Bali	Raised benchmark to $32/bbl and set maximum price for OPEC crudes at $41/bbl.
1981		
25 May	Geneva	Froze prices for six months.
17-21 August	Geneva	Failed to agree on a unified price structure.

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Table 2
OPEC Price/Production Decisions (continued)

Date	Meeting Location	Outcome
1981 (continued)		
29 October	Geneva	Reunified prices around a $34/bbl benchmark and agreed to allow differentials of up to $4 above the benchmark.
9-11 December	Abu Dhabi	Reaffirmed $34/bbl benchmark and reduced price of some crudes 20 cents/bbl to 70 cents/bbl effective 1 January 1982.
1982		
19-20 March	Vienna	Reaffirmed $34/bbl benchmark, agreed to restrict overall crude production to 18 million b/d.
20-21 May	Quito	Extended production ceiling to defend $34/bbl benchmark until end of 1982.
9-10 July	Vienna	Failed to resolve members' appeals for adjustments to production/pricing accord reached in March.
19-20 December	Vienna	Agreed to support $34/bbl benchmark and decided that total OPEC crude output should not exceed 18.5 million b/d in 1983. No agreement reached on establishing individual production quotas.
1983		
23-24 January	Geneva	Maintained prices and production ceiling.
14 March	London	Lowered benchmark to $29/bbl, set an overall production ceiling of 17.5 million b/d for the rest of 1983 and allocated individual output quotas to all members except Saudi Arabia, which would act as swing producer to balance supply and demand.
18-19 July	Helsinki	Reaffirmed March 1983 agreement.
7 December	Geneva	Reaffirmed March 1983 agreement.
1984		
10 July	Vienna	Reaffirmed March 1983 agreement but allowed Nigeria small quota increase for August and September with Saudi Arabia making comparable cuts in production.
29-31 October	Geneva	Agreed to reduce temporarily the group's total production ceiling from 17.5 million to 16 million b/d effective 1 November. With exception of Iraq and Nigeria, set new output quotas for each member. Allowed Nigeria to continue to sell crude at discount.
19-21 and 27-29 December	Geneva	Formed the Ministerial Executive Committee to monitor members on their adherence to OPEC pricing and production guidelines by auditing individual countries' production and export levels, and sales prices. The question of oil price differentials was also to be reviewed by the Differentials Committee, and the final study was to be presented to the full membership before the end of January 1985.
1985		
28-30 January	Geneva	Cut the price of Arab Light by $1, to $28 per barrel. Reduced the differential price between Arab Light and Heavy crudes from $3 to $1.50 per barrel. Iran, Libya, and Algeria, however, would not agree to the reduction in the differential. Gabon abstained from the vote.
22-25 July	Geneva	Lowered the price of Arab Heavy crude oil by $0.50, to $26 per barrel, and Arab Medium by $0.20, to $27.20. Iran, Libya, and Algeria once again disassociated themselves from the decision.

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Nigeria was allowed to retain its price cut of $2 per barrel. Although some OPEC members stated that Lagos would restore prices to the official level when spot prices rose and that Lagos would not increase output above the 1.45-million-b/d level, Lagos publicly remained noncommittal. OPEC did not, however, address in the October meeting the basic problem in its pricing structure—the gap between light and heavy crude oil prices—that seriously threatens the organization's cohesion.

Failure of demand to rebound as expected—in part because of unseasonably mild weather in the Northern Hemisphere—and the unwillingness of OPEC members both to adhere to lower production levels set in October and to refrain from price discounting reinforced the belief of buyers that OPEC might not be able to defend official prices. The conviction, in turn, further weakened the market because most buyers chose to draw down high-priced inventories in anticipation of lower prices. As a result, through 1985 OPEC continued to grapple with ways to stem downward pressures on oil prices as Arab Light dropped $1 per barrel, to $28, and the price of heavier crudes $0.50, to $2 per barrel.

Looking Ahead

Demand for oil is likely to show only modest growth over the next few years. Conservation and the substitution effects of higher oil prices have been far more substantial than expected and will probably continue to depress demand for oil. Moreover, economic recovery in the United States and Japan has failed to increase oil demand at the same rate as economic growth. Indeed, the historic relationship between economic growth and increased energy use has weakened considerably, resulting in substantially lower energy requirements per unit of economic output.

Increasing oil supplies from countries outside OPEC and the prospect that these producers will capture most of any increase in demand in the next few years will create a major problem for OPEC. The initiative to coordinate a long-term strategy with non-OPEC countries reflects considerable concern within OPEC about the loss of market share to these producers.

Lack of discipline among OPEC members will further strain the organization's cohesion. Efforts by several producers to increase revenues by producing oil above the OPEC-mandated ceiling will continue to add to the market glut. At the same time projects under way in Iraq to boost export capacity will further add to the organization's problems of apportioning supplies in a weak market. Unless OPEC musters unprecedented cooperation or oil supplies are again disrupted by war or revolution, the organization will continue to face serious threats to its defense of the price of oil for at least the next year or so.

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II. OPEC Structure

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II. OPEC Structure

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The Conference

The Conference—the supreme authority of OPEC—formulates policy and determines implementation. It consists of delegations representing each of the 13 member countries. Each delegation is headed by the country's oil minister or, rarely, by his deputy. Consultants and representatives of non-OPEC member countries may be invited to attend as observers.

The Conference holds two ordinary meetings a year. Ordinary meetings usually take two to three days. During its deliberations, the Conference elects, or reelects, a president and an alternate president for the respective meeting. The agenda for each meeting of the Conference is set by the Board of Governors, the administrative organization of OPEC, through which all reports are channeled to the Conference.

Meetings are open sessions—which are attended by all ministers and all delegates—or closed sessions—which are attended either by ministers only or by ministers and one or two advisers each. Routine matters such as the budget or confirmation of governors are usually discussed in open sessions. Closed sessions usually discuss reports of the Economic Commission Board and the Market Monitoring Committee, reports relative to OPEC's long-term strategy, contacts with non-OPEC producers, and any other confidential reports.

Any member country may request an extraordinary meeting. In this case, the member country must notify the secretary general, who in turn must consult with the president of the Conference. A simple majority of the membership is then required. In ordinary as well as extraordinary meetings, each member country has a single vote and all decisions, except procedural ones, must be unanimous. Resolutions of the Conference become effective within 30 days after the meetings.

Monitoring Committee

Established at the OPEC extraordinary meeting in March 1982 and expanded in December 1984, this Committee monitors the oil market and recommends necessary measures. It reviews compliance with production quotas and reports violations. The Committee is composed of the oil ministers from Algeria, Iran, Iraq, Ecuador, Libya, and the UAE. The UAE representative chairs the group, which usually convenes just before meetings of the OPEC Conference.

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Ministerial Executive Council

At its meeting on 27-29 December 1984, OPEC created a Ministerial Executive Council to monitor the production and export of crude oil, products, and condensates (monitoring of condensate does not apply to Algeria) of the member countries. The Council was also empowered to monitor the prices of the members' oil sales; such sales refer to bartering, processing arrangements, government-to-government agreements, direct sales, equity oil, and participation oil. An international auditing firm will check invoices and any other documents. No enforcement measures or forms of sanctions, however, have been proposed for violators. Chaired by Saudi Oil Minister Yamani, members of the Council include the oil ministers of Indonesia, Nigeria, the UAE, and Venezuela. Other members may also participate.

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Board of Governors

The Board of Governors is the administrative organ of OPEC. It is composed of a chairman, an alternate chairman—both of whom are appointed by the Conference for one year—and representatives from each country. Each representative serves for two years. (U)

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The Board holds two ordinary meetings a year, which take place one to four weeks before the ordinary meetings of the Conference. The purpose of these meetings is to prepare for, and facilitate, the Conference's work. Decisions require a simple majority of the governors present. Each governor has one vote. Extraordinary meetings of the Board of Governors may also be convened.

The Board of Governors manages the affairs of OPEC and carries out the decisions of the Conference. It reviews reports by the secretary general and other committees of the Organization and either takes action or passes the matter on to the Conference, accompanied by the Board's recommendations. The Board of Governors also draws up the budget and submits it to the Conference for approval. It approves the appointment of the director of the Research Division as well as the heads of the five departments, upon nomination by the member countries. The Board of Governors draws up the agenda for the Conference, and during Conference meetings the chairman of the Board usually introduces each agenda item to the ministers.

The Secretariat

The Secretariat carries out the executive functions of the organization under the direction of the Board of Governors. The chief officer of the Secretariat is the secretary general, who is appointed by the Conference for three years by a unanimous decision. His term may be extended once for the same period. If a unanimous decision is not obtained, the secretary general is appointed on a rotational basis—in alphabetical order by member country for two years. The appointment of a secretary general has never been unanimous because there has always been one member country, whose turn it would have been under the alphabetical rotation system, that has withheld any decision.

The Secretariat consists of five departments—Personnel and Administrative, Energy Studies, Public Information, Economics and Finance, and Data Services. These departments undertake special studies on particular aspects of the petroleum industry.

OPEC also has an Economic Commission and a Legal Department. Established at the Conference meeting in November 1964, the Commission monitors petroleum prices on a monthly basis and reports its findings and recommendations. Other functions include the establishment of contacts with private and public organizations, including the oil industry, and the collection of all economic data and information affecting petroleum prices. Although it utilizes the staff of the Economics and Finance Department, the Commission is composed of a board and representatives from each of the member countries. These representatives usually convene to discuss their findings before meetings of the Board of Governors as a committee of experts.

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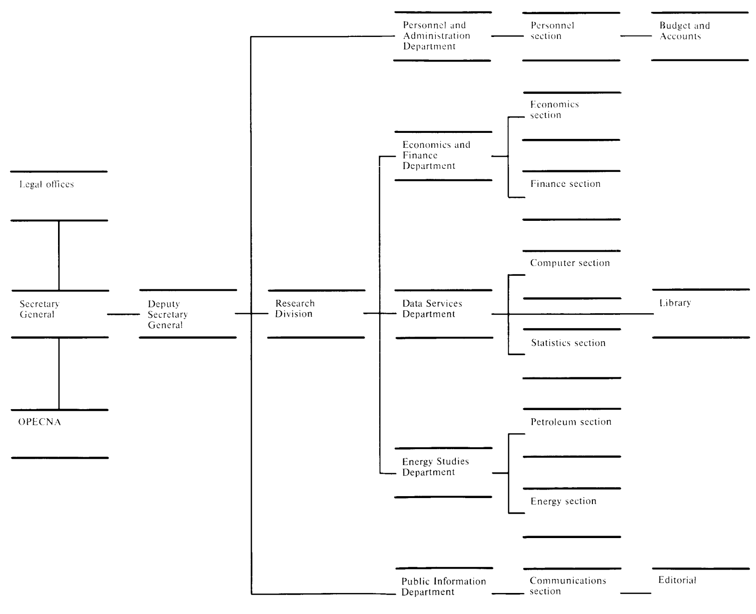
The OPEC Secretariat



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III. Country Profiles

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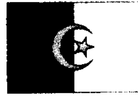

III. Country Profiles

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Algeria

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Algeria's first exploration acreages were awarded in 1952, when the country was still a French territory. By 1956 oil was found at Hassi Messaoud and natural gas at Hassi R'Mel. The discovery of these fields considered among the largest in the world encouraged French, American, British, and Dutch companies to exploit Algeria's oil and gas reserves.

After gaining independence from France in 1962, Algeria began to take control of the country's hydrocarbon resources. A national company—Societe Nationale pour le Transport et la Commercialisation des Hydrocarbons (Sonatrach)—was created in 1963 with responsibility for transport and marketing activities. Within a few years, Sonatrach's activities included responsibility for all aspects of Algeria's oil and gas industry. Today, Sonatrach operates under the purview of the Ministry of Energy, Chemical, and Petrochemical Industries. The Minister represents Algeria at OPEC meetings.

By the early 1970s, Algeria fully nationalized the natural gas industry and took over the operations of all non-French foreign oil companies including those of Shell, Phillips, and Mobil. The government also nationalized 51 percent of the assets of all French petroleum companies including those of Total Algerie, a subsidiary of Compagnie Francaise du Petrole (CFP), and ERAP Algeria—the largest foreign oil companies operating in Algeria at that time. These nationalizations, which allowed foreign oil companies to purchase crude oil from Sonatrach, eventually led to the promulgation in 1971 of the Fundamental Law on Hydrocarbons. This law stipulated that in the future foreign oil companies would be allowed to enter into service contracts or joint ventures with Sonatrach, provided that at least 51 percent of the assets of the joint company were held by Sonatrach.

Although the nationalization of foreign oil companies enabled Algeria to become one of the first oil-producing countries to assume operating control over its petroleum reserves, it led to a marked slowdown in exploration. To reverse this trend, in 1980 Sonatrach introduced a scheme whereby contract crude oil buyers were required to pay a fee toward exploration investment. The companies were also required to submit an exploration proposal or risk loss of their crude oil supplies. Under the conditions set by the government, the company would bear all exploration costs, and production would be shared between Sonatrach and the company in ratios ranging from 58 to 42 percent to 65 to 35 percent in favor of Sonatrach.

CFP, Sohio, Braspetro, Veba/Deminex, Amoco, Sun Oil, BP/Gelsenberg, Elf-Aquitaine, AGIP, and Hispanoil have signed exploration agreements with Sonatrach. However, only CFP, Elf, Veba, and Gelsenberg have begun seismic surveys. The remaining companies, most notably Amoco and Sohio, have yet to start any significant exploration. In recent years, even Sonatrach has reduced its exploration program, preferring to concentrate instead on natural gas development.

25X1

As crude oil production declines in the 1980s, Sonatrach plans to continue its ambitious development of natural gas. Algeria's proved recoverable reserves of natural gas are the fourth largest in the world. Algeria is a major supplier of natural gas and liquefied natural gas to a number of West European countries and, to a lesser extent, to the United States.

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Ecuador

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From the beginning of Ecuador's petroleum boom, which dates from 1972, the country has been considered a "marginal" OPEC oil producer. Production is now almost 300,000 b/d—the lowest among OPEC producers except for Gabon. Oil was first produced in 1917 along the Peninsula de Santa Elena by the British oil company Anglo, but it was not until the late 1960s that large quantities of oil were discovered by the Texaco-Gulf consortium at Lago Agrio near the Colombian border in the El Oriente region. This region accounts for more than 90 percent of Ecuador's total production. In late 1972, a 250,000-b/d pipeline from Lago Agrio to the coast and an offshore tanker terminal near Esmeraldas were built, allowing Ecuador to become a crude oil exporter. 25X1

With the new discovery of reserves in the late 1960s, Ecuador revised its oil legislation, creating the Ecuadorean State Oil Corporation (CEPE). The previous concession-type arrangement was replaced with a "contract of association," which divided responsibilities and ownership between the oil companies and CEPE. The Texaco-Gulf consortium's concession area was subsequently reduced, and CEPE gained a 25-percent interest in the consortium. In 1976 CEPE bought out Gulf's interest in the consortium, raising its interest to 62.5 percent. Most of the smaller, remaining fields outside this concession are operated solely by CEPE, as are two refineries and most of the internal distribution network. 25X1

Foreign interest in Ecuador fell precipitately in the early 1970s, largely as a result of shifting government attitudes. Only five of the 36 companies exploring in 1971 remained 10 years later, and only Texaco and City Investing were still active foreign producers. CEPE indicated it wanted to assume managerial control of the fields in 1985 in accordance with the original contract between CEPE and Texaco, which gives CEPE the option to rotate operational control every 10 years, but it has not yet chosen to do so. CEPE has not yet indicated whether it is interested in assuming control over the small City Investment holding in the northwest corner of the Oriente acquired by Clyde Petroleum. 25X1

A lack of foreign investment coupled with CEPE's inability to fund major exploration projects caused a steady decline in reserves. By the end of 1983, the country's reserves amounted to about 1 billion barrels, forcing CEPE to again turn to foreign involvement in exploration. Following amendments to the Hydrocarbons Law in 1982, CEPE offered 11 blocks for foreign exploration under "risk-sharing" agreements in 1983. Four bids were submitted for two blocks in El Oriente and two bids for offshore blocks in the Golfo de Guayaquil, reportedly offered to Exxon, Hispanoil, Occidental, and Belco Petroleum. Drilling in the Golfo de Guayaquil has been unsuccessful.

Despite substantial natural gas reserves, Ecuador is a net importer of liquefied petroleum gas. Ecuador plans to reverse this when a gas liquefaction plant at Shushufindi in the El Oriente becomes operational, using associated gas from the region. In the Golfo de Guayaquil, Ecuador may have the largest natural gas deposit in Latin America, amounting to some 225 billon cubic feet of proven reserves and another 665 billion in probable reserves. The deposit has been known for several years but was not exploited because of a disagreement between the government and the American consignees, headed by Ada Oil Company. Plans have been formulated to use the gas, but the recent drop in oil prices, and hence in oil revenues, have slowed development. 25X1

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Gabon

Gabon is OPEC's smallest oil producer. Oil is still the key to the country's economy, providing 67 percent of the government's total revenues. Foreign oil companies began exploring for crude oil in 1928 in the region that is now Gabon, but oil production did not start until 1957. Production peaked in 1976 at about 225,000 b/d and declined steadily thereafter to recent levels of approximately 150,000 b/d. Production from Gabon's older fields has tapered off, but exploration on new acreage has been successful enough to assure fairly stable output over the next five years.

25X1

Recognizing the need for foreign private investment to develop its hydrocarbon reserves, Gabon has not fully nationalized foreign oil operations. Since 1970 the government has increased its participation in the oil sector, initially by purchasing equity in subsidiaries of two foreign oil companies—10 percent of Shell-Gabon and 12 percent of Elf-Gabon. The government later increased its stake in these companies, acquiring 25 percent of each. Libreville has also renegotiated oil exploration concession agreements, converting these agreements into production-sharing contracts that allow companies to recover up to 40 percent of their exploration costs in eventual production with the remaining 60 percent shared with the government. Such contracts are the only way to acquire new exploration acreage in Gabon.

25X1

In 1979 a national oil company—La Societe Nationale Petroliero Gabonaise (Petrogab)—was established to take charge of all Gabon's oil interests, but Petrogab has confined its activities to exporting oil. The firm has the right to market 25 percent of Gabon's total production. Although Petrogab holds a small percentage interest in several of the newer concessions, the company probably will not engage in exploration and development for at least the next several years because of financial constraints. In the meantime, foreign oil companies will continue to dominate oil exploration and production in Gabon.

Elf-Gabon, which has been involved in Gabon for over 30 years, is by far the largest operating company in the country. Elf produces over 80 percent of Gabon's total crude oil output, and conducts most of the exploration and development drilling. The company is 75 percent owned by Elf-Aquitaine. Libreville has expressed interest in increasing its share in the company from 25 percent to between 35 and 41 percent, but is experiencing difficulty raising funds to pay for the acquisition.

25X1

Elf currently operates 22 fields either alone or with other companies. For example, Mobil has a 40.9-percent interest in the Batanga field. Odeco-Gabon and Ocean-Gabon each have a 25-percent stake in the Breme field. In the Olende field, Odeco and Ocean each have a 6.25-percent share while the subsidiaries of Murphy, Enserch, and Gulf each hold a 12.5-percent interest. In partnership with the Japanese firms of Mitsubishi Petroleum Development Company and C. Itoh, Elf is developing several small fields near older producing fields off Port Gentil. Along with Shell-Gabon and Hispanoil, Elf is also exploring in the southern offshore area near the Congolese border.

25X1

Shell-Gabon is the only other significant operator in Gabon, producing 15 percent of the country's crude oil last year. Shell operates two onshore fields—Gamba and Ivinga—in partnership with Elf-Gabon and one offshore field—Lucina—in partnership with Gulf and Elf.

25X1

Gulf elected not to renew most of its exploration licenses covering acreage in the southern section of the country, but applied for and won an exploitation license covering a small find in 1979. The discovery, known as GID, is near the Breme field, and Gulf has begun appraising this prospect.

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Several other companies are engaged in oil exploration, particularly offshore. With the discovery in 1981 of the offshore Inguessi field—considered one of the largest discovered in Gabon in recent years—Amoco-Gabon Exploration Company, which holds four offshore concession areas, is about to join the ranks of Gabon's major oil producers. Production began in September, and Amoco expects the field to reach peak production in 1985. Amoco, a subsidiary of Standard Oil Company of Indiana, holds a 49-percent interest in the permit and is operator of the block. Other shareholders are Wintershell Gabon SARL (18.13 percent), BP Petroleum Development Ltd. (14.7 percent), Preussag Gabon SARL (8.0 percent), Lingen Petrole Gabon (8.08 percent), and Petrogab (2 percent).

25X1

Other companies active offshore include Tenneco-Gabon, which announced a significant oil discovery on its offshore permit southwest of Port Gentil in March 1984. Tenneco, which has a 50-percent interest in the permit, has joined with the London and Scottish Marine Oil Company (LASMO) and Continental Oil, each holding a 25-percent interest, to develop the field. Burmah Oil Exploration Ltd. is operator for a six-company group responsible for drilling on the Koume Marine prospect. Burmah has a 12-percent stake, in partnership with Hudbay, Norcen, Neste Oy, and the Austrian State Company OMV, each holding 11 percent. The remaining 44 percent is held by Acorn Petroleum du Gabon, a subsidiary of a Nigerian company. The US company Pennzoil has acquired an 11-percent interest in another offshore project, Tassi Marin II. Pennzoil's partners are AGIP with a 56-percent interest, Mara Petroleum with an 11-percent interest, and Oxoco International, Arraca Petroleum, and Sundance Resources, each holding a 7.33-percent interest.

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Indonesia

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Indonesia is the largest oil exporter in the Far East. Oil production and export policies in Indonesia are set by Pertamina, the state oil company. Pertamina's activities are monitored by the Ministry of Mining and Energy, whose director also serves as Indonesia's representative to OPEC. Pertamina is the nucleus of the oil industry and is responsible for refinery operations, distribution facilities, and a fleet of tankers. The Pertamina Board of Commissioners controls the company's budget, project implementation, joint ventures, and export contracts. The state oil company also produces about 100,000 b/d of crude oil and exports 225,000 b/d. Oil production nationwide amounts to about 1.3 million b/d. 25X1

Pertamina supervises contracts with over 50 foreign oil production companies and more than 200 service companies, many of them US firms. The arrangements include production-sharing agreements, contracts of work, and service agreements. Under Indonesia's production-sharing scheme, both parties share oil instead of profits. The split in most cases is 85-15 percent in favor of the government, after Pertamina and the foreign oil companies deduct oil exploration and development costs equally. 25X1

Caltex Petroleum Company—a joint venture between Standard Oil of California and Texaco—is Indonesia's largest operator, accounting for over 50 percent of the country's output. Caltex converted its contract of work to a traditional production-sharing agreement in 1984, agreeing to government demands for an 88-percent share of production. 25X1

Several other US firms have production-sharing arrangements with Indonesia, including Standard Vacuum Petroleum (Stanvac), Phillips, Huffco, Marathon, Mobil, Amoco, Arco, and Tesoro. Japanese oil companies—Japex, Inpex, Inoco, and Jambi Oil—are active in exploration, either in partnership with other foreign firms or with Pertamina. French companies—Elf-Aquitaine and Total—and Canadian operators—Sceptre Resources and Asamera—currently hold production-sharing contracts with Indonesia.

Petroleum exploration in Indonesia began in 1871 when a general store owner discovered high-quality oil at the foot of the Gunung Ciremay (Jarema Volcano) in West Java. The first commercial oil was produced in 1885. Indonesia's petroleum industry was developed almost entirely by three major oil companies before World War II—a predecessor of the Royal Dutch Shell group, Stanvac, (jointly owned by Exxon and Mobil), and Caltex. World War II interrupted Indonesia's petroleum production and exploration.

Postwar reconstruction of Indonesia's oil industry included greater control by the government. In 1951 Jakarta stopped granting new oil rights, and activities of the petroleum companies were limited to old concessions pending adoption of a new petroleum law. The government also established three petroleum enterprises that took over Shell's properties and extended government control over domestic distribution and marketing of petroleum. 25X1

The government took even tighter control of the oil industry from 1960 to 1965. The Petroleum Law of 1960 specified that only state enterprises or contractors for the state could exploit Indonesia's oil and gas resources. Investment in the oil sector came to a standstill and oil production slowed markedly. Indonesia joined OPEC in 1962. 25X1

In 1963, after more than two years of negotiations, the oil companies and the government signed an agreement in Tokyo covering profit sharing (60/40 in favor of the government), the duration of exploration and production rights, and government purchase of refineries and marketing facilities. The prospects of further government interference in its oil production operations caused Shell to sell its interests to the government in late 1965. 25X1

25X1

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The Soeharto regime came to power in 1967 determined to restore confidence in the oil industry. The government enacted a foreign investment law to guarantee repatriation of capital, land use rights, special tax incentives, and assurances against nationalization. During the 1970s Indonesia's production began to fall, mainly because output from new discoveries did not keep pace with production and exhaustion of older fields. Pertamina also suffered a financial crisis in 1975 that saddled the government with a huge debt. Indonesia was forced to try to raise additional revenues by increasing the government's share of oil produced, reducing net revenues of the oil companies. The new terms provided little incentive for the oil companies to engage in exploration. As a result, they were regarded as a disincentive to exploration, and exploration fell sharply in 1977 and 1978. Nevertheless, the government was able to maintain oil earnings despite a production drop because of escalating oil prices during this period. [ ]

25X1

The 1979-81 oil price boom, a stable government, and reasonable contract terms for operators have provided an attractive investment atmosphere thus far in the 1980s. The government recognizes its dependence on foreign companies for oil and gas production and is likely to strive to maintain an inviting climate for foreign investors. [ ]

25X1

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Iran

25X1

The Islamic Republic of Iran has dramatically reduced production goals and involvement of Western companies in the oil sector since the days of the Shah. Otherwise, petroleum-related activities are conducted in much the same manner. Iranian oil production and export policies are set by the Ministry of Petroleum and implemented through the National Iranian Oil Company (NIOC), established in 1951. NIOC is governed by a Board of Directors, chaired by the Minister of Petroleum. The Minister also serves as Iran's representative to OPEC. NIOC is responsible for all oil and gas production, reinjection programs, operation of domestic refineries, and distribution of petroleum products. NIOC also oversees petrochemical and nuclear development in Iran and maintains a fleet of tankers. 25X1

Commercial oil development in Iran dates to 1901 when William Knox D'Arcy was granted a 60-year concession. Failure to find oil in commercial quantities led D'Arcy to form a syndicate with Burmah Oil Company to continue exploration. The discovery of one of the world's largest fields—Masjed-e Soleyman—three years after syndication spurred D'Arcy and the Burmah Oil Company to create the Anglo-Persian Oil Company (renamed Anglo-Iranian Oil Company in 1935 and British Petroleum in 1954). Fifteen years of disputes between the Anglo-Iranian Oil Company and the government ended with the nationalization of Iran's oil industry in 1951 and the creation of NIOC to supervise all oil production operations in Iran. 25X1

A boycott of Iranian oil and a subsequent overthrow of the government in 1953 led to the signing of a new agreement between the government and 14 foreign operators a year later. A consortium of the companies—Iranian Oil Participants Ltd. (IOP)—was created, and two operating companies were formed, one for exploration and production and the other for refining, to operate on NIOC's behalf for 25 years. IOP was made up of British Petroleum (40 percent), Royal Dutch Shell (14 percent), Gulf, Mobil, Exxon, Standard Oil of California, Texaco (7 percent each), Compagnie Francaise des Petroles (6 percent), and Irico—six American independents—(5 percent). The consortium, through a wholly owned subsidiary, the Oil Service Company of Iran (OSCO), operated fields in the country's southwest. Iran became one of OPEC's original members in 1960.

NIOC took over all IOP operations in 1973. The consortium was reduced to a technical adviser, contractor of services, and crude oil purchaser. To increase exploration, NIOC was authorized to sign "joint structure" agreements with foreign firms in 1975. Five production and service contracts were signed to develop offshore fields, all of which had begun production by the beginning of the revolution in 1978. Four joint ventures were formed including the Iran-Pan-American Oil Company (IPAC) with Amoco as a partner; the Iran Marine International Oil Company (IMINOCO), a joint venture of AGIP, Phillips, and the Oil and Gas Commission of India; the Lavan Petroleum Company (LAPCO), a venture between Arco, Murphy, and Sun Union; and Societe Irano-Italienne des Petroles (SIRIP), a partnership with AGIP. A service contract signed at the same time between Elf-Aquitaine and Iran led to the creation of Societe Francaise des Petroles d'Iran, or SOFIRAN. 25X1

The Islamic Revolution and the Shah's overthrow in 1979 ended foreign participation in Iranian oil production. No foreign firms currently hold rights in Iran. In 1981 the oil ministry formally announced that all oil exploration and production contracts with foreign companies were canceled.

25X1

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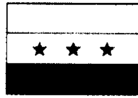

Iraq

25X1

Although the ultimate direction of Iraqi oil policy is determined by the ruling Ba'th Party's Revolutionary Command Council, daily operational activities are handled by the Ministry of Oil and the Iraqi National Oil Company (INOC). In addition to formulating oil policy, the Ministry of Oil directs planning and construction in the petroleum sector and is responsible for refining, gas processing, and marketing. It also negotiates and monitors Iraqi oil export contracts and represents Iraq in OPEC. Under supervision of the Ministry of Oil, INOC is responsible for the exploration and development of Iraqi oil reserves as well as the production and transport of crude oil and natural gas. The Minister of Oil is ex officio chairman of the board of INOC. 25X1

Iraq's oil history dates to the late 19th century, when Germany was awarded a contract to survey the area around Mosul and Baghdad, then provinces of the Ottoman Empire. Nothing substantial was accomplished until 1914 when the Turkish Petroleum Company—owned by Britain through the Royal Dutch Shell Group and the Anglo-Persian Oil Company and by Germany through the Deutsche Bank—obtained from the Turkish Government the right to exploit the oil resources of these provinces. Exploratory work eventually resulted in the discovery in 1927 of the Karkuk field, one of the world's largest. American interests joined the concessions in 1928 when the Anglo-Persian Oil Company yielded part of its 50-percent share, which was divided equally between the Standard Oil Company of New Jersey and the Socony-Mobil Oil Company. In 1929 the Turkish Petroleum Company changed its name to the Iraq Petroleum Company (IPC). 25X1

By 1960 the Iraqi Government began to assert control over foreign oil company activities. In 1961 it enacted Law No. 80, ending IPC's control over all undeveloped areas, which represented nearly 99.5 percent of its total acreage in the country. Three years later, the government created the INOC to operate at all stages of the oil industry. Under Law No. 69 of 1972, all of IPC's assets and rights in Karkuk, Jambur, and Bay Hasan fields reverted to INOC, and by the end of 1975 Iraq nationalized the remaining equity of all foreign oil companies, gaining full control over the oil industry. 25X1

Lacking the expertise of the foreign oil companies, INOC initially concluded a number of service contracts with foreign oil companies under which the oil companies assumed exploration risks in return for the right to purchase a percentage of production at a discounted price if oil was found. Service contracts, however, were eventually replaced by long-term crude oil supply and technical assistance agreements. While these agreements entitled the companies to a guaranteed percentage of output, they nevertheless required that all crude oil be lifted at market prices.

Several companies that concluded service contracts during the 1960s and 1970s are now helping INOC operate fields they once explored and developed. The consortium of Elf-Iraq and the Japan-Iraq Petroleum Development Company (JIPDC) is an example. In return for assisting INOC operate the Buzurgan, Abu Ghurayb and Jabal-e Fowqi fields, Elf-Iraq and JIPDC are allowed to lift 27 percent and 18 percent, respectively, of the output from the three fields at market price. Elf-Iraq is a subsidiary of the French state-owned group Elf-Aquitaine, and JIPDC is a Japanese consortium composed of Sumitomo, Mitsubishi Oil Development, Idemitsu Kosan Petroleum Resources Development, and Teikoku Oil Company. 25X1

Braspetro, a subsidiary of Brazil's state-owned Petrobras, also operates in Iraq. Although Braspetro agreed to relinquish its stake in the Majnun field as well as the smaller Nahr 'Umar fields—which were discovered in 1976 and 1977, respectively—it continues to provide technical assistance to INOC. In return, Braspetro has been guaranteed a minimum of 160,000

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b/d of crude oil for 13 years at official prices beginning in 1980. Another contractor, the Indian Oil and Natural Gas Commission (ONGC), has relinquished its exploration and development rights but continues to provide drilling services. ONGC has drilled seven exploration wells in fields located in southern Iraq and is considering commercial production from these fields.

25X1

The Soviet Union and East European countries have been heavily involved in Iraq's oil sector since 1967. Technoexport Story (Bulgaria), Chemokomplex (Hungary), Geomin (Romania), and Limex (East Germany) are especially active in Iraq. Most of the technical agreements negotiated with these companies fall within the scope of economic accords signed between their governments and Iraq.

25X1

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Kuwait

25X1

Kuwait, one of OPEC's founding members, has the world's second-largest proved oil reserves after Saudi Arabia. The Kuwaiti Government established the Kuwait Petroleum Corporation (KPC) in 1980 as an umbrella organization responsible for all operations in the hydrocarbon sector, including exploration, production, marketing, transportation, refining, and petrochemicals. It oversees the government's interests in the Kuwait Oil Company, the Kuwait National Petroleum Company, the Petrochemical Industries Company, and the Kuwait Oil Tanker Company. The KPC also manages the government's holdings in various oil ventures such as the Arabian Oil Company operating in the Neutral Zone. It is managed by a Board of Directors, under the chairmanship of the Minister of Oil. 25X1

The first significant petroleum exploration began in Kuwait in 1932 when the Anglo-Iranian Oil Company—later British Petroleum (BP)—started to search for oil. A year later, BP joined Gulf Oil in applying for a concession to explore. The two companies—which soon formed the Kuwait Oil Company (KOC) wherein each held a 50-percent interest—were granted an exclusive concession in 1934 to explore for and produce oil in Kuwait and in the country's territorial waters for 75 years. This concession was extended for an additional 17 years in 1951. 25X1

Drilling met with little success until 1938, when oil was discovered in the Burgan field, one of the largest in the world. The outbreak of World War II delayed development of the field until 1945. Exports began in 1946. Increased drilling by KOC over the following years led to the discovery of crude oil at several fields including Haqlal Maqwa', Ahmadi, Ar Rawdatayn, As Sabiriyah, Haqlal Manaqish, and Umm Qudayr, some of Kuwait's major oilfields. 25X1

The KOC was the country's principal oil-producing company until the mid-1970s when the government acquired, through participation agreements, shares of the company. Under the Participation Agreement of 9 August 1975, the government took over 60 percent of KOC's assets, including production and export facilities, the Al Ahmadi refinery, and a liquefied petroleum gas (LPG) plant. The following year, the government assumed full control of the company.

During the remainder of the 1970s, the Kuwaiti Government continued to increase its participation in other companies. The government acquired the remaining 40-percent share of private interests held in the Kuwait National Petroleum Company (KNPC). Formed in 1960 with 60-percent government ownership, KNPC was responsible for the local distribution of oil products refined by KOC. The government also terminated the concession awarded to the American Independent Oil Company (AMINOIL). The company had been producing oil from Kuwait's onshore portion of the Neutral Zone since 1948, when it was awarded a 60-year concession. AMINOIL's production operations were eventually transferred to the KOC, and KNPC took over the company's refining and marketing. 25X1

The Kuwaiti Government is pressing ahead with an intensive oil exploration program. A major effort is also under way to find reserves of natural gas, preferably nonassociated gas. Interest has centered on the Khuff structure, already the scene of substantial gas discoveries. Kuwait has also launched an associated gas recovery program in the Partitioned Zones in the Wafra onshore and Al Khafji offshore fields to ensure sufficient supplies of gas for the operation of its two LPG plants. 25X1

25X1

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Libya

Qadhafi's rise to power in 1969 has led to extensive government takeover of Libya's oil resources. The Libyan National Oil Company (LNOC) has been organized into a fully integrated company responsible for all aspects of the country's oil activities. The first concessions for crude oil exploration in Libya were granted in 1955, and the first discovery followed in 1959. By 1961 Libya became a net crude oil exporter, and in 1969 it became the world's fourth-largest oil exporter.

25X1

The nationalization process began in 1971 when Libya took over BP's operations in the Sarir field, where the company held an equal interest with Bunker Hunt. BP's producing interests were transferred to the Arabian Gulf Exploration Company (AGECO), a 100-percent-owned subsidiary of LNOC, and another subsidiary—Brega Gulf Marketing Company—was created to sell the government's share of production lifted from Sarir. Bunker Hunt's holdings were eventually nationalized and its assets also transferred to AGECO, which continues to operate the Sarir field and is responsible for development of the nearby Messla field. Brega's activities have been expanded to cover marketing of all government equity crude.

25X1

Over the next several years, Tripoli increased its control over foreign oil company operations. The holdings of Shell Libya were nationalized as well as those of the Libyan American Petroleum Company, composed of subsidiaries of Atlantic Richfield, Grace Petroleum, and Esso. Tripoli nationalized and transferred to LNOC 51 percent of the assets of Occidental Petroleum, Esso Standard Libya, Inc., Esso Sirte, Inc., and the partnership of Mobil Oil/Gelsenberg. LNOC also owns 59.2 percent of the Oasis Oil Company, 50 percent of the Italian firm AGIP Libya, and 85 percent of Elf-Aquitaine Libya, a subsidiary of the French company Societe Nationale Elf-Aquitaine. The government also converted concession agreements into production-sharing contracts. The terms of these contracts vary according to the prospects of the acreage concerned: 85/15 percent in Libya's favor for top-rated concessions, 81/19 percent for medium-rated acreage, and 75/25 percent for the least promising areas.

25X1

In 1981 Esso Standard and Esso Sirte pulled out of Libya and a new wholly owned subsidiary of LNOC took over their properties and operations (however, Grace still maintains 12 percent ownership of Sirte). In 1983 Mobil ceased operations in Libya, and settlement of outstanding claims are currently under way. The three main oilfields operated by Mobil were Amal, Ora, and Ghani.

25X1

The Oasis Oil Company is the leading crude oil producer in Libya, accounting for almost 35 percent of the country's output. In addition to LNOC, which holds the majority interest, Oasis is jointly owned by Amerada Hess, which holds an 8.2-percent equity interest, and Marathon and Continental Oil Company, each holding 16.3 percent. Oasis's operations are concentrated in the Sirte Basin—an area where the country's major producing fields are located. The company recently made a new discovery in the Sirte Basin and plans to develop the Bumbah field located offshore near the Egyptian border, believed to contain crude oil reserves as high as 2.4 billion barrels.

Occidental, the third-largest oil-producing company in Libya, has been active in the Sirte Basin since 1979 when it brought the Almas field onstream. The company produces oil from over a dozen fields including the prolific Intisar, Nafura-Awjilah, and Sabah fields. Under permits awarded by LNOC in 1974 and 1979, Occidental has the right to explore large portions of the Sirte region as well as extensive acreage in western Libya. The company has proposed selling half of its interests in Libya to three European companies—the Austrian national energy company, OMV, Finland's Neste Oy, and Sweden's Svenska Petroleum. In 1985 LNOC sold 25 percent of its holdings to OMV.

25X1

25X1

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AGIP produces oil onshore from the Bu at Tifl field and is jointly exploring with LNOC offshore. AGIP and LNOC recently made the first offshore oil discovery in eastern waters, a short distance from Banghazi. Both are already involved in a $1 billion project to develop the Bouri field located offshore near the Tunisian border. The company is also exploring several onshore permits awarded by LNOC in 1974 in Cyrenaica, the Sirte Basin, and in the Al Kufrah region. [ ]

25X1

Elf-Aquitaine has four onshore exploration permits in the Al Hamadah and As Sidr regions as well as acreage south of Marsa al Burayqah acquired in 1980. A year later, LNOC awarded Elf five additional permits, four of them onshore in the Sirte region and Ghadamis area. Elf is currently producing a relatively small volume of oil from these areas. The fifth permit is offshore in the western sector, where Elf has only recently begun to explore. [ ]

25X1

A number of newcomers have also concluded exploration agreements with LNOC. In 1980 Coastal Libya Exploration Ltd., a subsidiary of the US Coastal Corporation, agreed to explore and develop four blocks in northeastern Libya—one offshore and three onshore. The agreement provides for an exploration period of five years for onshore areas and six years for offshore ones. In the event of a commercial oil discovery, Coastal would be awarded a 20-year production contract. Other newcomers include the Brazilian state-owned company Braspetro, which discovered oil in 1980 in the Sahra Marzuq (desert) located in southwestern Libya; the state-owned Bulgarian Oil Company of Libya, which made two oil and gas discoveries on its permit in the Ghadamis area; and the West German group Deminex, which announced an oil discovery in the Sirte Basin near the Waha and Daf' fields in January 1983. [ ]

25X1

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Neutral Zone

25X1

A neutral zone respecting the territorial claims of Kuwaiti and Saudi tribal leaders was originally established in 1922 under a convention administered by Great Britain. Both parties agreed to share equal rights in the area until a final demarcation was reached. Little urgency was attached to such a decision until the discovery of the giant Burgan oilfield in Kuwait in 1938, which was thought to extend into the Neutral Zone. Granting of further oil concessions in the 1940s and 1950s spurred the need for a settlement, and in 1960 Kuwait and Riyadh agreed to divide the zone. This agreement was formally signed in 1965 and took effect in 1969. [ ] 25X1

The Arabian American Oil Company (Aramco) was the first concessionaire in the Kuwaiti-Saudi Neutral Zone since the area was included in the original Saudi grant to Standard Oil of California in 1933. No exploration was conducted by the company, which relinquished its rights to the territory in 1948. In that year Kuwait granted its undivided half-interest in the onshore Neutral Zone to the American Independent Oil Company (AMINOIL), and in 1949 rights to the Saudi share went to the Pacific Western Oil Corporation, later integrated into its parent company, Getty Oil. Both concessions were to run 60 years. Exploration began in 1949 and AMINOIL discovered the Wafra oilfield in 1953; since then two other oilfields, South Fuwaris and South Umm Qudayr, have been added to Neutral Zone production. [ ] 25X1

AMINOIL was nationalized by Kuwait in 1977 and its operations taken over by what is now the Kuwait Oil Company. Getty, however, continues as the Saudi representative in the onshore Neutral Zone. Production is overseen by a Joint Operating Committee and is shared equally by the two, although the gathering, refining, and shipping facilities are controlled individually by the companies. Getty runs a 50,000 b/d refinery at its tanker terminal at Mina Saud—which is located on Kuwaiti-administered territory—while Kuwait sends its output by pipeline to its refining center at Mina' Abdulla. [ ]

A third concession, in the offshore Neutral Zone, was granted to Japan's Arabian Oil Company (AOC) by Saudi Arabia in late 1957 and by Kuwait early the following year. Both concessions run approximately 40 years. Al Khafji, the first and largest of the offshore fields, was discovered in 1960, and commercial production began in 1961. Three smaller fields have since been found, although only one, Hut 1, is currently in production. Output is sent via pipeline to an onshore terminal in Saudi-administered territory at Ra's al Khafji, where AOC also operates a 30,000 b/d refinery. [ ] 25X1

AOC is owned jointly by a consortium of nine Japanese companies, and the governments of Kuwait and Saudi Arabia, with 80-, 10-, and 10-percent shares, respectively. Kuwait also holds a 60-percent participation share in its half of AOC's oil production, while Saudi Arabia has declined to take a percentage of AOC output. This allows AOC to receive 70 percent of the crude it produces offshore, although tax and royalty payments are split equally between the Kuwaiti and Saudi Arabian Governments. [ ]

About 90 percent of the natural gas produced in the Neutral Zone—the bulk of which comes from AOC offshore operations—is flared, while the remainder fuels the power plants and oil facilities at Al Wafrah, Mina' Saud, and Ra's al Khafji. Both Kuwait and Saudi Arabia have studied the possible collection of this gas, but until 1981, when declining oil production in Kuwait began to present gas supply problems for the domestic economy, little concrete planning had been undertaken. By 1982 the project was a high priority for Kuwait, and plans for a southern gas-gathering system costing approximately $200 million began to take shape. This plan to recover about 150 millon cubic feet of associated gas per day is opposed by Saudi Arabia, which would prefer to use it for a gas-injection program to improve oil recoverability offshore. Little progress appears to have been made, and, with Kuwait now seeking to meet its domestic gas needs from other sources, it appears that the gas-gathering project may have been abandoned. [ ]

25X1

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Nigeria

25X1

Nigeria—Africa's most populous country—ranks ninth among the world's oil producers. The Nigerian Government, through the Nigerian National Petroleum Corporation (NNPC), is the major shareholder of the concessions of several international oil companies. Nigeria's largest foreign operator is Shell Petroleum Development Company, accounting for over half of the country's oil output. The NNPC controls 80 percent of Shell's operations, which are concentrated in the Forcados area. The national oil company holds 60-percent participation rights in other producing ventures, including those with the US companies Gulf, Mobil, and Pan Ocean (Marathon), and the French company Elf. Gulf and Mobil are Nigeria's second- and third-largest equity producers; Pan Ocean operates a small venture. 25X1

Other US companies in joint ventures with the NNPC include Phillips, which operates 19 fields with Italy's AGIP and shares output with the NNPC in a 20/20/60 split. Phillips also operates a small concession without NNPC involvement. Texaco and Socal each have a 20-percent share in the group Texaco Overseas Petroleum, with the balance held by the NNPC. Ashland Oil Company shares production from the Izombe and Ossu fields equally with the NNPC. Mobil, Tenneco, and Sun are also involved in a joint venture that has no NNPC participation. 25X1

Shell D'Arcy (the forerunner of Shell BP) began exploring in Nigeria under the Colonial Mineral Ordinance of 1937 and first struck oil in 1951. Until Nigeria's independence from the United Kingdom in 1960, all raw materials, including oil, were marketed by Shell-BP, whose first commercial find was in 1956. A number of other foreign companies were granted prospecting licenses in the early 1960s including American Overseas Petroleum (now Texaco), Mobil, Tennessee Nigeria Incorporated (now Tenneco), Gulf (now Chevron), Nigerian AGIP Oil Company, Sofrap (now Elf), and Esso West Africa. Since 1960 these companies were joined by Pan Ocean, Ashland, and Phillips. Equity participation in Nigeria's oil industry began in 1962 with an agreement reached between the government and the Nigerian AGIP Oil Company (NAOC), a subsidiary of the Italian state oil company. NAOC was incorporated, allowing the government a one-third participation option if NAOC struck oil in commercial quantity. 25X1

Nigeria's oil industry underwent major changes during the 1970s. Decree No. 51 of 1969 gave Nigeria full ownership and control of all petroleum operations. In 1971 Lagos established a state oil company, the Nigerian National Oil Company (NNOC), to grant oil leases, manage refineries, and oversee domestic oil production and marketing. Also that year the government acquired 35 percent of Elf's operations to punish the company for its alleged political and military support to Biafra during the 1967-70 war. The NNOC was transformed into the Nigerian National Petroleum Corporation in 1977, giving the NNPC more power to oversee joint ventures.

In 1973 Nigeria acquired 35-percent interest in Shell-BP, Gulf, and Mobil. By 1975 the Nigerian Government had 55-percent equity interest in most foreign oil operations and controlled at least 60 percent by 1979. The government wanted greater control over its largest producer, Shell-BP, and in August 1979 Nigeria nationalized BP's 20-percent equity in the Shell-BP consortium and took over 80-percent control of Shell's operations. 25X1

A Ministry of Petroleum and Energy was created in 1981 to coordinate Nigerian and OPEC oil policy decisions. An oil minister was selected to serve as chairman of the board of the NNPC. At the same time the NNPC was reorganized into nine subsidiaries to enhance the company's efficiency and encourage specialization. The return to civilian rule abolished the ministry in 1977, but following a military coup in December 1983 the ministry was reinstated. 25X1

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Qatar

The small shaykhdom of Qatar on the Persian Gulf gained independence from the United Kingdom in 1971—10 years after becoming the sixth member of OPEC. Executive powers are vested in a Council of Ministers, appointed by the Amir and assisted by an Advisory Council. [ ] 25X1

Qatar's Ministry of Finance and Petroleum is responsible for oil policy and oversees the Department of Petroleum Affairs, which implements policy and manages the technical and economic aspects of the oil industry. Its operational arm is the Qatar General Petroleum Corporation (QGPC), set up in 1974 to control marketing and assume ownership of the government's share in all oil, natural gas, and petrochemical ventures. QGPC regulates oil operations from the wellhead to the loading terminal, as well as NGL exports and oil exploration. Gas operations, including directing exploitation of the enormous reserves of Qatar's Northwest Dome deposit, are carried out by the Qatar Gas Company (QGC), a joint venture owned 70 percent by the QGPC and 30 percent by Shell. [ ] 25X1

Oil was discovered in 1940 in the onshore Dukhan field in a concession initially awarded in 1935 to the Anglo-Iranian Company and later transferred to Petroleum Development of Qatar, renamed the Qatar Petroleum Company (QPC) in 1953. Exports from onshore fields began in 1949. In 1952 Shell acquired an offshore concession and in 1964 began producing from a series of discoveries beginning in 1960. [ ] 25X1

Qatar was a leader in the move to nationalize oil operations. In January 1973, the government concluded participation agreements with the two principal operating companies, Shell—the primary offshore operator—and the onshore producer QPC—then an affiliate of Iraq Petroleum Company owned by BP, Royal Dutch Shell, and CFP (23.75 percent each), Exxon and Mobil (11.876 percent each), and Partex (5 percent). The government's share was subsequently increased to 60 percent, and in September 1976 an agreement was reached on full nationalization of the QPC retroactive to July 1976. Shell operations were nationalized in March 1977. [ ] 25X1

Under the takeover agreement, the former foreign concessionaires act much as service contractors, conducting production and marketing operations and participating in the financing, design, engineering, and construction of various projects. The QPC is the only onshore operation; crude from its Dukhan oilfield is exported from the Umm Sa'id oil terminal. Refined products are shipped from R'as Abu Abbud. Shell operates the offshore fields of 'Idd ash Sharqi, Maydan Mahzam, and Abu al Hanin, which export crude oil through the Halul Island oil terminal. In addition to the Shell and QPC operations, Qatar has an equal share with Abu Dhabi in the offshore Haql al-Bunduq field operated by the Al-Bunduq company—owned equally by BP, CFP, and the Japanese United Petroleum Development Company. [ ] 25X1

Oil exploration in Qatar is being carried out by the principal operators and under a production-sharing contract with a consortium consisting of Wintershall A. G. (West Germany), Koch Industries (United States), Veba Oel, Gulfstream Resources (Canada), and Deutsche Schactbau. [ ] 25X1

Development of the huge Northwest Dome gasfield is still in initial stages. Currently, the government plans to develop the field under an arrangement that would allow the two foreign partners a 7.5-percent participation each and give the government 85 percent. The $1.5-2 billion first phase of the project is scheduled for completion in 1988 and will provide about 2 billion cubic feet of gas per day to local Qatari industries, with the possibility of some gas exports to neighboring Persian Gulf countries. [ ] 25X1

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Saudi Arabia

The modern kingdom of Saudi Arabia was established in 1932 with the consolidation of the many nomadic tribes and urban areas of the central Arabian Peninsula under the banner of King Abd al-Aziz Al Saud. Since the death of Abd al-Aziz in 1953, the country has been ruled by a succession of his sons. The current king, Fahd bin Abd al-Aziz Al Saud, is also Prime Minister and head of the Council of Ministers, the body in which the executive powers of the government are vested. 25X1

The making of oil policy within the kingdom is conducted in private among only a handful of the king's advisers. While the king ultimately makes the most important decisions, in recent years Saudi leaders have received advice from the Supreme Petroleum Council, which includes the Ministers of Petroleum, Foreign Affairs, Finance, Planning, and Defense. Although little is known about its inner workings, the Council apparently provides a forum for members to voice their positions in the course of the decisionmaking process. The Supreme Petroleum Council meets irregularly, however, and its decisions are made with little publicity. According to Embassy reporting, since Fahd's accession to the throne in 1982 it has been the oil minister, Shaykh Yamani, who has been the King's closest confidant on oil matters and the probable architect of Saudi oil policy. 25X1

The Arabian American Oil Company (Aramco) is the sole petroleum producer in Saudi Arabia. Originally founded by Standard Oil of California, which received an exploration concession in 1933, Aramco's ownership was expanded over the years to include Texaco in 1936 and Exxon and Mobil in 1947. At that time each partner had a 30-percent equity share, except for Mobil, which held the remaining 10 percent. This equity split held until 1973, when the Saudi Government purchased 25-percent ownership, increasing to 60 percent in 1974. In 1975 Riyadh gained an agreement in principle with the shareholders for a 100-percent takeover. Final compensation for the book value of the assets held by the four partners—the price of which has never been made public—was paid in 1980, although the final document transferring legal ownership to the Saudi Government has yet to be formalized. Saudi Arabia, however, retains "beneficial ownership" of all of Aramco's assets with the exception of a 50-percent equity share in the Trans-Arabian Pipeline (Tapline), which still belongs to the former partners. 25X1

Aramco is the world's largest oil company and has made Saudi Arabia the world's largest oil exporter. The country's first oil discovery was in 1938, and commercial production followed the next year. World War II slowed subsequent development, but exploration after the war resulted in huge oil discoveries: Al Ghawar, the world's largest oilfield, was discovered in 1948, and As Saffaniyah, the world's largest offshore field, was found in 1951. Average annual production passed 1 million b/d in 1956 and peaked at slightly over 9.6 million b/d in 1980. 25X1

The General Petroleum and Mines Organization (Petromin) was established in 1962. It is responsible for marketing refined products in the kingdom and for the sale of crude oil through government-to-government and direct-deal contracts with other national oil companies. Petromin also markets all natural gas liquids (NGLs) produced by Aramco and is the major domestic refiner in the kingdom. As a partner in two large joint venture refineries at Yanbu'al Bahr and Al Jubayl, Petromin will soon become a major world marketer of refined petroleum products.

Aramco is responsible for exploration and development of all hydrocarbon resources within its concession boundaries. Originally granted 60-year access in 1933 to over 670,000 square miles—almost three-fourths of the kingdom's territory—this area has since

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been whittled down considerably, and Aramco currently has rights to about 85,000 square miles, 15 percent of which is offshore. While most of the territory in the major oil-producing areas has been relatively well explored, blocks in the eastern Rub'al Khali (the "empty quarter") and the northwestern quadrant of the Eastern Province still require more work to determine the extent of their oil reserves. Riyadh has explored the possibility of issuing new exploration bids for territories outside the Aramco concessions, but the need to discover new hydrocarbon reserves has been lessened by lower production levels and tighter budgets. Once the Aramco takeover is completed and a restructured national oil company formed, its exploration department—if not split off into a separate state company—will probably play a major role in exploring Saudi territory. 25X1

In addition to being one of the world's largest oil producers, Saudi Arabia also produces large amounts of natural gas in association with its crude oil. To harness this natural resource, in 1982 the Saudis completed a $12 billion "Master Gas System" to collect natural gas from fields producing light crude oils. After processing, a number of valuable end products are now being produced. Methane is used to fuel the electric power, desalination, and industrial sectors; ethane to the petrochemical industry as a feedstock; and propane and butane—the liquefied petroleum gases (LPG)—are exported. To ensure adequate supplies of methane despite lower oil production levels in recent years, Saudi Arabia has also developed the nonassociated gas resources in the Khuff formation underlying the southern Al Ghawar oilfield. 25X1

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United Arab Emirates

The United Arab Emirates (UAE) is a federation of seven shaykhdoms formed in December 1971 following the British withdrawal from the Trucial Coast. The seven emirates—Abu Dhabi, Dubayy, Ash Shariqah, Umm al Qaywayn, 'Ajman, Al Fujayrah, and Ra's al Khaymah (which joined in February 1972) agreed to coordinate their financial and development policies and to jointly conduct foreign relations and maintain security. Abu Dhabi is the largest member and its ruler, Shaykh Zayid bin Sultan al-Nuhayyan, is President of the Supreme Council, which comprises the rulers of all seven emirates. In 1973 Abu Dhabi's Government was abolished and a single Federal Council of Ministers was established. 25X1

Each emirate determines its oil development and export marketing policies and sets contract terms for operating companies. The Ministry of Petroleum represents the UAE in OPEC but effectively sets policies only for Abu Dhabi—including the regulating of production to conform with OPEC-assigned quotas. The only direct operational arm of the Ministry is the Emirates General Petroleum Company (EGPC), headquartered in Dubayy, which handles oil product distribution and gas power generation in all the emirates excluding Abu Dhabi. EGPC took over the assets of Shell, BP, and Caltex in 1981. 25X1

The UAE has refrained from fully nationalizing oil operators; officials claim that private participation is preferred because oilfields in the UAE are generally more difficult and expensive to develop than most other Middle Eastern fields. Abu Dhabi—the largest producer—suspended full nationalization negotiations in the mid-1970s and has continued a 60/40 participation arrangement with foreign oil companies. Oil production and export policies in Abu Dhabi are set by the Ministry of Petroleum and implemented through the Abu Dhabi National Oil Company (ADNOC), established in 1971. ADNOC is involved in all phases of oil and gas development either directly or through its many affiliates, which include drilling, construction, pipeline, tanker, gas, and gas liquefaction companies. A wholly owned ADNOC subsidiary that took over the assets of Gulf, Caltex, Shell, and BP is responsible for domestic marketing and distribution. 25X1

ADNOC also holds the government's 60-percent share in the two largest oil-producing companies in Abu Dhabi: the Abu Dhabi Company for Onshore Oil Operations (ADCO), which controls most onshore production, and the Abu Dhabi Marine Operating Company (ADMA-OPCO), which is the main offshore operator. Other shareholders in ADCO are BP, CFP, Shell, and NEDCO (Near East Development Company owned equally by Exxon and Mobil), each with 9.5 percent, and Partex with 2 percent. The 40-percent private interest in ADMA-OPCO is shared by BP with 14.66 percent, CFP with 13.33 percent, and Japan Oil Development Company (JODCO) with 12 percent. The operating companies ADCO and ADMA-OPCO have no capital and make no profits; they receive operating funds from their partners to whom they hand over the oil they produce.

Dubayy's oil is produced by the Dubayy Petroleum Company (DPC), an affiliate of Continental Oil, which owns a 30-percent interest in Dubayy Marine Areas (DUMA). Other shareholders in DUMA include CFP (25 percent), Hispanoil (25 percent), Deutsche Texaco (10 percent), Dubayy Sun Oil (5 percent), and Wintershall (5 percent). In 1975 Dubayy claimed to nationalize DPC and take over full control of the DUMA-DPC concession, but we do not know the details of the agreement. The group continues to operate in Dubayy under a service contract. Condensate is produced in Dubayy by Arco Dubayy, a wholly owned subsidiary of Atlantic Richfield, which owns 66.7 percent of the Margham concession; Britoil owns 33.3 percent. 25X1

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Ash Shariqah's Haql Mubarak oilfield has been operated since 1974 by Crescent Petroleum, formerly a consortium of six US firms, which by 1982 included only Buttes Gas and Oil, operator and 98.2 percent owner, and Juniper Petroleum, owning 1.8 percent. The field, near Abu Musa Island, straddles the border with Iran and Umm al Qaywayn. Under existing terms, 50 percent of the taxes and royalties go to Iran; the other half is split 70/30 between Ash Shariqah and Umm al Qaywayn. Amoco is producing the onshore Saaja condensate field in Ash Shariqah. Exploration rights are also held by the US firm Forman Exploration and by Gulf Oil's Australian affiliate.

25X1

Ra's al Khaymah began producing gas condensate in early 1984 from its offshore Saleh field. The Ra's al Khaymah National Oil Company took over 50 percent of the concession, which is shared by Gulf Oil, operator and 25.23 percent owner; Overseas Petroleum and Investment Corporation of Taiwan (10.61 percent); International Petroleum of Canada (8.66 percent); and Wintershall (5.5 percent). Gulf Oil is also continuing to explore in an onshore concession it shares with Amoco.

25X1

In Al Fujayrah, exploration rights are held by the Reserve Oil and Gas Company, a subsidiary of Getty Oil, and a consortium consisting of Getty Oil, Denison Mines of Canada, Fujayrah Oil Exploration and Development—a subsidiary of Mitsubishi—and a group of 10 other firms. A concession also was awarded to North-South Resources and International Petroleum, both from Canada. 'Ajman is being explored by Forman Exploration and Landoil Philippines. Deutsche Texaco and Houston Oil and Minerals share onshore exploration rights in Umm al Qaywayn; an offshore gasfield discovered by the US firm Zapata has never been developed.

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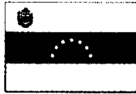

Venezuela

Venezuela is one of OPEC's founding members. Venezuelan oil policy is the responsibility of the Minister of Energy and Mines, a member of the presidential cabinet. This Ministry executes oil policy and oversees compliance by the operating companies. Since 1976, all petroleum production and marketing has been carried out by Petroleos de Venezuela, S.A. (PDVSA)—the national oil company—which coordinates the activity of its four major oil-producing affiliates, Lagoven, Maraven, Meneven, and Corpoven; Pequiven, the national Venezuelan petrochemical company; and Intevep, a petroleum research and scientific institution.

25X1

Oil concessions were first granted by Venezuela in the late 1800s but major exploration did not begin until 1910, with the first commercial oil production beginning in 1917. In 1959, when Caracas ceased granting concessions, 14 concessions were active involving over 20 separate oil companies, primarily US. The following year Venezuela founded Corporacion Venezolana de Petroleo (CVP), its first state-owned oil company. In 1971 the Hydrocarbons Reversion Law mandated that all foreign-owned oil assets would revert to the state upon expiration of the concessions—the bulk of which were to end in 1983. With this first step toward nationalization, however, the idea of early reversion took hold, and, on 1 January 1976, Venezuela nationalized its oil sector. Over $1 billion in compensation was paid to the previous owners, although the question of the proper assessment and payment of back income taxes by the companies has yet to be settled.

25X1

The reversion forced Caracas to reorganize operations among the 14 separate operating companies that made up the Venezuelan petroleum industry. By 1979 the smaller companies were gradually consolidated into four operating subsidiaries, the largest of which was Lagoven, formed around Creole Petroleum Company, a former Exxon holding. The next in size, Maraven, grew out of the assets of the Shell group. Meneven was established around the Mene Grande group, of which Gulf Oil was a major participant. Corpoven, the smallest of the four, was an offshoot of CVP, Venezuela's first state-owned oil company, and five other small producers.

25X1

Corpoven emerged with almost half of the 32,800 square kilometers of concessions existing in 1975, but received only about 10 percent of the production. The majority of Corpoven's landholdings were new concessions in which exploration had only recently begun. Lagoven became the largest producer—retaining 45-percent output—but kept only 17 percent of the total concession area. Its holdings, however, included most of the older Lago de Maracaibo oilfields, Venezuela's most prolific producers. Maraven wound up as the smallest landholder—10 percent—although in 1975 its share of production was 25 percent and included large producing fields in Maracaibo, Zulia Estado. Meneven inherited a fourth of the concession land and about 20 percent of production, primarily from the eastern fields of Anzoategui Estado.

25X1

The future of Venezuelan oil development appears to be in the heavy-oil belt of the Rio Orinoco basin, an area of approximately 42,000 square kilometers estimated to contain at least 2 trillion barrels of oil in place. Because of the low specific gravity of the oil and the high metals content, however, the crude is difficult to recover and refine, and probably less than 10 percent of the oil in place is ultimately recoverable. For development, PDVSA has divided the Orinoco region roughly into quarters, with Lagoven having the easternmost concession, followed in order from east to west by Meneven, Maraven, and Corpoven.

In 1978 Lagoven began planning an $8 billion investment program for the Orinoco with the goal of producing 125,000 b/d of upgraded heavy oil by 1988. The drop in oil revenues in the last two years, however, postponed this project until at least the early 1990s. Meneven will continue with its "Guanipa 100" program to produce an additional 100,000 b/d of oil

25X1

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from the basin starting in 1988. Although less sophisticated than Lagoven's plan, this $1.4 billion effort will mix heavier oils recovered from the Orinoco through conventional means with lighter oil found just to the north, providing an end product easier to transport and refine. Maraven and Corpoven will continue to evaluate the western half of the basin with aerial and seismic surveys and some exploration drilling, but there are no plans at present for further development. 25X1

Venezuela began an exploration program in 1978 that also benefited greatly from the increased revenues available in the 1979-81 period and that has discovered a number of promising new areas for eventual development. Nonassociated natural gas and condensate fields found offshore in the Golfo de Paria are considered commercially viable, but development has been delayed because of revenue problems. Light oil has recently been discovered in the southwest in a promising new field that appears to extend into Colombia. Venezuela's offshore continental shelf also holds promise, but the cost of extensive exploration at this time is prohibitive. 25X1

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V. Country Maps

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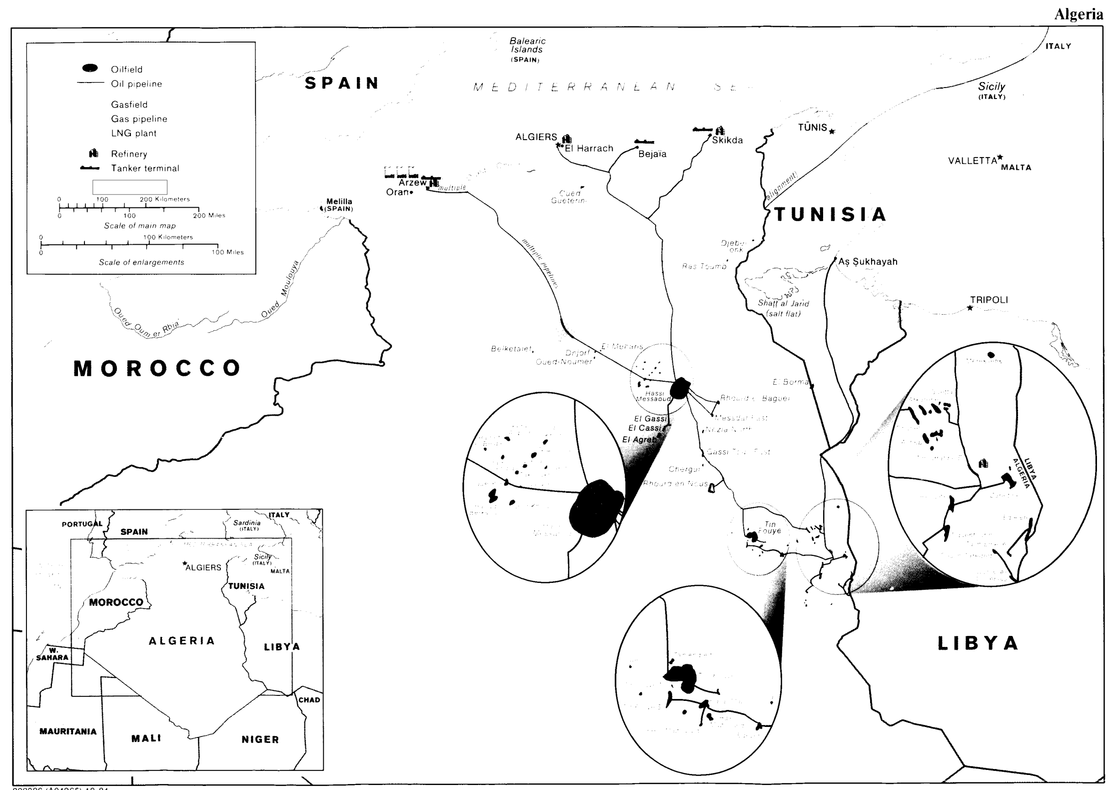

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Ecuador

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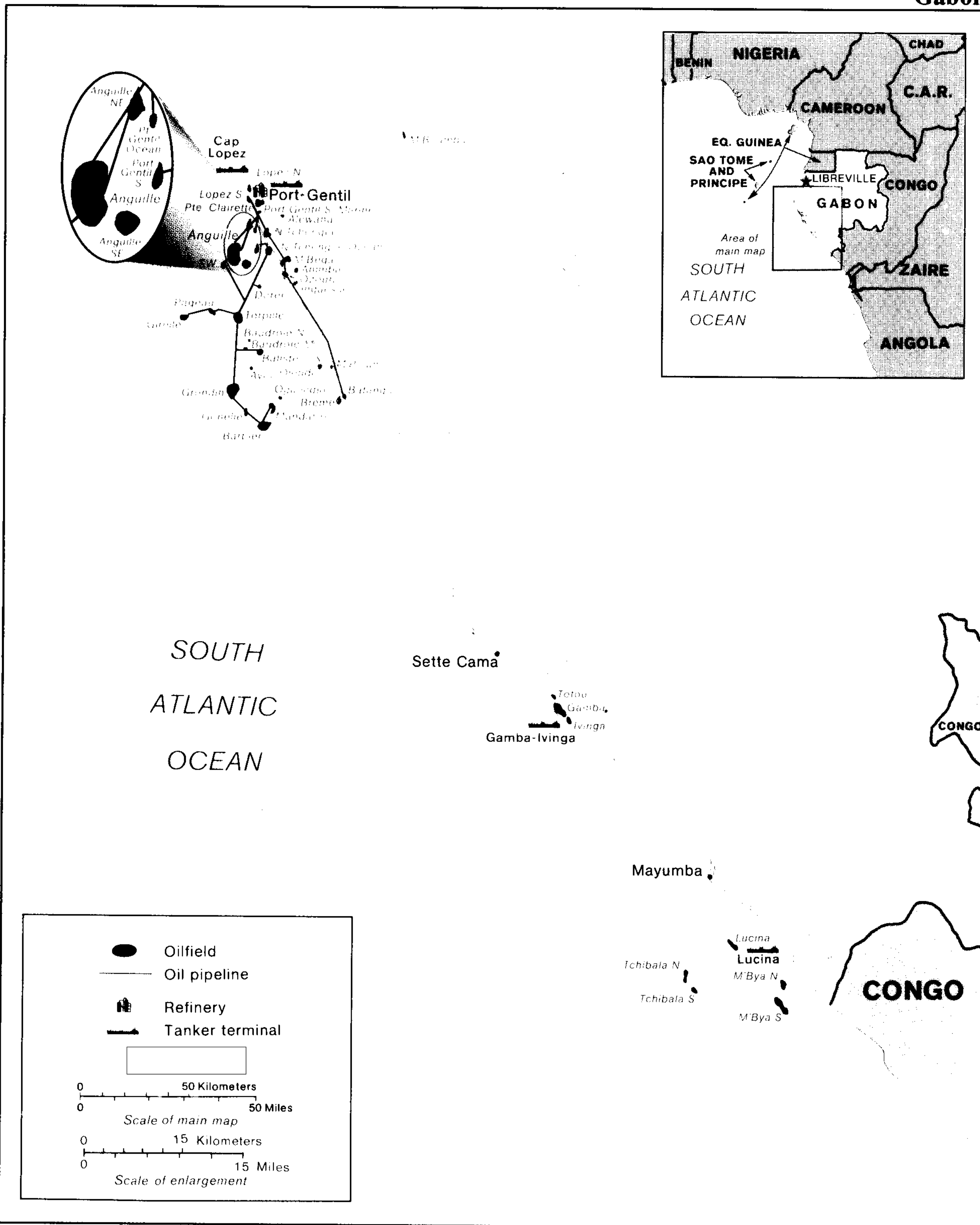
Gabon



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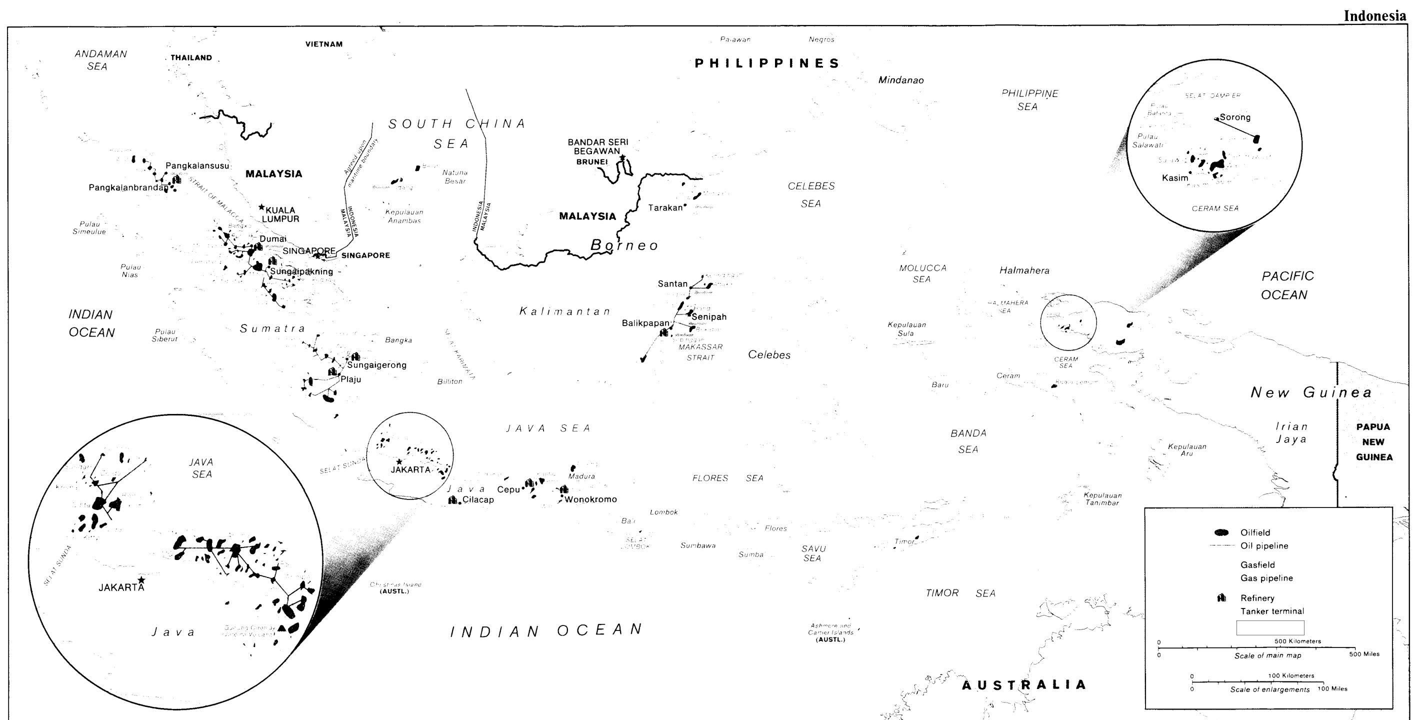

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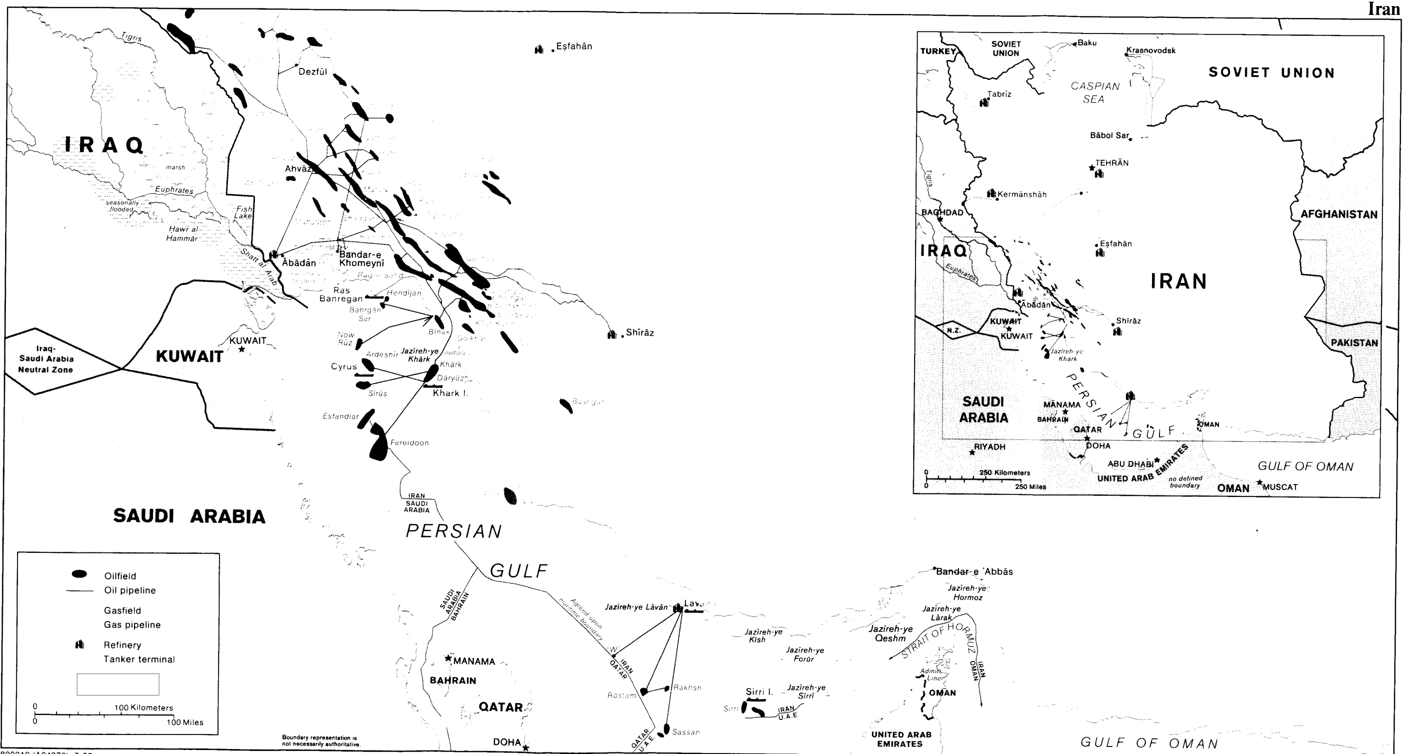

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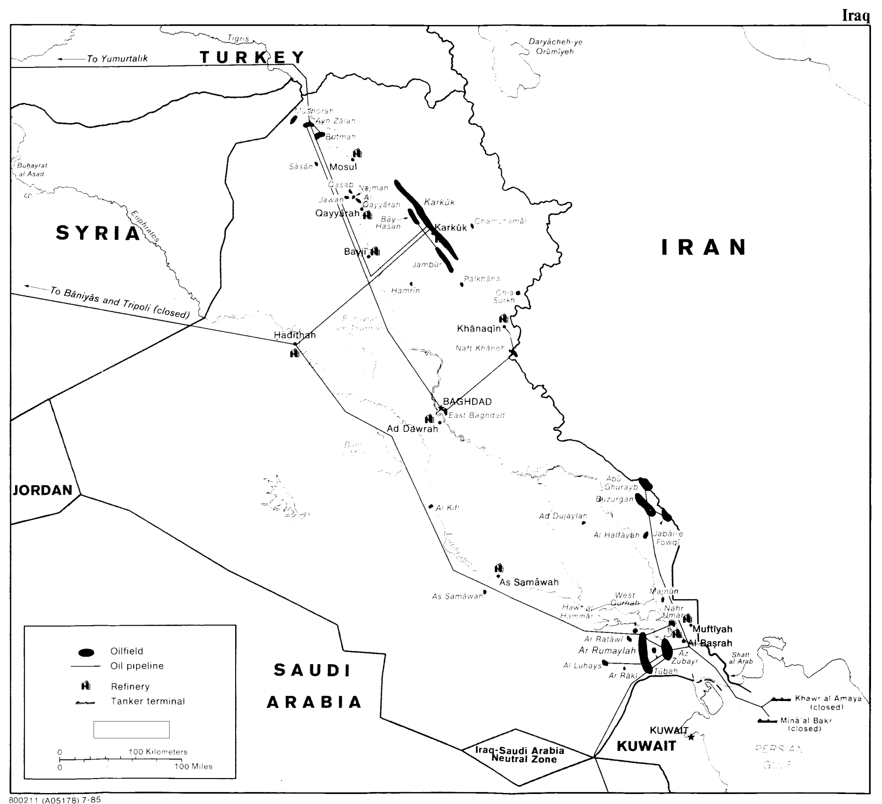

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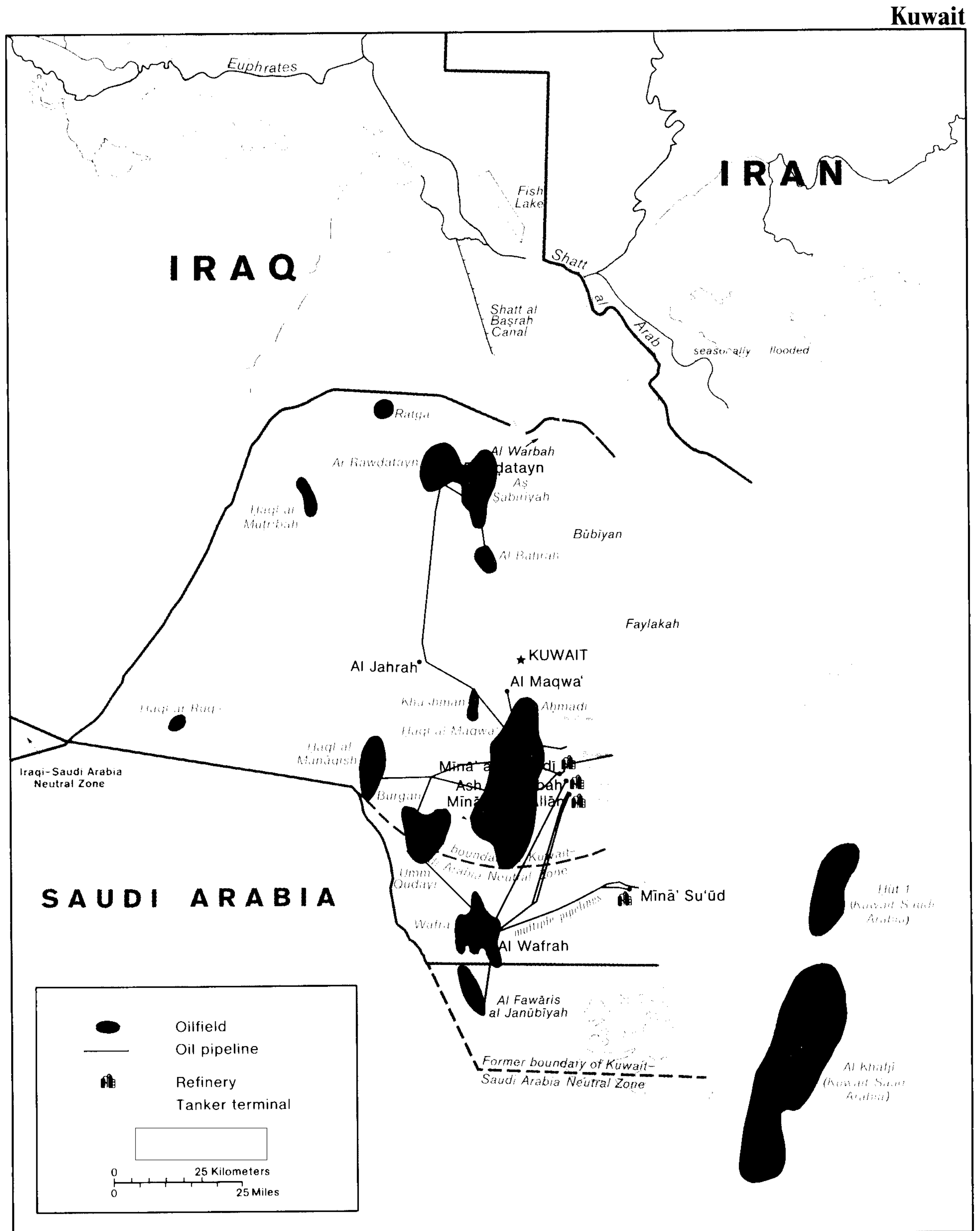

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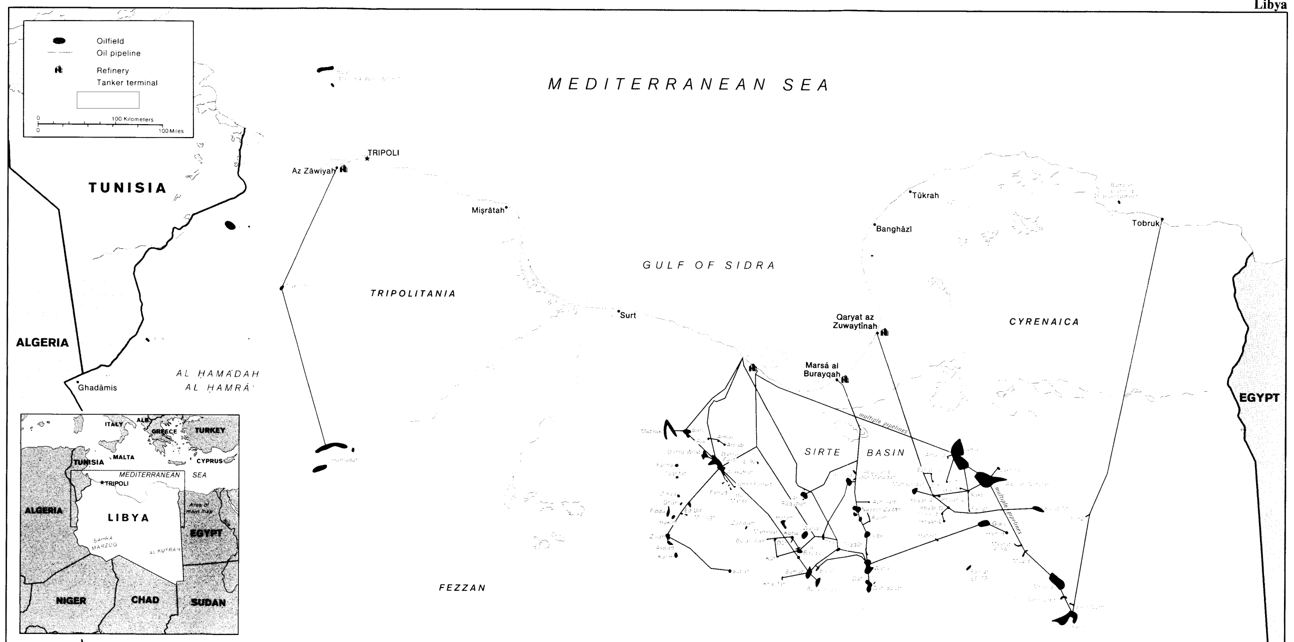

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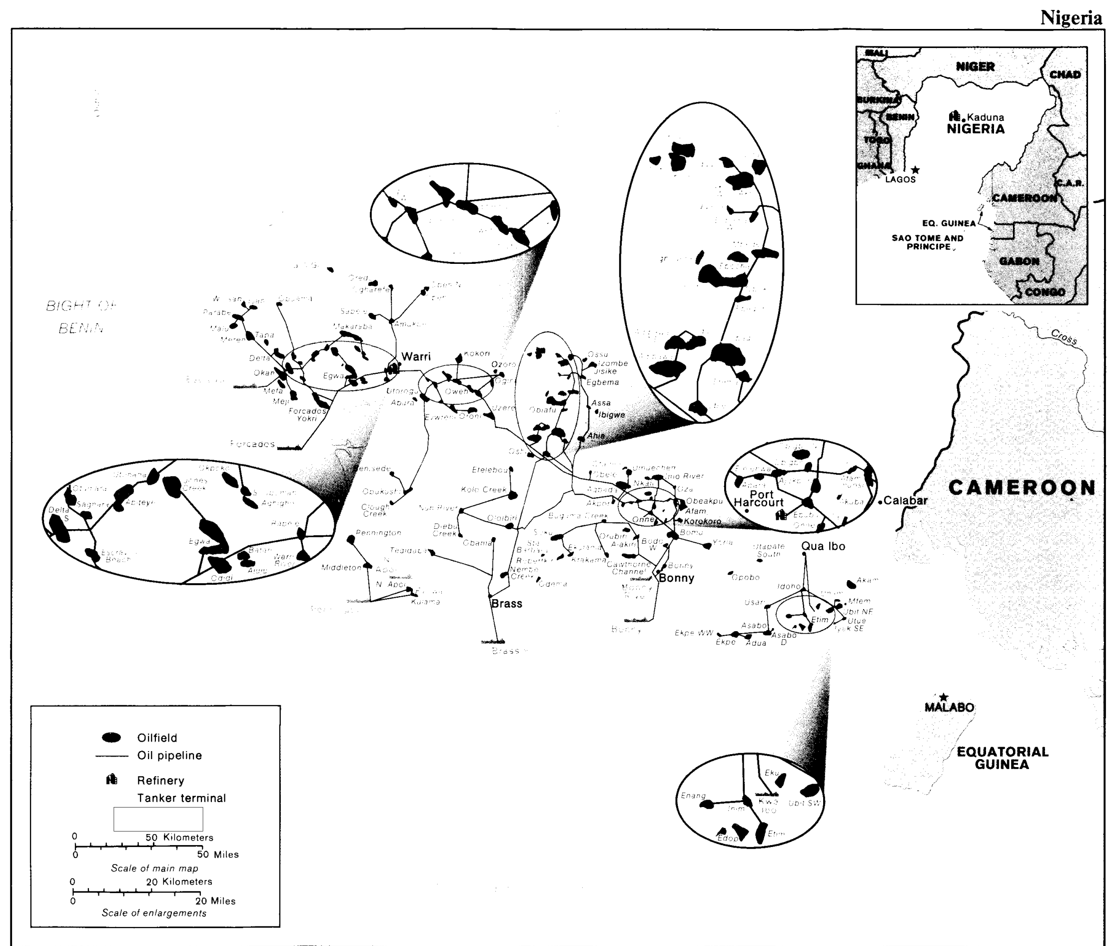

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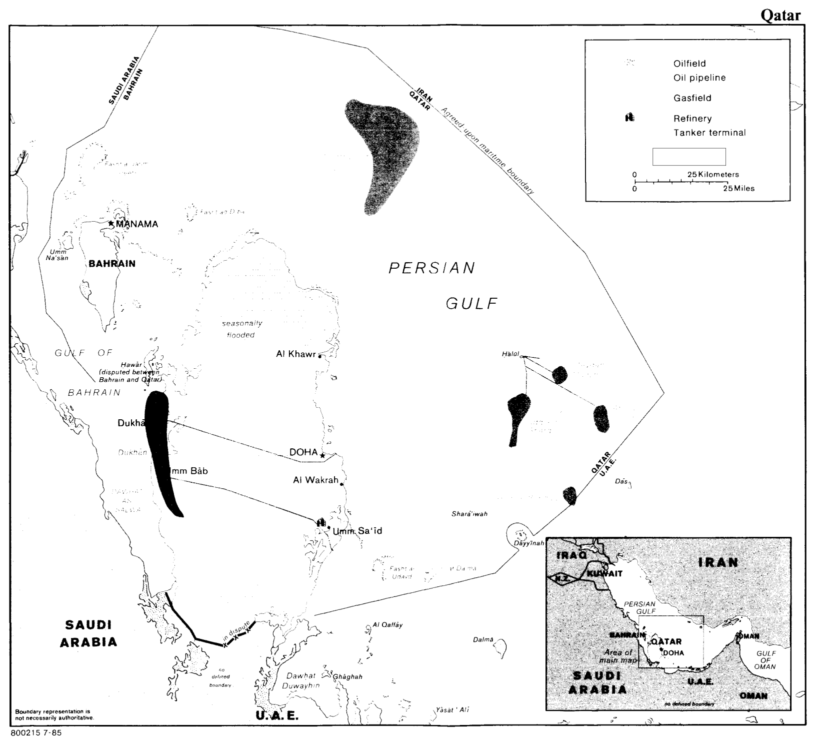
Qatar



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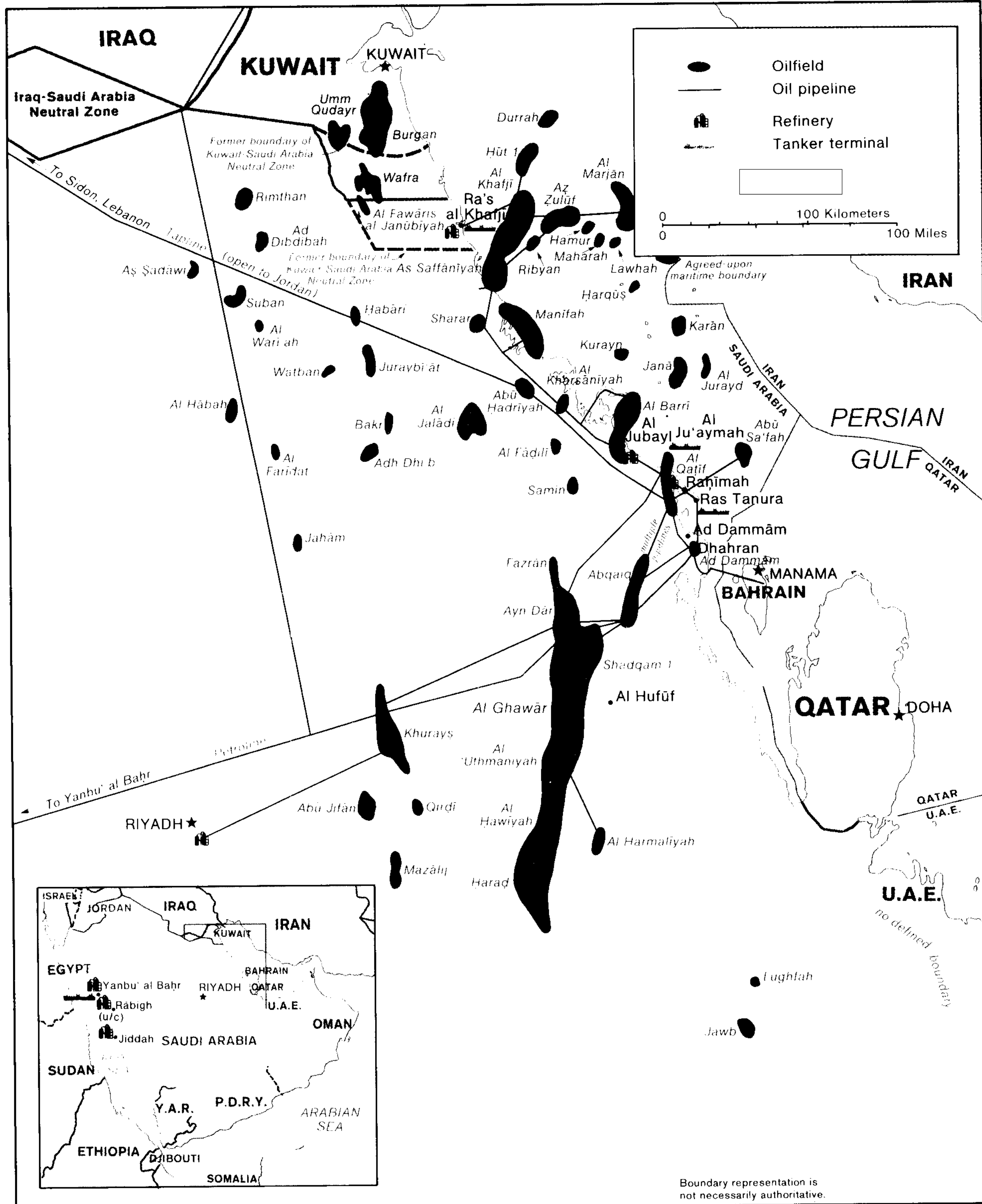
Saudi Arabia



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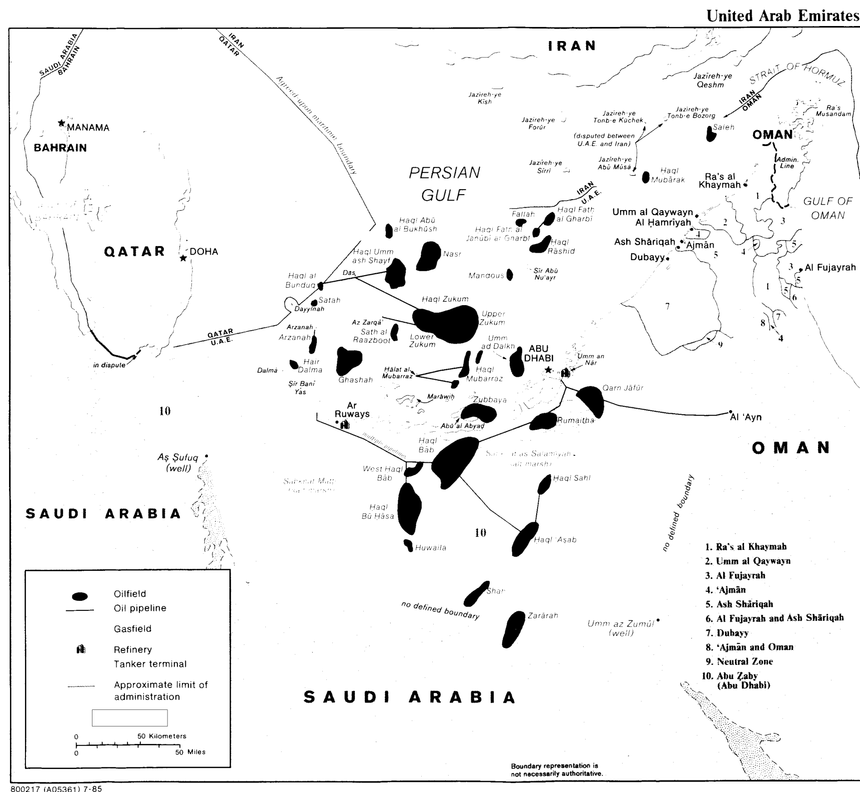
United Arab Emirates



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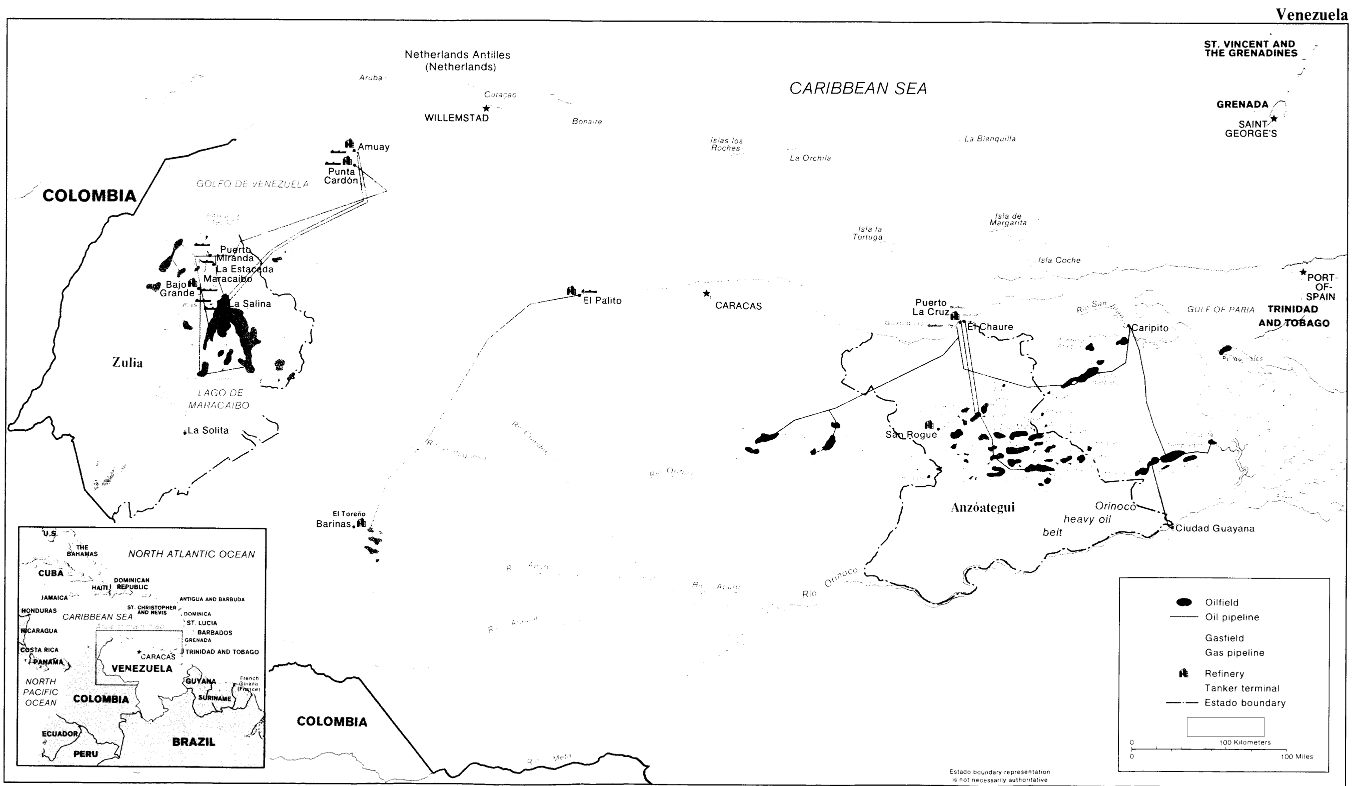
Venezuela



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