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OPEC and OAPEC
A COMPARATIVE STUDY IN
INTERNATIONAL ORGANIZATIONS
BY
Dr. ABIL A. KHAKI

INTRODUCTION

1. People not necessarily in the West but even within the Arab world often get mixed up between OPEC and OPAEC, let alone the fact that some who know OPEC have not heard of OAPEC. These who know of both organizations often wonder why there should be an OAPEC. when there is OPEC. Others get confused between the two bodies most probably because of the very negligible difference between the two titles. What makes the answer even more difficult to the ordinary man is the fact that Arab members in OPEC are seven out of thirteen. These Arab members of OPEC are also members of OAPEC (1).

2. This paper tries to give the answers to all these questions. It is therefore a comparative study of two of the most concern generating international organisations; their purpose and objectives and their achievements. This paper does not, therefore, — and is not meant to — deal with the controversial subjects such as oil prices, oil economics, production and policies or discuss view points of consumers or producers.

3. This subject will be dealt with in the following methodology :

a) Background and motives.

(1) Member countries of OAPEC are : Algeria, Bahrain, Egypt, Iraq, Kuwait, Libya, Saudi Arabia, Syria, The Emirates.
Members of OPEC are : Saudi Arabia, Kuwait, Iraq, Iran, Venezuela, Qatar, Indonesia, Libya, The Emirates, Algeria, Nigeria, Ecuador and Gabon.

- b) Membership.
- c) Objectives.
- d) Achievements.
- e) Comparisons and conclusions.

BACKGROUND AND MOTIVES

OPEC

4. Apart from the fact that oil producers have, long before OPEC, struggled to form some sort of Producers grouping, OPEC was at last founded in September 1960 as a direct response to the steps taken by multinational oil companies in arbitrarily and unilaterally (2) reducing the posted prices of crude oil in February 1959 and again in August 1960 (3).

5. Despite the above direct « straw », one can in retrospect clearly see that the founding of OPEC is attributable to a variety of indirect factors which would have led to such OPEC — type grouping even if no price cuts were affected by the companies. These factors can be summarized in the following brief points :

- a) The inequity of the traditional oil concession agreements. Most of the Middle East concessions were granted under duress, so they did not give adequate protection to the national interests.
- b) The introduction in 1950/51 of the principle of 50/50 profit-sharing and the emergence of the posted price as the determinant of the government take. By this formula the host countries became directly affected by the price of oil.
- c) The growing oil consciousness in the principal producing

(2) Dr. Otaiba, the Minister of Petroleum UAE, OPEC Abu Dhabi 1971 p. 11.

(3) Abd. al Amir Kubbah : OPEC, Past and Present Petro-Economic Research Centre, Vienna 1974, p. 7.

countries and the increasing awareness of the importance and irreplaceable character of the oil wealth. These countries started to realize the degree of dependence of their economies and development programmes on oil revenues.

6. In the face of a common danger of reducing the governments take following the unilateral cuts in posted price and over and above other deep rooted factors, representatives of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela met on September 10th-14th 1960, in Baghdad to lay the foundation of the organisation was born as an inter-governmental body and the founding instrument was on 6th November 1962 registered in the office of the UN Secretary General in accordance with article 102 of the UN Charter (4).

OAPEC

7. Background of this organisation and motives behind its creation are completely different from those of OPEC. Following the establishment of the Arab League in 1945 inter-Arab relations began to grow and expand noticeably. But the Arab League began to be concerned with the problems and potentialities of Arab oil as of 1951. A committee of Arab oil exports was formed for that purpose and was charged with the task of submitting recommendations for the planning of an Arab oil policy and its co-ordination (5). This committee adopted throughout the years many recommendations hinged around joint Arab projects and joint oil policies. As the Arab League's interest in oil affairs grew over the years a « Bureau » for oil was established in 1954 which in its turn was developed into a separate « administration » for oil within the organisation of the League. In 1964 a proposal for establishing a pan-Arab oil organisation was submitted but it faced strong resistance from oil rich small Arab states on the grounds that it would become another

(4) Abd al Amir Kubbah, *op. cit.* p. 17.

(5) George Tomeh, OAPEC — Consultant for International affairs
OAPEC — An address to a meeting on 22nd February 1977 at the
House of Commons, p. 2.

Arab League (oil one) where vital oil policies would slip into the hands of stronger Arab states even though they were not oil producers themselves (6). This proposal did not see light until 1967.

8. In the 1967 war Arab oil was used as a weapon. The end result was for the oil producing countries to stop exporting during the war and later provide financial support for those Arab states who lost in battle. From a purely financial viewpoint this was a double loss for those countries for which oil represents the principal and fundamental source of national income. Bearing in mind this fact and the failure of the Arab League in building up an effective Arab oil organisation which takes care of the oil producers' interests, three Arab states, namely Saudi Arabia, Kuwait and Libya (then Kingdom) decided to go ahead independently and establish an oil organisation of their own. Thus OAPEC was born on January 9th, 1968.

MEMBERSHIP

9. OPEC started in September 1960 with five members only; Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Four months later Qatar was admitted as a new member. In 1962 both Libya and Indonesia were admitted. Abu Dhabi (now UAE) joined in November 1967. In July 1969 Algeria joined as the tenth member. Two years later in July 1971 Nigeria came in and in 1973 Ecuador was accepted as a full member, and Gabon as an Associate Member (7). The organization has now 13 members. It will be seen that seven of its members are Arab countries.

10. The OPEC's statute distinguishes between three categories or members, namely Founder member, Full member and Associate member. Founder members are those countries which were represented at the first conference and

(6) Middle East Economic Survey (MEES), 12th January 1968 p. 3.

(7) Abd al Amir Kubbah, *op. cit.* p. 18;
also : Mohd. Hassan Tahir — *Fundamentals of oil and Industry coun-*
se — OAPEC 1976 vol 2 p. 129, (Arabic).

signed the establishing agreement. Full members are all members including Founder members but excluding Associate members. An Associate member is a country which does not qualify for full membership but which is nevertheless admitted under such special conditions as may be prescribed by the conference.

11. Qualifications of membership can always be found in the resolutions admitting new members. According to paragraph 3 of resolution 1.2 «*any country* with substantial net export of crude petroleum can become a new member if unanimously accepted by all original members of the organisation ». However, the statute of OPEC requires another condition which must be met for membership and that is a candidate should have «*fundamentally similar interests to those of member countries* ». Moreover, an applicant should be accepted by a majority of three-fourths of Full members including all Founder members (8).

12. OAPEC's membership presents a more complicated picture. Article 7 of the founding agreement provided as follows :

Article 7

- a) Founding members of the organisation are those parties who signed this agreement.
- b) *Any Arab* oil exporting country may become a member in the organisation provided that :
 - i) Petroleum is the *principal* and *fundamental* source its national income.
 - ii) It abides by the provisions of this agreement and any future amendment.
 - iii) The Council... approves its membership by a majority of three-fourths of the votes including the votes of all founding members » (9).

(8) Abd al Amir Kubbah, op. cit., p. 18.

(9) Agreement of the Organisation of the Arab Petroleum Exporting countries, OAPEC Pub. Kuwait, (Personal Translation).

13. In order to widen the base of membership by accepting more Arab states into the organisation the provision of sub-para b (i) (Supra) was, in 1971, amended to read :

« Petroleum is an important source of its national income ». (10)

Thus, the road was paved for other Arab states to join. Iraq joined in 1972, Syria and Egypt joined in 1972 and 1973 respectively, while Algeria, Abu Dhabi (UAE), Qatar and Bahrein had already joined the organisation in May 1970 (11).

14. Thus, by 1973 the organisation's membership had increased from three to ten recording a meaningful expansion that is worth noting, OAPEC countries now represent 70% of total Arab population. They export around 60% of OPEC's oil and have oil reserves of about 70% of OPEC's. OAPEC's production in 1977 was 33.4% of the world production and its reserves were around 56% of world reserves (21).

OBJECTIVES

OPEC

15. Indirect factors and direct circumstances which set the stage for the birth of OPEC (supra) led to one obvious principal aim, that is the stabilization of oil prices and the prevention of any further decline. While this was the *raison d'être* of the organisation, this aim was further elaborated in the statute. Article 2 provides as follows :

- a) The principal aim of the organisation shall be the co-ordination and unification of the petroleum policies of member countries and the determination of the best means for safeguarding their interests, individually and collectively.

(10) Middle East Consultants report No. 26, Feb. 1976 p. 2.

(11) George Tomeh, *op. cit.* p 4.

(12) Statistical Report No. 5, 1976-77, OAPEC's publication, Kuwait 1978 p. 15.

- b) The organisation shall devise ways and means of ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations.
- c) Due regard shall be given at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries, an efficient, economic and regular supply of petroleum to consuming nations and a fair return on their capital to those investing in the petroleum industry » (13).

16. Perusal of the above article would reveal that the only specific objective clearly mentioned is the stabilization of oil prices. The other points relating to unification, coordination and safeguarding of interests can be considered self-evident and inherent in the establishment of such an organisation. These objectives as provided in a, b, and c of the above article remained unchanged despite the fundamental change that took place in the relationship between producers, consumers and companies (14).

OAPEC

17. While the main and principal objective of OPEC hinged upon oil prices and the improvement of government take in many different ways (infra) OAPEC's targets and objectives are totally different even though both organisations deal with the same commodity. Its objectives include « the co-operation of members in various forms of economic activity in the petroleum industry and the realization of the closest ties among them in this field » (15). In other words OAPEC was founded in response to economic needs of the Arab states and reflecting basic development in the petroleum industry, i.e. the long-term aspects of cooperation and interdependence among its members OPEC dealt with

(13) Kubbah, op. cit. p. 21.

(14) Ibid.

(15) Basic Facts about OAPEC. An OAPEC publication, Kuwait 1976 pp. 11-12.

short-term objectives of prices and governments' oil income.

18. To go into further detail of OAPEC's purpose sub-
paras of article 2 of its founding instrument are reproduced
hereunder :

- a) Coordination of petroleum policies of its members.
- b) Harmonization of the legal systems of the member countries to the extent necessary to enable the organisation to carry out its activities.
- c) Assistance to members in the exchange of information and expertise and the provision of training and employment opportunities for their nationals.
- d) Promotion of cooperation among members in working out solutions to problems facing them in the petroleum industry.
- e) Utilizing members, resources and common potentialities to establish join projects in various stages of the petroleum industry » (16).

19. Despite the clear difference in motives, background and objectives of OAPEC to those of OPEC, in order to defeat any possible interpretation that the former is a substitute of, rival to or an Arab block within the latter, the founding instrument provided ab initio in its article 3 that « OAPEC agreement shall not be deemed to affect the OPEC agreement... » and that « OAPEC member is not a member of OPEC » (17).

Moreover, the controversial questions of Pricing and Rates of Production have, by unanimous approval of all OAPEC members, been left to be dealt with at OPEC level (18). OAPEC as such is only informed (19).

(16) Basic Fact about OAPEC, op. cit. p. 7,

(17) Article 3 of the OAPEC founding agreement.

(18) Dr. Ali Atiga, Secretary General of OAPEC, OAPEC's Bulletin, Feb. 1978 (Supplement) p. 43.

(19) Dr. Ali Atiga, transcript, of discussions between the EEC delegation and OAPEC's Secretariat, Kuwait 1-2 May 1978.

ACHIEVEMENTS**OPEC**

20. The first success achieved by OPEC was the freezing of oil prices at the post August 1960 level. Later, the problems of oil pricing were dealt with in successive conferences and several important measures were taken in the direction of a rationalized price structure. The rest of the oil price story need not be repeated (20).

21. Being fundamentally concerned with improving governments take, OPEC succeeded, after a long time and great effort, in convincing the companies to « expense » royalty payments which meant further income for host countries. This was based on the principle that there is a fundamental distinction between royalty and income tax. Royalty is payable by the lessee to the owner quite independently of whether or not any profit is realized.

22. Another way of improving governments take was marketing expenses. These were a certain percentage of posted prices used to be deducted before determining taxable income, in order to compensate the operating companies for expenses involved in marketing operations. As a result of negotiations, it was agreed in 1964 to reduce the contribution of the member countries to marketing expenses to half a cent per barrel. This was later eliminated in the Tehran agreement of February 1971.

23. Apart from the financial concern of OPEC other achievements can only be regarded as a matter of course. Collective support to individual host countries in their relations with the companies, the recommendation to member countries to demand from operators the conduct of their

(20) For further details of the pricing and related questions including the first Libyan settlement, Tehran agreement 1971, Tripoli agreement 1971 and the two Geneva Agreements see, Tagendhat and Hamilton, *Oil the biggest business*, Evre Methuen, London 1975.

Abd al Amir Kubbah, op. cit Fouad Rouhani, *A history of OAPEC*, Praeger Pub. 1971
Mona Otaiba, *OPEC and Petroleum Industry*, Croam Helm London 1975.

Achraf Lufi, *OPEC oil*, the M.E. Research and Publishing Centre, 1968.

operations according to the best conservation practice, training opportunities and information and research facilities are only examples of other OPEC concerns (21).

OAPEC

24. OAPEC achievements from its objectives (supra). The following is a brief account of these :

- a) In the area of coordination of petroleum policies it has so far taken all possible steps to this end. However, at this stage OAPEC is helping individual member states in formulating their own national policies as a first phase towards joint regional policies.
- b) Lately OAPEC completed an extensive survey of member countries' oil legislations and published them in one volume as a media of exchanging legal information and a step towards harmonization of legal systems as necessary. Moreover, joint project agreements between member countries have been found to serve this purpose.
- c) Exchange of information and expertise and holding training courses and seminars of general or specialized nature is organised and run continuously on a large scale.
- d) Perhaps the most significant achievement of OAPEC is the establishment of joint key projects. These are planned on a medium and long-term basis. So far, the following projects have been realized (22) :
 - i) The Arab Maritime Petroleum Transport Co. (AMPTC) based in Kuwait.
 - ii) The Arab Shipbuilding and Repair Yard Co. (ASRY) based in Bahrain.
 - iii) The Arab Petroleum Investment Co. (APIC) based in Saudi Arabia.
 - iv) The Arab Petroleum Services Co. (APSC) based in Tripoli, Libya.

(21) Kubbah, *op. cit.*, pp. 45-47.

(22) For details see : George Tomch, *op. cit.*, p. 7

CONCLUSIONS AND COMPARISONS

25. Despite the fact that both OPEC and OAPEC deal with the same commodity and are of the same legal status, i.e. intergovernmental organisations, they are totally different in many ways :

- a) OPEC'S motives were financial and an exercise of state sovereignty while OAPEC's were economical integration. The former deals with short-term objectives while the latter deals with long-term planning.
- b) Membership in OPEC is open to *any* oil exporter that qualifies the conditions of membership, while OAPEC is only open to *Arab* exporters. In other words OPEC has an international identity with countries from far West such as Venezuela and far East like Indonesia, while OAPEC is not only regional but it embraces members of the same identity and in most cases with common borders.
- c) OPEC's achievements were and still are confined to improving income, while OAPEC has nothing to do with this, its contribution has been in the field of integration and cooperation between members. OAPEC as it always said « has no oil to sell and no money to invest ».

26. In one word, OPEC is an organisation that converts oil into money while OAPEC transfers Arab oil money into an integrated dynamic renewable Arab economy.

