

## **The Genuine role of Organisation of Petroleum Exporting Countries in the Global Oil Market**

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**Abstract:** The Organisation of Petroleum Exporting Countries (OPEC) is a permanent intergovernmental organisation. Its mission is, according to its statute, to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry. Many authors point out that OPEC has lost his position in the oil market, others have the opposite opinion. This paper will explore the genuine role of the organisation in the global oil market by analysing its production quotas and its real oil production and their impact on the oil prices. The main conclusion of this paper is that OPEC has still a power in the global oil market but less than other time before.

**Keywords:** OPEC, oil production, quotas, crude oil market, Non-OPEC,

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### **I. INTRODUCTION**

In this paper we explore the genuine role of the Organisation of Petroleum Exporting Countries (OPEC) in the global oil market by analysing its production quotas and its real oil production and their impact on the oil prices. The subject of analysis will be also the institutional structures of the organisation and their function in the process of decision making within the organisation. That is mean, in this paper, we will examine three main dimensions of OPEC's development: Political economy, institutional and energy economy.

Firstly, it is necessary to provide sufficient background on the topic by summarizing the turbulent history of OPEC and its decisions regarding the quotas of production. "The Organization of the Petroleum Exporting Countries (OPEC) is a permanent, intergovernmental Organization, created at the Baghdad Conference on September 10–14, 1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five Founding Members were later joined by ten other Members: Qatar (1961) – terminated its membership in January 2019; Indonesia (1962) – suspended its membership in January 2009, reactivated it in January 2016, but decided to suspend it again in November 2016; Libya (1962); United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973) – suspended its membership in December 1992, but reactivated it in October 2007; Angola (2007); Gabon (1975) - terminated its membership in January 1995 but rejoined in July 2016; Equatorial Guinea (2017); and Congo (2018). OPEC had its headquarters in Geneva, Switzerland, in the first five years of its existence. This was moved to Vienna, Austria, on September 1, 1965. The mission of the OPEC is to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry <sup>1</sup>".

The position of OPEC in the global oil market has been changed during its history. In the first decade of its establishment the activity of OPEC were subdued by the activity of greedily transnational corporations (Seven sisters), which controlled in that time the global production and the global export of oil. „The petroleum industry consists of five operations: exploration, extraction, refining, transportation and marketing. The Sisters were vertically integrated firms that had their arms in all stages of the production process. In fact, the Federal Trade Commission's report of 1952 states that the “control of the industry by these seven companies extends from reserves through production, transportation, refining, and marketing. All seven engage in every stage of operations, from exploration to marketing.” The same report also states that, by 1949, the Seven Sisters “controlled about 92 percent of the estimated crude reserve... (and) accounted for more than one-half of the world's crude production (excluding Russia and satellite countries), about 99 percent of output in the Middle East, over 96 percent of the production in the Eastern Hemisphere, and almost 45% in the Western Hemisphere”

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<sup>1</sup> For detail see [www.opec.org](http://www.opec.org)

and that they control similar market shares in the refining, transportation and marketing activities as well“ (Noguera J., 2017, p. 299).

The main objective of this paper is to explore the genuine role of OPEC in the global market by analysing its production quotas and its real oil production and their impact on the oil prices. The subject of analysis will be also the institutional structures of the organisation and their function in the process of decision making within the organisation.

We assume that OPEC with heterogeneity members with different levels of economic developments and different political systems has an important position in the global oil market. We assume also that the power of OPEC as an international organisation is weakening due to disputes between member nations and the raising share of Non-OPEC countries..

This paper is divided to six sections. After the introduction, we discuss the literature related to this issue in the second section. The institutional aspect of OPEC, particularly the main bodies of Organisation, is examined in the third section. In the fourth section we analysed the development of OPEC's oil production and to what the extent the members of the Organization complained the setup production quotas. The fifth and sixth sections are devoted for the discussion and conclusion.

## **II. LITERATURE REVIEW**

Since the OPEC is one of the main players in the global oil market it was as a subject of many studies from different aspects and dimensions. From the institutional point of view, S. J. Okullo and F. Reynés (2016), examined cartelization by OPEC countries and tried to introduce a formal model of quota negotiation in OPEC, and use it to investigate production allocations among its members. They proposed a two-stage model of global oil production where, in the first stage, OPEC producers negotiate over production allocations, i.e., quotas. They also assumed that these quotas are enforceable. In the second stage, each OPEC member chooses its optimal production plan, subject to its quota restriction, while making independent judgments about investments in capacity and resource development. Non-OPEC decision making, by contrast, is confined to the second stage where optimal levels for production, investments in capacity, and resource development are all chosen. Their analysis indicates that collectively, OPEC enjoys positive gains from perfect cartelization (estimated to be 25%), and thus has positive incentives to cartelize. Heterogeneity within the cartel is, however, an important factor that impedes full cooperation since for plausible demand elasticity estimates; most members' profits are observed to be non-monotonic in the degree of cartelization.

In the same context of institutional side, Hochman, G. and Zilberman, D. (2015) study carried out a contribution about the unique institutional setup characterizing the upstream oil industry, and model OPEC as a cartel-of-nations rather than firms. They assumed that OPEC decisions enhance the well being of domestic fuel consumers and oil producers, and that aggregate production quota decisions are impacted by domestic fuel policies and vice versa. While OPEC sets production quotas, individual countries set domestic fuel policies. They also empirically quantified the weights given to consumers' and producers' interests, when setting production quotas as well as prices of fuel in OPEC countries. The OPEC is not a textbook cartel. It is not run by a group of profit maximizing firms but by politicians who pursue political, as well as economic, objectives.

Empirically, Golombek R. et al (2018) used the dominant firm-competitive fringe textbook model (OPEC versus the group of non-OPEC producers) and estimate significant elasticity over the sample period, 1986–2016. Our empirical model contains a simultaneous system of three equations and is estimated using nonlinear instrumental variable methods with world GDP and production costs for OPEC and non-OPEC producers as exogenous demand and supply shifters. They used quarterly data from 1986 to 2016, which is a period after the major structural changes in the oil market in the 1960s and the 1970s. Their results suggest that the nonlinearity induced by OPEC's mark-up is of key importance in modelling oil prices. This clearly suggests that OPEC has market power.

In the context of oil production and quotas of OPEC members, Hochman, G. and Zilberman, D. (2015) suggested that OPEC decisions enhance the well being of domestic fuel consumers and oil producers, and that aggregate production quota decisions are impacted by domestic fuel policies and vice versa. While OPEC sets production quotas, individual countries set domestic fuel policies. We also empirically quantify the weights given to consumers' and producers' interests, when setting production quotas as well as prices of fuel in OPEC countries. The OPEC is not a textbook cartel. It is not run by a group of profit maximizing firms but by politicians who pursue political, as well as economic, objectives.

OPEC has created its position in the global oil market with many constraints created by several sides that influence the market.” After its foundation in 1960, OPEC started a slow takeover of the crude oil market. By 1970, although the WTI was priced roughly the same price as ten years before, the market started sending signals of shortage (Noguera J., 2017).. By September 1973, the spot price was above the posted price, although the Sisters were insisting on pushing the posted price down. In October of 1973, the Yom Kippur War and the Arab embargo to the U.S. and the Netherlands struck the market. Panic spread and the Shah of Iran decided, for

the first time, to conduct an auction of some of Iranian crude oil. The Sisters unsuccessfully tried to stop the bidding. Bids reached 17 dollars per barrel. In Nigeria, in another auction there was a bid of 22.60 USD/barrel. It was now all too evident that the posted price was too low. The Sisters' game to lower prices was discovered and the crude oil price quadrupled in a month. The price increase was followed by the wave of nationalizations of the 1970s. During the 1970s, many new fields were also discovered and many new participants entered the market. Crude oil was discovered in Brazil, Canada, the North Sea, Alaska and several African countries, (Noguera J., 2017).

After the fall of the USSR, several of the former soviet republics also became major players. All that made the international petroleum market change its market structure once again. Currently, OPEC countries supply about 40% of the international crude oil production and control 82% of crude oil reserves. This section models a market structure to characterize the behaviour of what we call the OPEC Market Structure.

### **Institutional aspect of OPEC**

The establishment of OPEC has been accompanied with several problems, particularly geopolitical and economic. The initiator countries which highly supported the establishment of a cartel of countries faced the huge political pressures from the mother countries of the seven sisters to stop that initiative. Some of those countries were under the colonial system before their political independent. Some others, especially those with monarchy systems in the Persian gulf had afraid of negative reaction from countries that secure the stability of political system in the region, particularly Great Britain, France and United States of America (f.e. Saudia Arabia though agreed with the initiative of establishment of OPEC, does not preferred to be in the front of that initiative and declared his willing to be one of the signatory countries but does not agree to be the place of first conference of OPEC). From the economic aspect, major of the signatory countries even before the foundation of OPEC had economic problems and the disruption of their only one revenue source (revenue from crude oil) will complicate their problems. In spite of that, five countries including Saudi Arabia went to Bagdad for sign the document of OPEC establishment. However, by the foundation of OPEC, it has begun the new era of development of crude oil market.

During the first decade of the 60<sup>th</sup> of the 20 Century, the OPEC established its main institutions as an international organisation. "Although the creation of the organization was welcomed by the peoples of the producing countries, it did not receive the attention of companies or the international community at the time. Switzerland refused to grant OPEC the status of an international organization with immunity, while Austria granted this status in 1965. Vienna was therefore chosen as the seat of the OPEC General Secretariat. The reference in the name of the Organization to the countries of the States rather than the States of the States was an inspiration, since Kuwait, which participated in the Baghdad Conference, had not yet gained its independence, nor Qatar and Abu Dhabi, the countries that joined the Organization in 1961 and 1967, respectively did not gain their political independence. The indifference was also demonstrated by the insistence of companies to negotiate with individual Governments on controversial issues" (Majed Alminif, 2007).

The Organization of the Petroleum Exporting Countries (OPEC) has three organs namely: a) The Conference, b) The Board of Governors, c) The Secretariat.

The Conference is the supreme authority of the Organization. The Conference, made up of high-level representatives of the member governments, which meets at least twice a year. However, an Extraordinary Meeting of the Conference may be convened at the request of a Member Country by the Secretary General, after due consultation with the President and approval by a simple majority of the Member Countries. Regardless of the volume of output of the member state, each Full Member Country shall have one vote and all decisions of the Conference, other than on procedural matters, shall require the unanimous agreement of all full Members.

#### *The OPEC Fund for International Development (OFID)*

OPEC member countries widened their activity as an international organisation in the financial assistance, when they established the OPEC Fund for International Development (OFID) "as a multilateral development finance institution to promote cooperation between Member States of OPEC and other developing countries. OFID was conceived at the Summit of the Sovereigns and Heads of State of the OPEC Member Countries (MCs) held in the Algerian capital, Algiers, in March 1975. In this spirit, OFID was established in January 1976, as a financial facility to consolidate the assistance extended by its Member Countries namely Algeria, Ecuador, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. OFID's resources are additional to those already made available by OPEC MCs through a number of bilateral and multilateral channels. The resources of OFID consist mainly of voluntary contributions by OPEC MCs and income derived from OFID's investments and loans"<sup>2</sup>.

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<sup>2</sup> More details see <http://www.ofid.org/ABOUT-US>

The purpose of OFID is to promote and reinforce cooperation between its Member countries and other developing countries providing financial support to assist the latter, on appropriate terms, in their quest for social and economic development. This objective is primarily achieved by:

- Existing loans on concessional and market-based terms for the implementation of development projects or programs and for balance of payment support,
- Making long-term equity investments with development impact.
- Providing credit guaranties to support international trade finance, and
- Providing grants and technical assistances in support of development projects, in particular those aimed at addressing the specific needs of the most vulnerable and disadvantaged groups in eligible countries. This financial assistance is channelled through intergovernmental organisations, such as specialised agencies from the UN system and other international NGOs, (OFID, 2018).

OFID's loan portfolio is predominantly sovereign (78%). The remaining 22% relates to private sector operations, mainly loans to Financial Institutions (8%) and Project Finance companies (10%), (OFID, 2018).

### **The compliance of OPEC production quotas with real oil production**

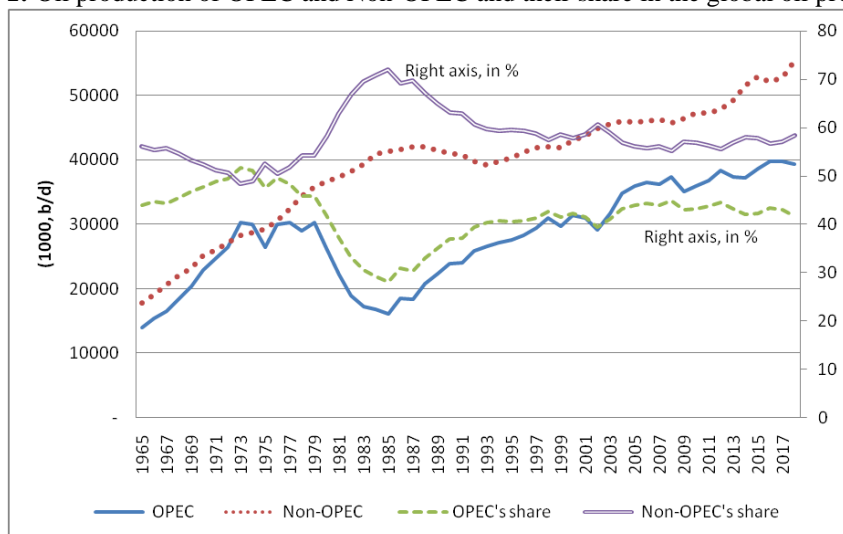
The OPEC's oil production during its history has turbulent evolution with respect to the development of global oil market. After the establishment of OPEC, its power has taken on gradually from the „seven sisters”. The first decade of OPEC's history could divide to two phases. The first phase (1960-1964) is the establishment phase and the production was under control of the transnational companies. OPEC's focus has been on building its organs and positioning them in international law. Its secretariat from Geneva has worked without international immunity. The Organization began by developing market studies and strengthening its role. Meanwhile, Indonesia, Qatar and Libya joined. The latter's accession was meaningful, since it was the first member from Africa, and most of the companies operating in that country were independent.

The second phase (1965-1969) is the stage of empowerment, where the status of the organization in international law was evidenced by its move to Vienna and its recognition by the United Nations Social and Economic Commission as an international organization. The first collective gain has been the acceptance of the principle of rent-out by companies, which mean, the modification of the way tax returns are calculated to increase them. Algeria and the Emirate of Abu Dhabi joined the organization (its seat became the United Arab Emirates in 1974). The monopolistic position of large corporations began to be undermined by the increasing production of independent corporations, the improved ability of governments to negotiate, and the coordination of the institutional dimension between governments in OPEC.

During the second phase the oil production of OPEC started from about 13.94 million barrel per day (mb/d) in 1965, which represented 44% of global oil production to more than 20 mb/d in 1969 and accounted closely to 47 % of global oil production. The position of OPEC in the global oil market has strengthened gradually up to 1973 when the share of OPEC's oil production reached about 52% of global oil production (see figure 1).

The collective negotiation with the oil companies begun for the first time in the last years of the 60<sup>th</sup> to modify what was called the declared prices that were set by companies alone, and on that basis they calculated tax revenue for governments.

**Figure 1: Oil production of OPEC and Non-OPEC and their share in the global oil production,**



Source: Own based on BP database.

At that period, oil companies operated in the Arab Gulf negotiated with the members of the organization to modify the price of oil exported from them, under what was known as the Tehran Agreement, as well as with members exporting from Mediterranean ports, under what was known as the Tripoli Agreement, to compensate countries for the reduction of the dollar exchange rate at that time, under what was known as the Geneva agreement.. Some OPEC countries from the Arab Gulf have begun collective negotiation with companies to change the formulation of their concession contracts included in what is known as the partnership agreement to involve governments in the ownership of assets of oil companies operating in these countries. All this was on the basis of nationalizing oil interests (for example, in Iraq, Libya, and Algeria) or threatening that the process will be done in other countries, in the time when member countries token the lead in providing the needed crude oil for the world and with expecting that this role will grow, forcing the oil companies to concede.

The moment came in late 1973, early 1974, to radically modify the balance of power. After the rise in spot prices with the October 1973 war, OPEC delegates met with companies to agree on adjusting the announced prices. After stalled negotiations, member states decided to adjust prices in OPEC without the consent of companies. In other words, this phase has seen the pricing decision shift from a decision to negotiate with companies to a decision by the governments of the countries.

The golden period of OPEC, 1974 – 1980, as the Organization became governed by the decision of pricing oil in the world, to set a fixed price called the price of benchmark oil, and was then the light Arab produced by Saudi Arabia, and change from time to time by the agreement of the Member States, in addition to agreement on the price differences between benchmark oil and other types of crude oils, leaving production level to the decision of each member state. Accepting the price at the level agreed by OPEC was possible because the Organization of the Petroleum Exporting Countries controlled about half of the world's production and about three quarters of its foreign trade, and because the market structure made it possible, because the bulk of oil is sold on long-term contracts, and the role of the spot market is limited.

That phase had global repercussions, one of which was the feeling of other developing countries that the rules of the international trading and monetary regimes that were (and may still be) inclined to favour industrialized nations could change. Therefore, with the support of OPEC, the North-South dialogue began. The second echo of OPEC's rise is the industrialization of industrialized nations, at the initiative of the United States (and then Secretary of State Henry Kissinger), of the Paris-based International Energy Agency (IEA) to coordinate its energy policy (and indirectly counter OPEC) to diversify energy sources and offsetting oil imports and so on. The third echo was the intensification of the media campaign, especially in the industrialized countries, against OPEC and labelling it cartel (cartel) and other epithets. The North-South dialogue did not bear fruit, and the IEA was able to reach many of its goals, such as reducing oil dependence and creating a strategic reserve for its members.

This phase was characterized by the completion of the acquisition or nationalization of oil companies' assets in most OPEC countries and the establishment of national oil companies, some or all of which are owned by the governments of the member states, and international companies have often become buyers of crude oil from national companies.

In 1980, the first year of two years Iran-Iraq war, was the beginning of reduction of OPEC's power in the oil market, when the OPEC's oil production fell against 1979 about 14 % and globally OPEC's share fell by 4 %. The decrease of OPEC's oil production and its share in the oil market continued up to 1986. In that period, cumulatively, the decrease of OPEC's oil production was about 59 % when it fell from 30.28 mb/d in 1979 to 16 mb/d in 1985. The first half of the 1980s was a critical period in the history of the Organization, as the system of pricing and fixed price differentials did not prove with the disintegration of vertical integration and the competition of countries for buyers. The political circumstances (the Iranian revolution and the outbreak of the Iran-Iraq war) led the organization to adopt and defend prices associated with crises. The industrialized countries succeeded in diversifying energy sources and oil periods. It was able to separate the growth of the economy from the growth of its oil demand, due to the relatively high prices on the one hand, and its rationalization policy on the other. The demand of these countries declined from the highest level in the seventies, which was 44 mb/d in 1978, to below in the eighties at 36 mb / d, in 1983. High prices, taxation and incentive policies have also increased non-OPEC oil production from 28.7 mb/d in 1974 to 41.3 mb/b in 1985.

OPEC's decisions have not adapted to changing circumstances and market relations. , After reaching record levels early in the decade, prices began to weaken, before crashing in 1986, responding to a big oil glut and consumer shift away from this hydrocarbon. OPEC's share of the smaller oil market fell heavily and its total petroleum revenue dropped below a third of earlier peaks, causing severe economic hardship for many Member Countries. This was supported by OPEC in 1982 introducing a group production ceiling divided among Member Countries and a Reference Basket for pricing<sup>3</sup>. That is, unlike the previous period in which the price was fixed and left the amount of production subject to the request of each country, worked to stabilize both.

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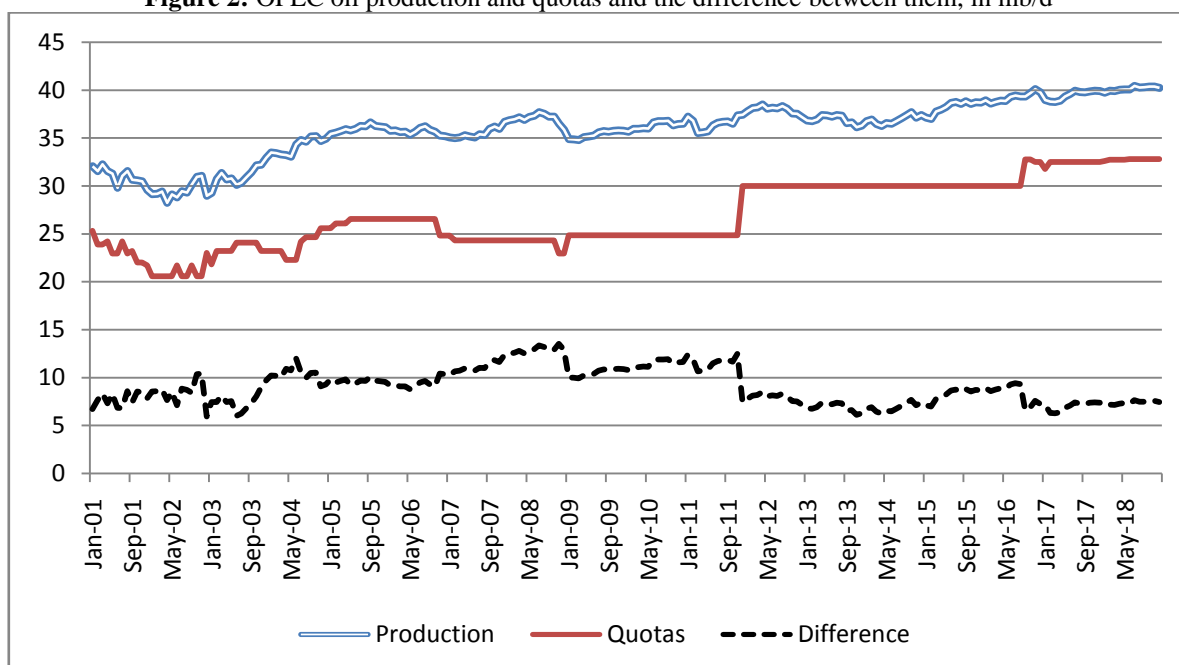
<sup>3</sup> See Brief history [https://www.opec.org/opec\\_web/en/about\\_us/24.htm](https://www.opec.org/opec_web/en/about_us/24.htm)

In the beginning of the 80<sup>th</sup> OPEC prices have lost their strength, accumulated their spare production capacity, then the burden was not fair to bear among members, which intensified the dispute between them, and other factors combined to make prices collapse in 1986. The impact of the collapse of prices was strong on OPEC, as it showed the limits of its ability to protect fixed prices in changing market conditions, so adopted plan from 1987 to 2005 to set a desired price for the average prices of several crudes, which is OPEC oil basket and leave it to the market, which sets the price of each type of oil and formulation of a ceiling and quotas for production to reach the desired price.

The compliance of endorsed production quotas for OPEC member countries is varying from one to other country. However, these quotas have never 100 per cent compliance; the largest (percentage) respect of OPEC's decision to comply with the established production quotas, in annual basis, was around 79% level in 2008. All member countries in majority have had an overproduction because of many reasons and factors related to every member country.

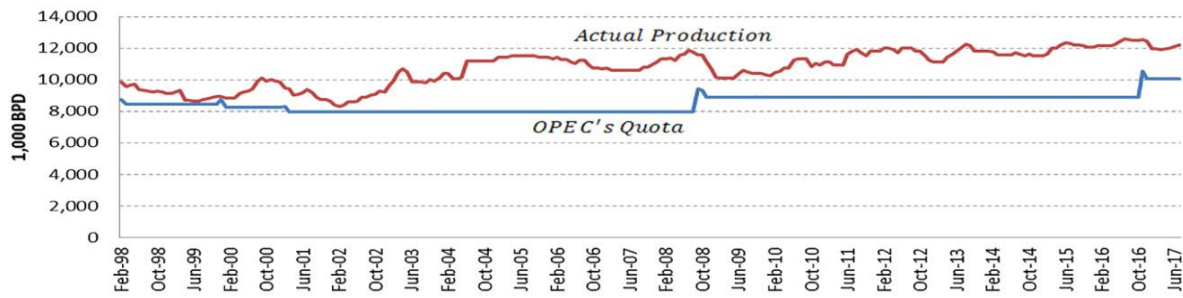
Non compliance to rules and the motivation to exceed assigned quotas by OPEC members is mainly due to lack of effective consequence management system. Saudi Arabia fill the role of swing producer not only in the framework of OPEC but also in world oil market scene. Therefore, it has an influence on many OPEC members though several methods and strategies. " Saudi Arabia play a very significant role in disciplining and rewarding cartel members through a tit-for-tat strategy " Griffin and Nielson(1994).

**Figure 2:** OPEC oil production and quotas and the difference between them, in mb/d

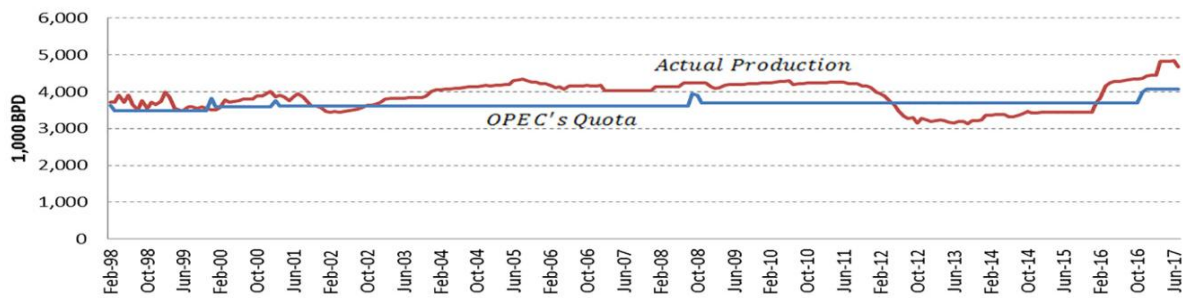


Source: Own based on Reuters database of OPEC and Reuters.

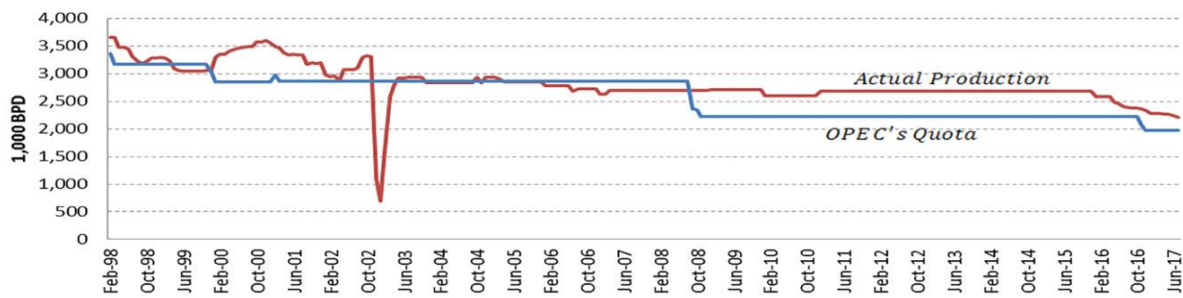
**Actual vs. Proposed Oil Production in Saudi Arabia**



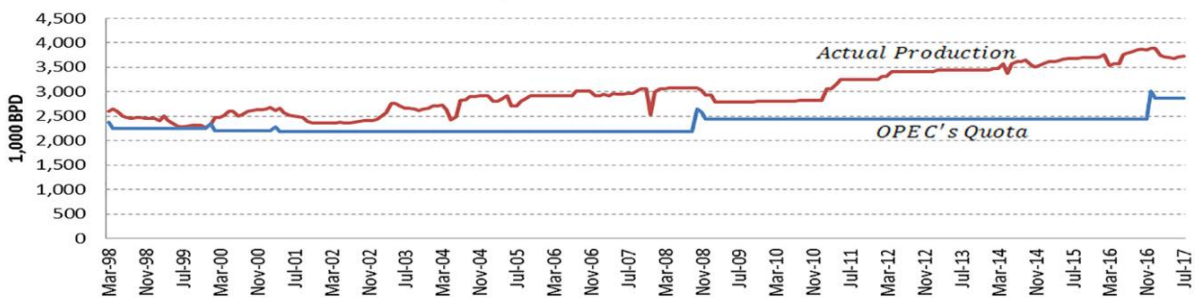
**Actual vs. Proposed Oil Production in Iran**



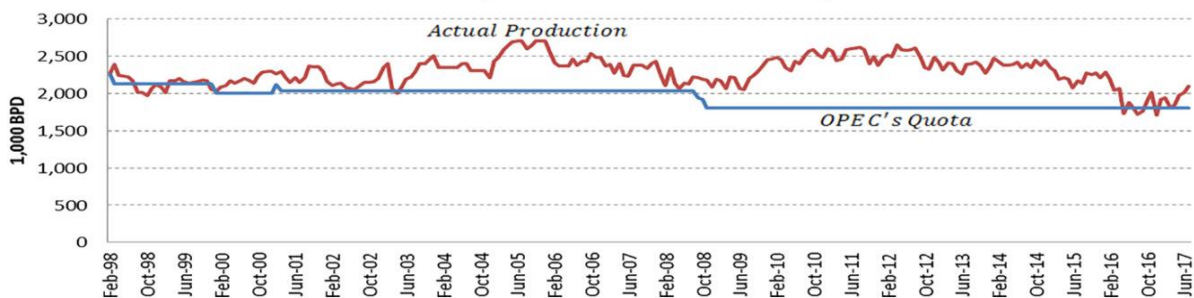
**Actual vs. Proposed Oil Production in Venezuela**

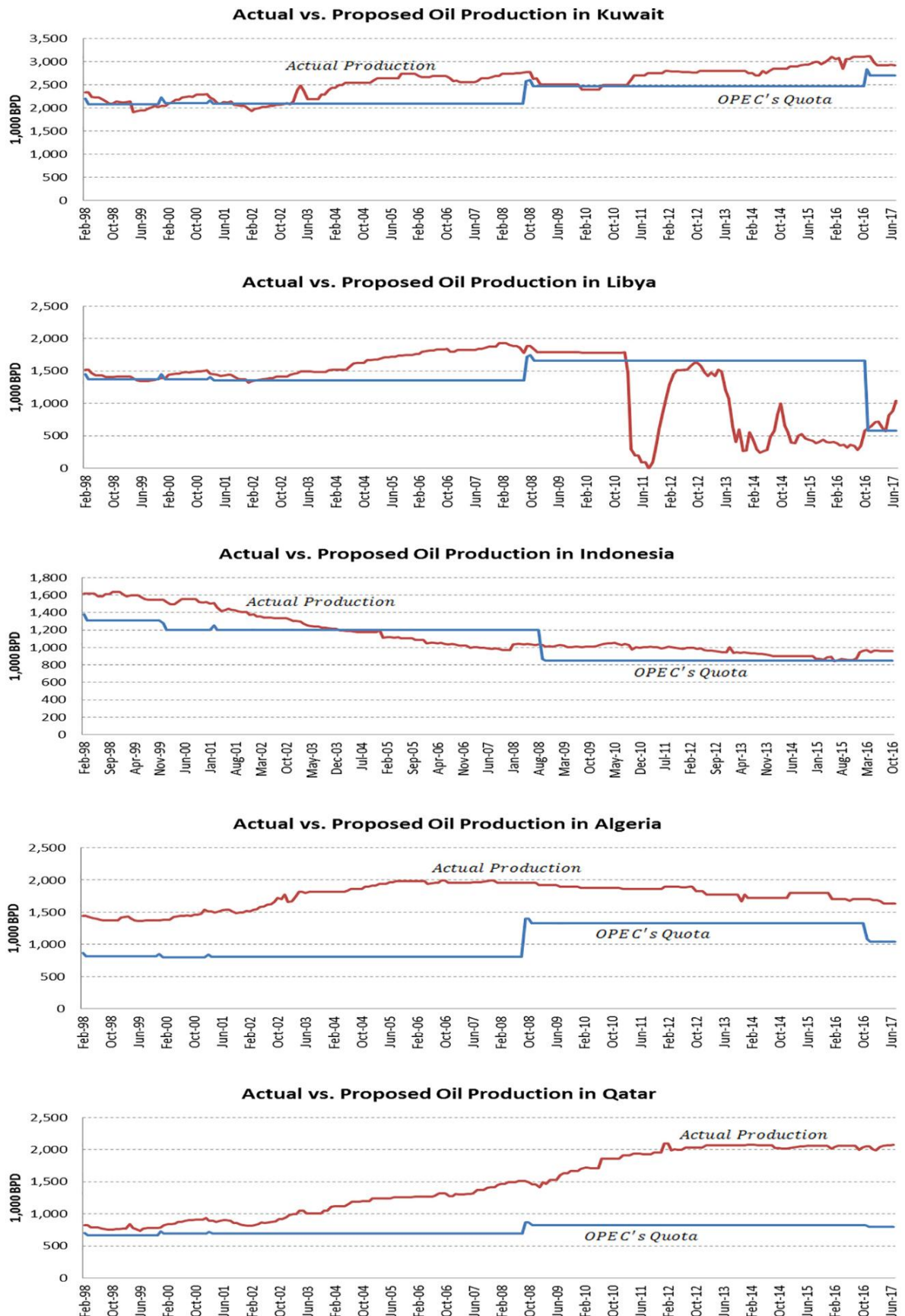


**Actual vs. Proposed Oil Production in UAE**



**Actual vs. Proposed Oil Production in Nigeria**





Source: Figures 1-10 are adopted from Parnes, D. (2019)



### III. DISCUSSION

What is the genuine role of OPEC in the global oil market? Indeed the answer to this question is discussable, especially when we look to the Organisation as a cartel of countries which have different political systems, different economic levels, different economic, political interests and different approaches in international relation. We should see this issue from more sides and dimensions. Firstly, it should be pointed out that OPEC has been established during the special period when the enthusiasm in many countries in the “third world” on the highest level to take control under their wealth from the colonialist countries and their international companies. However, since the political situation in many member countries has changed and due to the above mentioned differences the disputes between members have become appeared and reflected in OPEC decisions and the end in the level of realisation of the decisions. Yes, they should not be unified in all matters of the Organisation and decisions but all members should respect the decisions of their Organisation.

There are many examples of disunity of policies and approaches between member countries, not only at the creation of decisions but also in realisation of these decisions. One of the highest levels of proven discipline was during the deep international financial and economic crisis in 2009, when total world oil production decreased about 1.8% compared to the previous year mainly due to OPEC Member countries, which reduced production by 6.4% compared to the previous year. The member countries of this organization had a special discipline in respecting the production quota, which reached about 79%. However, non-OPEC countries have seen a 1.5% increase in production compared to the previous year, mainly due to a 2% increase in production in CIS countries (Russia) and 9.2% (other CIS countries). The willing of some OPEC members in the mentioned year to compliance the quotas caused, with other factors, particularly the recovery of global demand, a recovery of oil prices in the global oil market.

Indeed, OPEC is one of the major global players influencing oil prices on world markets, but not always successfully, due to disagreements sometimes occurring between cartel members. Examples of mismatches are quite numerous. For example, in December 2010, the negotiations of the OPEC Member States, the majority of which are OPEC members, agreed in Egypt that there was no need to increase production, and after the meeting some OPEC members declared that the world economy can handle 100 USD/barrel without any problems. Similarly, in November 2014 in Vienna, when oil prices plummeted by almost 30% since July of the same year, most cartel members chose not to cut production at a time when markets and analysts expected production to fall in an effort to halt the sharp drop in oil prices. At that meeting, several countries, headed by Venezuela and Iran, were for production cuts, even though Iran said shortly before the meeting that it would not vote to cut production because it expected the embargo imposed by Western countries to be lifted. However, many analysts agreed that one of the main factors behind the fall in oil prices in late 2014 and early 2015 was the decision of OPEC not to oil production quotas. In fact, OPEC's decision at that time was merely a psychological factor for traders on the oil market (futures contracts) to react by lowering the price of oil, as markets were prepared to lower prices, even if OPEC decided otherwise. In November 2011, OPEC Member States decided to increase the quota from 24.85 mb/d to over 30 mb/d., basically, it was only to legalize part of the even higher production of most members than their quota, and reducing the gap between actual production and the established quota (real OPEC production gradually increased from over 28 mb/d in May 2002 to around 38.5 mb/d in July 2008, while the quota was around 24 mb/d). Since 2011, both OPEC's real production and the quotas have registered an increase reaching in January 2017 40 mb/d and more than 31 mb/d, respectively. (Obadi, S. et al., 2018).

Examples of the weak effect of OPEC's decision are numerous, for example in December 2008, when OPEC decided to reduce production by 4.5 mb/d, oil prices continued to decline. Following a downward trend in oil prices, which reached 27 USD/bl in January 2016 and an OPEC price basket of around 23 USD/bl, and a weak price recovery in 2016, oil-exporting countries experienced significant losses compared to 2014 prices, in particular countries that have planned high state budget expenditures and are highly dependent on oil revenues. The largest oil exporter, Saudi Arabia, lunched the process of negotiation with the Russian Federation in order to recover oil prices, to reduce production and stabilize the oil market. In September 2016, the above-mentioned countries signed a Memorandum of Cooperation, in particular in the field of energy, to cut oil production in order to reduce oil supply on the market by 1.8 to 2 million barrels/d with other countries supporting this agreement. During the visit of King Saudi Arabia to Moscow in October 2017, the agreement was extended until the end of 2018. Since the signing of the memorandum between the countries mentioned above, oil prices have recovered up to over 50 USD/bl, (Obadi, S. et al., 2018).

The slowdown in demand and the recovery of US shale oil imposed on OPEC and Russia on July 2019 to consolidate the necessary alliance between the two parties to preserve their influence in the field of prices, even if this would strengthen Moscow's controversial influence over the policy of the cartel. The 14 members of the Organization (OPEC) and the 10 partner countries, led by Russia (OPEC+), approved the "Charter" of "permanent cooperation", which Saudi Arabia described as "historic." These countries agreed to extend for nine

months (until March 2020) the agreement reached in December 2018 to reduce their total supply by 1.2 million barrels per day, compared with production in October 2018.

In other aspect OPEC as an international organization trying to raise its reputation and influence in developing countries by providing financial loans through the provision of OFID financial loans for various development programs. In our opinion, this idea was raised after the debt crisis in the beginning of the 80<sup>th</sup>, when some developing countries blamed the OPEC countries and some west banks for raising the debt of developing countries by using petrodollars.

#### **IV. CONCLUSION**

This paper will explore the genuine role of the organisation in the global oil market by analysing its production quotas and its real oil production and their impact on the oil prices. OPEC is still considered to be one of the main players in the oil market, although its share of the global oil market is declining due to the increasing production of conventional and unconventional oil in Non-OPEC countries, especially the boom of shale oil in the USA. Currently, OPEC's share of global oil production is around one third and more than half of the exported oil. But because OPEC's member countries hold the vast majority of crude oil reserves (about 82%) and nearly half of natural gas reserves in the world, the organization has considerable power in these markets.

OPEC's position on the global oil market can also be measured to what extent it will affect oil prices on world markets. Of course, OPEC's share of the oil market allows the Organization to adequately influence oil prices in the world market. However, OPEC faced many challenges, which include the disputes between members, in particular between Iran and Saudi Arabia and before that between Iraq and Iran, indiscipline, cheating, and the lack of punishment of indiscipline members and other differences between them, weakening the power of organization in the oil market. Saudi Arabia, as the leader OPEC member and world's swing producer trying to keep supply and demand in roughly balance and remaining the power of OPEC in global oil market. But the development of extraction technology, particularly unconventional oil in the USA, has led to a greater weakening of OPEC's power in the oil market. Therefore, OPEC, led by Saudi Arabia seeks to cooperate the oil production with their strong counterparts from non-OPEC countries, especially with the Russian Federation and other CIS countries to take control on the global oil market.

We suggest that OPEC has still a power in the global oil market but less than other time before. The restoration of its respect position and power in the world oil market is depend to the commitment of its members to implement the decisions of the Organization related to the balance of supply and demand of oil in the world market and its cooperation with major producers outside OPEC.

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