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Global Oil and The Transformation of OPEC

Cyrus Bina

This paper attempts to clarify the meaning of globalization of the oil industry since the early 1970s. In what follows we show that what is lacking in the oil literature is an adequate theory of periodization which will be able to distinguish the significance of various stages in the development of the industry. I also analyze the upheavals of the last two decades which have rocked the oil markets, symptomatically announcing the arrival of a new phase in the internationalization of capital (for further details see, Bina 1985, 1988).

I further argue that the significance of OPEC stems from the particularities of the ownership of oil deposits by its members. This will introduce us to the theoretical importance of rent in the oil industry, regardless of the organizational character of OPEC. Consequently, any understanding about the nature and behavior of OPEC must be intimately related to the recognition of stage-by-stage development of global oil industry. It is hoped that this discussion will implicitly show the weaknesses of all axiomatic theories of OPEC behavior.

THE CONTEXT

Contemporary world capitalism has gone through specific stages of development which are historically unique and materialistically cumulative. At the highest level of abstraction, the metamorphosis of social capital constitutes a dynamic transformation which would inevitably manifest itself in three distinct concrete forms: commodity form, money form and productive form. These forms are correspondingly connected with the three circuits or moments of social capital which would facilitate its self-expansion without interruption.

At this level of analysis, one can also distinguish three historically specific stages in the process of internationalization of capital: (1) internationalization of commodity capital, (2) internationalization of finance or money capital and (3) internationalization of productive capital (Bina 1985; Bina and Yaghmaian 1989). These stages exhibit two particularities: (a) that the internationalization of capital proceeds cumulatively to include the internationalization of all preceding circuits of capital and (b) that the internationalization of productive capital is the final stage in which capitalist social relations tend to spread all over the globe in order to overcome the remaining obstacles which are still in existence from the previous modes of production.

These particularities are intimately related to the dynamics of capital accumulation on the global scale. Unlike most ahistorical approaches within the radical tradition, including the dependency theory, world-system theory, monopoly capitalism, etc., the internationalization approach reveals a step-by-step development of material conditions of capitalism in the world economy. Here, the

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unit of analysis is the world economy whose very stages of development are the subject of investigation. As a result, the task of periodization becomes one of the imperative features of the above framework.

PERIODIZATION MATTERS

Historically, there are three distinct stages in the transformation of international oil industry. These stages are: (1) the era of early oil concessions and cartelized arrangements (1901-1949), (2) the era of transition from cartelized production and pricing to the market-dominated arrangements (1950-1973), and (3) the era of post-cartelization and globalization of the oil market (since the oil crisis of 1973-74). We argue that these stages, characterized by their historical significance in the development of the global oil market, constitute a unique periodization theory applicable to the global oil sector.

The discovery of oil in the pre-capitalist regions of the world by a handful of capitalistically advanced transnational enterprises would not by itself constitute a full-fledged development of a capitalist oil market. In other words, the hegemonic control of the majority of global oil deposits, production facilities, refining capacities, transportation networks, and marketing outlets by global capital is necessary but not sufficient for establishment of capitalist social relations and their corresponding institutional forms in the predominantly pre-capitalist social formations of the Middle East, Latin America or North Africa during the early decades of this century.

In fact it has taken another half a century of tortuous march toward capitalism for some of these countries to emerge from their persisting old social relations. Indeed there remain many countries which are still struggling in the midst of this transformation. Capitalist development is a contradictory process which brings about uneven development both *intranationally* and *internationally,* especially under the hegemonic grip of transnational corporations (TNCs) which continue to operate in particular sectors of most developing countries today (see also Tanzer 1974; Engler 1977; Weeks 1985).

Without adequate periodization of the entire history and economic structure of the international oil industry (such as the recognition of particularities of each stage and their significance in the development of succeeding stages), the upheaval of the last two decades in the oil market cannot be adequately understood. Today, in the oil literature, one can hardly find any agreement on the major issues among the theorists. But paradoxically, what is commonly shared by the majority is an axiomatic approach to the very historically specific phenomena. In other words, while there is a great deal of discussion about the history of oil and the events surrounding OPEC, there seems to be a marked dichotomy between concepts and their historical counterparts, between theory and its application (see, for example, Fisher, Gately, and Kyle 1975, Adelman 1980).

GLOBAL OIL: CARTELIZATION AND POST-CARTELIZATION

The early period in the development of world oil coincides with the internationalization of *finance capital.* This period can be identified with the cartelization of the industry both in the United States and abroad. The cartelization of U.S. oil, however, was an institutional imperative, so much so that even with the antitrust landmark of 1911 it did not essentially lose its significance for another half of a century in the United States (Blair 1976).

The control of U.S. domestic oil continued for many years through regulating mechanisms, such as *market demand factor,* by the Interstate Compact Commission, soon after the discovery of huge reserves in the East Texas oil fields (Blair 1976). Hence, the oil companies were able to *stabilize* the domestic well head prices, in conjunction with the "posted price" at the Gulf of Mexico. Given the fact that the "posted price" at the Gulf of Mexico was designated as the basing-point in calculation of the price of all oil worldwide, control of U.S. domestic oil and cartelization of international oil together were the *sine qua non* of total control of the industry globally. Here, the phenomenon of cartelization, both in terms of basing-point designation and "posted price" determination, is an historically specific category which is relevant only to a particular phase of the internationalization of the industry.

From the standpoint of the leasing subsurface for mineral exploration, originally there were two separate institutional forms of property relations: (1) the *rule of capture,* reflecting the inseparability of land ownership and the ownership of subsurface mineral deposits, which is particular to the United States alone; and (2) the state ownership of subsurface mineral deposits, which is a standard practice in all other oil-producing regions of the world. These two systems of legal ownership continued to exist side by side in the oil industry.

The consequence of either of the above ownership structures in production of oil, given the worldwide differentiation of deposits, is the formation of category of *differential oil rent,* the very source of which is the surplus profit developed through intra-industry competition. Thus, the more developed the extent of market relations, the more established the institutional structure necessary for the transformation of differential profits into differential oil rents within the industry worldwide (Bina 1989).

Historically, the international oil industry has come to embrace both advanced and less developed regions altogether. This global network thus has extended unevenly from the most industrialized capitalist countries of the West, such as the United States, to the least developed, transient pre-capitalist societies in the Middle East and elsewhere. Thus, because of the lack of uniformity of various social formations which are subject to the hegemonic control of oil capital, we need to rely on adequate periodization. This will help us to understand the fundamental structural changes which have led to different *forms of* control and pricing within the oil industry.

Following the transitional period of 1950-1973, world oil saw a series of events that have transformed the relationship between the transnational oil companies (TNOCs) and the OPEC nations. From the 1971 renegotiation (Tehran conference) to the two-stage unilateral quadrupling of "posted prices" during the 1973 oil embargo, the *rent-collecting* states of OPEC, well within the parameters of the capitalist system, were able to challenge the companies in order to increase their share of oil rent. This challenge, contrary to the axiomatic views, has indeed been a *direct* consequence of the internationalization of capital and the sweeping forces of global commoditization within the oil industry worldwide. Here, contrary to voluntaristic explanations, we rely on the material transformation of global oil, i.e., the objective forces which made the transformation of OPEC possible.

The newly emerging world spot oil markets since the early 1970s were the consequence of: (1) a high degree of capitalist development within the oil sector (and presumably the entire economy) of the OPEC nations, which gradually made them an integral part of the entire global economy; (2) a substantial increase in the cost of production of value-determining U.S. oil, which is among the highest-cost oil regions of the world; and (3) unification of the entire global oil industry under one rule, which simply implies a pricing mechanism based on to the production price of the highest-cost oil region of the world (Bina 1985).

This is indeed the beginning of a new era, an era of post-cartelization and the epoch of price determination through global competition. In this historical stage, the owners of more productive oil deposits, by virtue of their ownership claims, are potentially in a position to capture all the existing differential profitabilities which result from differential productivities of competing oil regions around the globe. In other words, the OPEC "posted price" increase of the 1970s must be seen as a response to the worldwide restructuring of the industry, which resulted from a significant increase in the magnitude of U.S. production price, and which eventually led to a similar increase in the magnitude of global oil prices.

THE EMERGENCE AND TRANSFORMATION OF OPEC

The formation of OPEC was a response to the unilateral reduction of the "posted price" by the TNOCs in the Persian Gulf oil region. This reduction brought about a simultaneous decline in the amount of oil rents (per barrel) due to be collected by the oil-exporting countries of the region. Similarly, there were simultaneous reductions in the "posted price" of Venezuelan oil. This provided Venezuela and the Persian Gulf oil producers with a motive to join forces in a collective manner that marked the birth of OPEC in 1960 (Rouhani 1971).

The entire history of OPEC bears out the fact that there has always been a potential or actual conflict between the members of the organization and the dominating TNOCs since its inception in 1960 (Hirst 1966; Rouhani 1971; Alnasrawi 1985). To be precise, the formation of OPEC itself was the very consequence of such a conflict. The primary reflection of this antagonism, however, relates to the contrasting relationships between the owners of mineral deposits and those of the concessions or leases, for the exploration and production of oil may become intertwined with the imposing barrier of subsurface ownership.

There are three distinct periods in the history of OPEC: (1) the early formative years (1960-1969), (2) the transition period of 1970-1973 and (3) the era of global commoditization and integration since 1974.

In the early formative years, OPEC was *directly* dominated by the TNOCs. In this period, even though global oil was moving toward the end of its transitional stage, the role of OPEC was *passive* and the magnitude of its oil rent was not even slightly reflective of the existing inter-regional differential productivities. The OPEC members had no control over the production of oil or the conditions of contracts made with the TNOCs (Cattan 1967; Bina 1985: Ch. 3).

In the transition period of 1970-1973, the role of OPEC was rapidly changing. This was partly because of the growing objective conditions associated with the global commoditization of the entire industry and partly due to the further development of capitalism in the economies of the member countries. The share of the OPEC oil rent increased substantially in this period, as is indicated by a successful two-stage quadrupling of "posted prices" between October and December 1973 during the Arab oil embargo (Tanzer 1974; Stork 1975; Blair

1976; Bina 1985; Alnasrawi 1985). The inevitability of an active role on the part of OPEC in today's oil market is indeed tantamount to the inevitability of unified oil production on a fully capitalistic basis. Thus, fundamentally, the antagonism of OPEC and the TNOCs must be seen in light of the *internal* contradictions of capitalism on the global scale, inspite of OPEC's "nationalistic" outlook.

The era of global commoditization and integration is a stage in the development of OPEC, as an agency of capitalist rentier states, with strengths and weaknesses of its own. Moreover, there are limits to the OPEC "posted price" or the OPEC output determination which stem from the nature of global integration under a unified pricing mechanism within the global oil market. At the same time OPEC, as an integral part of the global oil economy, must face the necessity of periodic oil crises, which are the characteristic of present era of internationalization.

Even though there are many interpretations about the nature of OPEC and its significance in the international oil market, according to our analysis, OPEC is an association composed of a number of rentier states which are presently fully integrated into the global economy. If the evolution of the oil industry is tantamount to the transformation of institutional relations of global oil production, the emergence of OPEC and its subsequent incorporation into the present stage must be explicable by the same social forces which led to global oil evolution. Consequently, given my surplus approach, I do not subscribe to the prevailing *ad hoc* bargaining theories, nor am I convinced by popular but nevertheless arbitrary explanations in terms of cartels, to expound the present nature of OPEC.

Today OPEC can be characterized as a rent-collecting agency whose strength or weakness originates from the rent-producing nature of the member countries in association with the accumulation of global capital through competition rather than monopoly; integration is not the same as monopoly here (see Bina 1985; Ch. 6).

The OPEC "posted price" is a mechanism for an *actual* determination of the oil rent which, in turn, is dependent on the *potential* limit of differential productivity (or profitability) at the global level. Here there is a distinction between possibility and actuality. By the same token, theoretically the OPEC's bargaining power is also based on this potential magnitude. It is entirely possible that either OPEC will prove unable to capture the entire oil rent (leaving an extraordinary profit for the TNOCs) or that it will capture too much oil rent by cutting into the general profit rate of the TNOCs and thereby decelerating the process of capital accumulation in the OPEC oil regions.

Given the existing differential productivity (and differential profitability) of oil globally, there exist super profits which are to be captured by producers in the more productive oil regions. The appropriation of these super profits (or oil rents) is neither arbitrary nor explainable merely through the bargaining theory. Rather, any bargaining phenomenon must be primarily understood to be determined by the magnitude of such differential oil rents within the accumulation process.

In other words, without the theoretical framework of the transformation of differential profitability into differential oil rent, the theories of a bargaining variety have no solid foundation. As for the cartel theory, even within the neoclassical framework, it is hardly justifiable to describe OPEC as a cartel in view of its shrinking market share (see Johany 1980; Alnasrawi 1985).

CONCLUSION

OPEC is a constituent element of the era of transition in the global oil industry; transition from the cartelized networks of direct political hegemony of a handful of TNOCs to the unified framework of global market pricing since 1974. In this transformation, the basing-point pricing, long-term contracting, "gentleman's agreements" and the designation of lower "posted price" for cheaper oil gave way to spot-market pricing, short-term and future contracting and the designation of uniform "posted prices" for similar quality crude oil.

This transition period brought about the development of a *variable* basis for collection of oil rent through the adoption of "posted prices." This is a partial indication of the development of capitalist social relations in the international oil industry of this period. The very establishment of OPEC (in response to the declining "posted" prices) is indeed symptomatic of major developments within the global context in general and within the global oil industry in particular. In other words, the formation of OPEC has not been a cause but the gradual symptom of advancing modern oil rent relations. Consequently, OPEC itself must have gone through distinct developmental stages quite in conformity with the transition from the neo-cartelization (since 1911) to post-cartelization period.

During the gluts when the increased amount of oil from more productive regions is rendering the production from the least productive oil regions superfluous, the magnitude of differential productivity is smaller than in the period of global shortages. Thus, the magnitude of differential oil rents is smaller during the persistent gluts than in the period of shortages. Accordingly, OPEC may seem "clumsy" during such gluts and tactful during the impending shortages (see Adelman 1980). This is indeed the status of most theories which remain at the level of appearances.

The same problem arises in the theory of cartels, which is basically an axiomatic analogue of the neoclassical theory of "pure competition," and which remains all the same in the conservative, liberal or radical versions. What is missing from the analysis of the oil market, OPEC and globalization in the oil literature is, by and large, the recognition of the historically transient nature of cartels and the specification of the present era of unified global production and exchange in the oil industry. Consequently, attributing a price-setting role to OPEC at this stage of globalization is an illusion.

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