

OPEC bulletin

9/05



OPEC — 40 years in Vienna



Algeria



Indonesia



IR Iran



Iraq



Kuwait



SP Libyan AJ



Nigeria



Qatar



Saudi Arabia



United Arab Emirates



Venezuela



Reuters

HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, President of the OPEC Conference, speaking to members of the media during the 135th Conference in March.

Al-Sabah, who is Kuwait's Minister of Energy, will be opening an exhibition on September 20, 2005, hosted by the Mayor of Vienna on the occasion of 40 years of OPEC in the Austrian capital.

The exhibition is to provide an insight into the Organization's origins and the many facets of OPEC's day-to-day work, as well as conveying information on Member States and general background knowledge on the petroleum industry in general.

The exhibition will be shown from September 21–October 14, 2005 in the central courtyard (Arkadenhof) of the Vienna City Hall. It will be open to the public free of charge.



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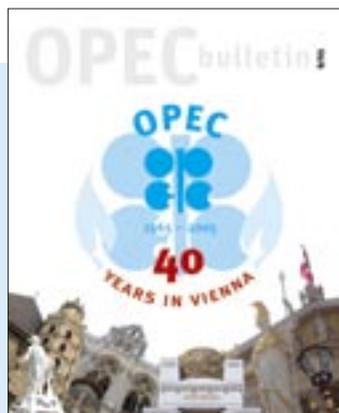
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OPEC — the imprint of 1960



Cover
OPEC celebrates 40 years in Vienna.

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OPEC
Organization of the Petroleum Exporting Countries
Obere Donaustrasse 93
1020 Vienna, Austria
Telephone: +43 1 211 12/0
Telefax: +43 1 216 4320
Public Relations & Information
Department fax: +43 1 214 9827
E-mail: prid@opec.org

Web site: www.opec.org

Visit the OPEC Web site for the latest news and information about the Organization and back issues of the *OPEC Bulletin* which is also available free of charge in PDF format.

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Membership and aims

OPEC is a permanent, intergovernmental Organization, established in Baghdad, September 10–14, 1960, by IR Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Its objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry. The Organization comprises the five Founding Members and six other Full Members: Qatar (joined in 1961); Indonesia (1962); SP Libyan AJ (1962); United Arab Emirates (Abu Dhabi, 1967); Algeria (1969); and Nigeria (1971). Ecuador joined the Organization in 1973 and left in 1992; Gabon joined in 1975 and left in 1995.

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Secretariat officials

Secretary General

HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah

Acting for the Secretary General, Director, Research Division

Dr Adnan Shihab-Eldin

Head, Administration & Human Resources Department

Senussi J Senussi

Head, Energy Studies Department

Mohamed Hamel

Head, PR & Information Department

Dr Omar Farouk Ibrahim

Head, Petroleum Market Analysis Department

Mohammad Alipour-Jeddi

Senior Legal Counsel

Dr Ibibia Lucky Worika

Head, Data Services Department

Fuad Al-Zayer

Head, Office of the Secretary General

Karin Chacin

Contributions

The OPEC Bulletin welcomes original contributions on the technical, financial and environmental aspects of all stages of the energy industry, including letters for publication, research reports and project descriptions with supporting illustrations and photographs.

Editorial policy

The OPEC Bulletin is published by the PR & Information Department. The contents do not necessarily reflect the official views of OPEC or its Member Countries. Names and boundaries on any maps should not be regarded as authoritative. No responsibility is taken for claims or contents of advertisements. Editorial material may be freely reproduced (unless copyrighted), crediting the OPEC Bulletin as the source. A copy to the Editor would be appreciated.

Editorial staff

Editor-in-Chief

Dr Omar Farouk Ibrahim

Editor and Senior Co-ordinator

Umar Gbobe Aminu

Contributors

Siham Alawami

Keith Aylward-Marchant

Jerry Haylins

Production and layout

Diana Lavnick

Cover design and layout

Elfi Plakolm

Photographs (unless otherwise credited)

Diana Golpashin

Indexed and abstracted in PAIS International

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Dr Adnan Shihab-Eldin
Acting for the OPEC Secretary General

Anniversaries provide a chance for reflection.



Reflection is always important, no matter our walk in life. It enables us to see things from different perspectives, in terms of our environment and with respect to time. We can appreciate the good and make a conscious effort to express our gratitude to those who have contributed to this satisfactory state of affairs. We can ponder over shortcomings and be inspired to look at these in a fresh, new way for the future. And we can be distracted, even momentarily, from our day-to-day tasks, which, in itself, can be beneficial to all of us.

We are very fortunate to have our Secretariat located in a city which is rich in culture and history and which repeatedly ranks among the top contenders in international surveys about quality of life. We are equally fortunate to have such excellent hosts, in the City of Vienna, who have been fully supportive to our Organization, as it has grown in size, expertise and influence on the world stage over the past 40 years.

This special issue of the OPEC Bulletin is dedicated to celebrating the very special relationship that has existed between OPEC and the City of Vienna — and, through them, the Federal Republic of Austria, with whom our Organization signed the headquarters agreement on September 1, 1965.

Inside, readers will find a wealth of information about OPEC's background, its history, its objectives and its activities. Underlying all of this is a clear expression of OPEC's steadfast commitment to order and stability in the international oil market, to the benefit of producers and consumers alike, past, present and future.

Furthermore, to mark the occasion, the City of Vienna, with support from OPEC and its Member Countries, is organising a special exhibition at Vienna City Hall (the 'Rathaus') from September 20 to October 14. It is entitled *OPEC: 40 years in Vienna*, and it provides many insights into OPEC and its Member Countries, as well as the OPEC Fund for International Development, and places these in the context of the Organization's cordial relationship with Vienna and Austria.

Finally, on behalf of all the Staff at the Secretariat — those who are with us now and those who have served OPEC with distinction in the past — let me thank the City of Vienna for their wonderful hospitality over the past four decades.

Long may this happy and productive relationship prosper!



Dr Heinz Fischer
The Federal President of the Republic of Austria



Forty years of OPEC in Vienna

— this anniversary gives me the opportunity to cordially congratulate this important international organization. At the same time, I would like to emphasize how much Austria appreciates being OPEC’s host country. After all, OPEC chose Vienna as the seat of its Secretariat as early as 1965, shortly after the International Atomic Energy Agency (IAEA) established its headquarters in the Austrian capital. Thus the IAEA and OPEC laid the cornerstone for Vienna to become a respected host city to other international organizations.

When OPEC came to Vienna the world was in the midst of a “cold war”. Neutral Austria was trying to establish its position as an international meeting place by attracting other international organizations. Many efforts were made in this regard. The Vienna International Centre (VIC) opened in 1979. The fall of the ‘iron curtain’ in 1989 enabled Austria to further develop its international position. In 1995, our country became a member of the European Union. Vienna is now the only EU capital hosting a UN headquarters.

Today, Austria hosts some 30 international organizations, as well as many important non-governmental organizations. Over the years, a natural cluster concerning issues related to international security has developed

in Vienna. This fact also increases the visibility and credibility of Austria in the world. Many things have changed, though, over the past four decades. We are facing a world full of new political and economic challenges. This is true for countries such as Austria, as well as for international organizations such as OPEC.

The present situation in the world oil market shows us that OPEC’s importance will increase, rather than diminish. The stability of the world economy is a question which must also be seen in a strong connection with security issues. A secure world will always depend on an economically stable and just world.

In this context, I wish the Organization of the Petroleum Exporting Countries every success. Ad multos annos OPEC.



Dr Michael Häupl
Mayor of the City of Vienna

Mayor of Vienna stresses global significance of OPEC

Question: It has been 40 years since OPEC moved its Headquarters to Vienna. As the Mayor of the host city of OPEC, what would you say about the Organization?

Answer: I am very glad to see that our vision to make Vienna a host community to international organizations has indeed become a reality. Today, the world recognizes the significant role that OPEC is playing, especially its efforts to make oil available to the international markets. Whenever the Organization meets at its usual biannual and other meetings, the world's attention is drawn to Vienna. We are privileged to be host to this important Organization, whose global significance has grown over the past 40 years. I want to believe that it was not by accident that OPEC chose Vienna as its Headquarters. We offer the best conditions for living and doing business. In addition, the safety and quality of life that the City of Vienna provides makes the choice second to none. We see OPEC's presence here as a great opportunity, a privilege and to the delight of the Viennese people.

How do you see the role of OPEC and its contribution to sustainable development?

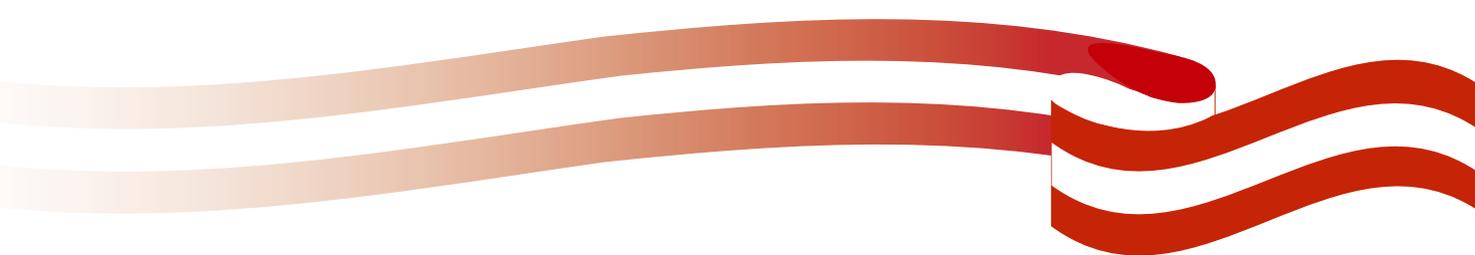
I would say that any contribution made towards the growth and development of the world economy, which has a direct bearing on the way we live and for our daily progress is, in fact, a contribution to sustainability. There is no doubt that oil has played, and is still playing, a major role in the sustenance and growth of the world economy. Therefore, I would say OPEC's role towards ensuring stable market conditions for energy is important for the continuity of world economic activities and growth.

How do you see OPEC's role in ensuring the supply of oil to its consumers?

Again, I would restate that the Organization has been playing an important role over the past years — that of co-ordinating the oil policies of its Member Countries and providing a stable market environment for oil consumers and the investing public. These interrelationships see OPEC and us as a dependable and reliable partner. OPEC is an important institution which has a great influence over the development of the world economy, especially now with today's oil market developments. OPEC is indeed, playing a central role. It stands as a very important Organization. As you know, energy is central to our every day development and because of that OPEC is seen as a development partner. Let us take, for example, the General Motors automotive plant in Vienna. It relies heavily on energy to produce every unit. Without it production would not be possible. The cost component of their total energy consumption is about 30 per cent, while that of wages is about 15 per cent. This illustration best explains the importance of energy when positioning the city as an international centre for business and commerce.

I would like to finish now by saying that, above all, OPEC is a very welcome guest of our city. I am happy and I hope that I am a good host too.

Thank you.





Suleiman Jaser Al-Herbish
 Director-General of the OPEC Fund for International Development



The OPEC Fund for International Development

enthusiastically joins the OPEC Secretariat and the City of Vienna in commemorating this remarkable milestone: 40 uninterrupted years of residence in one of the most adorable cities of Europe. Indeed, as a sister institution, we actually share this pleasure: the OPEC Fund itself is also based in Vienna and will, next year, mark its own 30 years of existence in the city. Much like OPEC's 40 years, these have been, for the OPEC Fund, 30 hitch-free years.

Clearly, if OPEC did not exist, the necessity would have been there to have it created. For 45 long years, OPEC, through its Ministerial Conference, has worked assiduously to ensure a steady stream of supply of a major energy resource and to maintain market stability. The OPEC Fund joins the rest of the world in acknowledging this accomplishment. In keeping with the mandate and wishes of our founding nations, the OPEC Fund, like OPEC, remains true to its noble mission, which, briefly stated, enjoins close co-operation with other developing countries in pursuit of South-South solidarity.

In a brief message, such as this, it is necessary to pay tribute and recognize the noteworthy, cumulative work of the OPEC Staff, without whose dedication there would be little to celebrate. It is also opportune to use an occasion

like this to again place on public record our joint appreciation of the kindness and sustained hospitality of our hosts — the Austrian nation and government. The same applies, in equal measure, to the City of Vienna, which has been impeccable, as well, in its relations with both Organizations.

Over roughly 29 years, the OPEC Fund has provided considerable financing for projects and programmes and initiatives across the developing world, all aimed at sustainable development and at lifting millions out of grinding poverty. The Fund has built bridges of co-operation and understanding, worldwide. Today, the institution is present in 119 countries and is engaged in projects in a wide range of social and economic sectors.

The OPEC Fund looks forward to many more years ahead, during which, with the invaluable support of Member States, it proposes to continue to work to provide, to all peoples, access to food, clean and safe drinking water, health care and education; helping, in part, to achieve the *Millennium Development Goals* that have become the overarching objectives of global development co-operation institutions. The Fund calls on the international community, as a whole, to unite in reaffirming the commitment to these goals.



I would like to extend my warmest congratulations to OPEC on the 40th anniversary of its establishment in Vienna. As an important intergovernmental organization, its role has become universally recognized. It has co-ordinated oil production policies to help stabilize the market and ensure that consumers continue to receive stable supplies. As such, the Organization has added to the international standing of its prestigious host city.

Like the United Nations, OPEC works through multi-lateral co-operation to safeguard the individual and collective interests of its Member States. It has always promoted United Nations ideals, as witnessed by the Solemn Declaration adopted in 1975 by the First Conference of Sovereigns and Heads of State of OPEC Member Countries. This declaration stated that peace and progress depended on mutual respect for the sovereign equality of all members of the international community in accordance with the UN Charter.



On the occasion of the 40th anniversary of the move to Vienna of the Organization of the Petroleum Exporting Countries (OPEC), the United Nations Information Service (UNIS) Vienna, would like to extend its best wishes both to OPEC and the gracious City of Vienna, host to a United Nations headquarters and many other international entities. This year is also a noteworthy one for the United Nations and for Austria, as the United Nations celebrates its 60th anniversary, and Austria marks 50 years of its membership in the United Nations.

Like OPEC, UNIS Vienna has benefited greatly from the hospitality and commitment that the City of Vienna extends towards the international organizations and their staff and families. Over the years, UNIS Vienna and the City of Vienna

OPEC has striven to assist developing countries by creating, in 1976, the OPEC Fund for International Development, a mechanism that provides flexible, untied assistance to countries in need. The Fund has done much to promote co-operation between OPEC Countries and developing nations, particularly the least-developed countries, as an expression of South-South solidarity.

The OPEC Fund has also supported the work of my office — the United Nations Office on Drugs and Crime. In 2003, the Fund contributed \$150,000 to a project for drug abuse prevention and health promotion in Bolivian schools. This year, it is planning to support HIV/AIDS prevention and care activities among drug users in prison settings in Central Asia and Azerbaijan. We and the recipient countries are very grateful for this generous support.

Next month, at a gathering in New York, the United Nations will be commemorating its own 60th anniversary. Member States will review progress towards the eight Millennium Development Goals set at the Millennium Summit in 2000. In our efforts to build a better and safer world in the 21st century, it is imperative that the United Nations continues to act in partnership with other international organizations. In this spirit, I look forward to further fruitful co-operation between OPEC and the OPEC Fund and the United Nations in Vienna.

With every best wish on your anniversary.



Antonio Maria Costa

Executive Director, United Nations Office on Drugs and Crime

have created a strong working relationship. Our many joint initiatives, including UNIS' participation in the *Wiener Ferienspiel* programme organized by the City of Vienna and journalists', students' and teachers' fora organized by UNIS, bear testimony to the fact that synergies can and do lead to mutual benefit.

The City of Vienna has also been very supportive of our efforts to raise public awareness of the United Nations and issues of international concern. The celebrations marking the 25th anniversary of the Vienna International Centre in 2004, including a very well-attended Open House Day, and the gift of a specially commissioned water fountain, designed by Austrian artist Hansi Dietrich to mark the International Year of Freshwater in 2003, are just some recent instances of our fruitful collaboration.

UNIS Vienna looks forward to continuing its warm relationship with the City of Vienna, and also to collaborating with OPEC in the area of public information.



Nasra Hassan

Director, United Nations Information Service, Vienna and Spokesperson,
United Nations Office on Drugs and Crime



Wolfgang Ruttenstorfer
OMV Generaldirektor

Thanks to OPEC, Vienna is an important decision-making hub in the world's oil business. The decision to establish the OPEC headquarters in Vienna has been advantageous for both OPEC and Austria's capital city. Vienna has been able to add to its cultural charisma and its world-renowned quality of life, the prestige of being a key decision-making hub in the global oil sector.

For OMV, active only in Austria since 1965, the presence of OPEC in Vienna was an incentive and inducement to look beyond Austria's borders and to begin the process

of internationalization. The OPEC headquarters, which are only a short walk from our own, was a manifestation of the idea that we could one day become an international player.

Today, as the market leader in Central Europe, with international exploration and production activities on five continents, OMV has already taken big steps towards internationalization. It is no coincidence that our first successful international engagement was entry into the market of OPEC Member Country Libya in 1985. The experience we gained in the international oil industry and in the international exploration and production of oil and gas is now being applied with great success around the world.

Our present E&P portfolio encompasses 18 countries, including two OPEC Members — Libya and Iran — and through our stake in the petrochemical company Borealis, we are also active in the United Arab Emirates.

OMV has always had an excellent relationship with OPEC. In the truest sense of the word, we have always been good neighbors and I personally know and admire many of its key figures. I would like to wish OPEC and Vienna — and also OMV — many more years of close cooperation.



Dkfm Peter Püspök

General President,
Raiffeisenlandesbank Niederösterreich-Wien

I feel honoured and I am very happy to send our highest regards on the occasion of the 40th anniversary of OPEC and we would like to wish you all the best for your very important role in your field of duties.

OPEC is one of the world's most important interstate organizations located in Vienna. As your neighbour in the Raiffeisen-building — apart from the same view to the Danube Canal and the Inner City of Vienna — I see many common interests of Raiffeisen and OPEC.

OPEC — as an interstate organization — co-ordinates the oil production policies of its Member States, in order to achieve fair and stable oil prices for oil producers. This policy is also designed to ensure that oil-consuming nations continue to receive reliable supplies of oil.

Fair, stable, reliable, consumers — words that are of utmost importance to Raiffeisen too. Raiffeisenlandesbank Niederösterreich-Wien also focuses on fairness, stability and reliability. It goes without saying that in our opinion — as the best advisory bank in Vienna — our main focus has to be on the consumers and clients of our institu-

tion. The economic success of our institutional and private clients is very important to us.

We are delighted about the fact that many of OPEC's employees are satisfied customers of our institution. That, of course, confirms the success of our efforts. We are glad to provide the possibility of customer advice in the English language.

The world has changed over the 40 years of OPEC's existence in Vienna. Austria has, since the end of the cold war in 1989, actively moved from the outer position at the border from 'East' and 'West' to the centre of a greater Europe. New kinds of collaboration in partnerships between states, cultures, but also continents pose now the challenges which not only OPEC has to meet but also institutions like Raiffeisenlandesbank Niederösterreich-Wien.

For this, I wish you and your esteemed institution all the best and much success in the future.



On behalf of the InterContinental Wien,

please allow me to warmly congratulate OPEC on its 40th anniversary in Vienna.

As one of the world's most important international organizations, OPEC makes a vital contribution to stabilising the world's petroleum market. But above and beyond its role in the global market, since its foundation in 1960, OPEC has also made a valuable local contribution to Vienna's standing as an important site for international meetings and dialogue.

The history of OPEC, which opened its offices in Vienna in 1965, is closely intertwined with the InterContinental Wien, which opened its doors across from the Stadtpark in 1964 as the first international hotel in Austria's capital. Over these last 40 years, the InterContinental Wien has frequently been the venue for important OPEC Conferences and Meetings. The InterContinental Wien and its employees are proud to consistently meet OPEC's exacting standards of quality and security and look forward to serving



Rolf Hübner

General Manager, InterContinental Wien
Director of Operations, InterContinental Hotels
Group Austria, Switzerland & Eastern Europe

OPEC as a reliable partner in the future as well.

On this 40th anniversary, I would like to express our gratitude for the trust and confidence that OPEC has placed in us and the many long years of fruitful co-operation, and at the same time wish the Organization all the best in pursuing its goals in the future.



Erich Hampel
CEO of Bank Austria Creditanstalt

My cordial congratulations

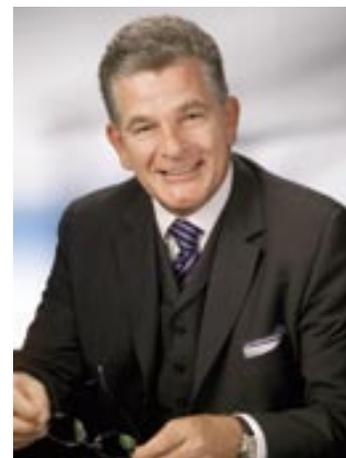
on your 40th anniversary in the Austrian capital. During these four decades, the OPEC Secretariat has become a very well established institution in Vienna. Those who are directly involved in oil production know the OPEC Secretariat as a non-bureaucratic organization that responds swiftly to situations. For Vienna, it is a privilege to have such an important and renowned institution in our city. And for Bank Austria Creditanstalt, it is an honour to provide banking services to OPEC and to have been given that privilege since the Organization moved to Vienna. We are looking forward to the next 40 years of good co-operation and partnership.



The Grand Hotel Wien has enjoyed

excellent co-operation with OPEC since its reopening in 1994. We are very proud that OPEC's oil and energy ministers hold regular informal meetings in our hotel. In addition, many important OPEC events have taken place in our magnificent ballroom. On behalf of all management and staff, I would like to express my sincerest thanks to OPEC for their tremendous support over the years and to wish them every success for all their future activities, both in Vienna and internationally.

Georg Weinländer
General Manager Grand Hotel Wien





OPEC

THE IMPRINT OF 1960

— aims and objectives still same today

Oil is the world's premier energy resource —

it has been in the past and it will continue to be in the foreseeable future. But over the 45 years of OPEC's existence, four decades of which have been in the Austrian capital, Vienna, this precious, exhaustible commodity has been subjected to just about every imaginable situation for a globally traded product. High prices. Low prices. Economic expansion. Economic recession. Market shocks. Even the weather. And these are just to name a few. The Organization has also had to contend with attacks on a strategic front, on the environmental front and from detracting forces within the powerful international arena. In addition, it has had to take in its stride concerted campaigns to develop substitutes to oil, it has had to react quickly and effectively to sweeping technological change, and, more recently, it has had to respond to anxieties over the Organization's capability of meeting future demand, which is forecast to increase considerably.

Indeed, these examples would be a daunting prospect for any product traded on world markets today, but despite all the pressures, all the surprises, oil's integrity remains intact. After many years negotiating an often dif-

ficult and precarious learning curve, we are now operating in an industry that is cleaner, safer, more united, better organised, fairer and more forward-looking than ever before. And no one can deny that OPEC, with its unwavering and unstinting commitment to market stability and global economic welfare, has played a leading role in helping to bring about this success. Despite numerous reports of its demise over the years — and there have been quite a few — OPEC has survived, it has prospered and it has surmounted the seemingly insurmountable. And now, after years of gaining a wealth of experience and knowledge about how the market works and what is required to lay the foundations for lasting success, OPEC, along with its partners in the industry, are stepping up boldly and with great confidence to meet the challenges of the 21st century.

Make no mistake, with its abundant oil and gas reserves and its unique foresight, OPEC will continue to play a hugely influential role in ensuring that the global oil industry builds on this success. The Organization's five Founder Members — Iran, Iraq, Kuwait, Saudi Arabia and



soon became very apparent that the Organization meant business and was not going to go away. Of course, one could say that OPEC was indeed fortunate to possess a product that the whole world depended on. If there is one commodity that can claim credit for the startling advances made in the world from 1960 onwards, it is crude oil — both as a fuel and as the feedstock for petrochemicals. Consumers, with limited reserves of their own, rely heavily on the import of crude oil — most of which is found in OPEC Member Countries. Furthermore, these reserves can be exploited at rock-bottom prices.

Turning the clock forward to the present day, we see a world that has transformed and one that continues to evolve at a rapid pace. New economic and political blocs have been established, the global balance of power has shifted to some degree and wealth has become more diversified. The technological revolution continues to run unabated and globalization, and all that comes with it, is the order of the day. The good news for OPEC is that there are now many more cars, many more planes, and actually a great deal more

Venezuela — and the six other longstanding Members — Algeria, Indonesia, the Socialist People's Libyan Arab Jamahiriya, Nigeria, Qatar and the United Arab Emirates — have, over the years, provided the main thrust in helping to bring order and stability to the international oil market and to instilling a sense of spirit and cooperation among the major players.

Back in 1960, when OPEC's five Founders sat around a table and set up the Organization, the world was a very different place. The all-powerful multinational oil companies of that time — known as the Seven Sisters — were virtually running the oil industry. They were dictating prices, production levels and who should get what and when. The owners of the resource had very little say in anything. That was until OPEC came on to the scene. There were no fanfares. No glare of publicity from the international media. Just five developing nations setting about the business of defending their legitimate interests. The odds were heavily stacked against them, in a world so utterly dominated by the established industrialized powers. Yet, bit by bit, little by little, OPEC began to make its mark and it

of virtually everything. That mostly translates into an even greater need for energy — primarily crude oil, which is still the fuel of choice. Yet, despite all the progress and startling changes we have seen, the imprint of 1960 is still clearly in evidence today, particularly with regard to our Organization. Its founding ideals, aims and objectives are the same now as they were on September 14, 1960, when a ground-breaking day in Baghdad, Iraq saw five developing countries sign an agreement that would mark a major turning point in the way oil was traded.

And just as Vienna has become an important and vital gateway between the former Eastern and Western divide, then OPEC has grown into an entity that, as one influential commentator once so rightly observed, if it did not exist, would have to be invented. The world needs OPEC to fuel its economic expansion and OPEC needs the world to earn the revenues essential for ensuring lasting development and prosperity for its Members. It's a two-sided coin that will continue to be of value as long as consumers need oil. OPEC will strive to ensure that this is always the case. 

OPEC



The Organization of the Petroleum Exporting Countries (OPEC) was set up as a permanent inter-governmental organization in Baghdad, Iraq, on September 14, 1960, by five Founder Members — Iran, Iraq, Kuwait, Saudi Arabia and Venezuela.

from a historical perspective



Pictured from l-r are the Delegations from Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, attending the historic 1st Meeting of the OPEC Conference in Baghdad, September 10–14, 1960.

The first moves towards its formation actually occurred in 1949, when Venezuela approached what would later be the other four Founding Members — Iran, Iraq, Kuwait and Saudi Arabia — to suggest they explore avenues for regular and closer co-operation on oil matters. The main catalyst for OPEC's birth came a decade later when a group of multinational oil companies — the so-called Seven Sisters — who, at that time, was the dominant force in the oil market — unilaterally reduced the posted prices of the crude they supplied. These firms effectively controlled the quantity of oil extracted and decided how much was sold, to



Left: Signing the first Headquarters Agreement in 1965, the then Austrian Foreign Minister, Dr Bruno Kreisky (l), with Ashraf Lutfi from Kuwait, OPEC Secretary General from 1965–66.

Above: Signing the second Headquarters Agreement in 1974 are Dr Abderrahman Khene from Algeria, OPEC Secretary General from 1973–74 (l), with Dr Rudolf Kirchschräger, (then) Austrian Foreign Minister.

Below: A view of the existing OPEC Secretariat before renovation work was carried out.



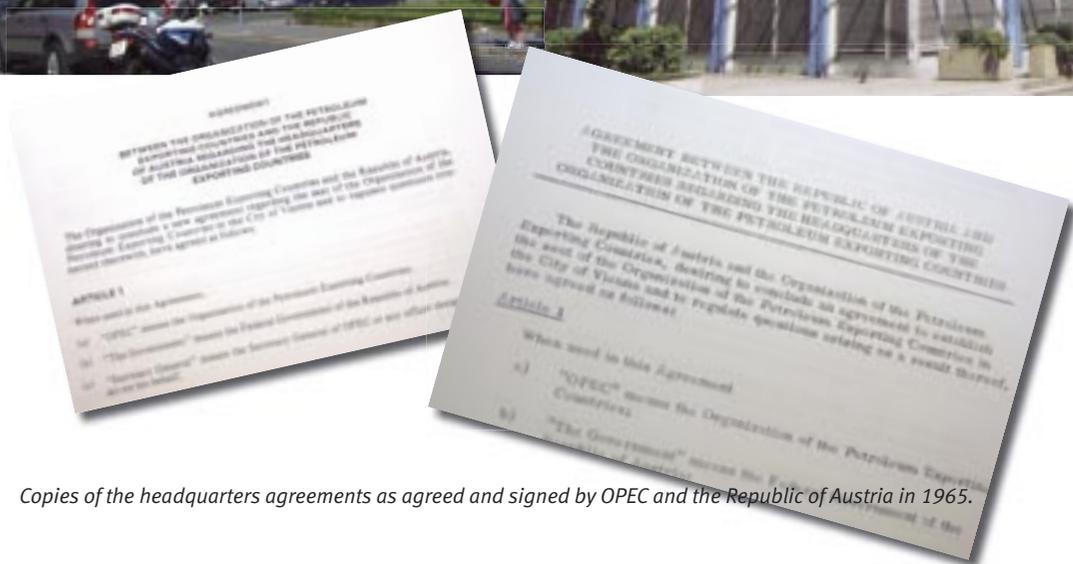
whom and at what price. The host governments were never consulted on these matters of vital importance, even though they affected their livelihoods and overall welfare. In fact, these countries were only paid a small royalty, while the companies made considerable profits. But their monopoly was not to continue. In 1959, the first Arab Petroleum Congress called on these firms to consult the respective governments of the oil-producing countries

before taking any further action on pricing. When the Seven Sisters ignored this request and again reduced prices, high-level delegations from what would become the five Founding Members of OPEC — who already represented 80 per cent of global oil exports — met on September 10, 1960, in Baghdad.

Four days later, OPEC was officially constituted as a group of countries with the inalienable right to exercise sovereignty over their natural resources. And from its very first resolution, OPEC established as one of its fundamental objectives to “ensure price stability, through means such as regulating production, paying due attention to the interests of producing and consuming nations ...” This principle has been maintained throughout its history.

Today, the Organization’s Membership numbers 11, with the addition of Qatar in 1961, Indonesia and Libya in 1962, Algeria in 1969, Nigeria in 1971, and the United Arab Emirates in 1974, which actually took over

Below is the first OPEC headquarters in Vienna at Dr Karl Lueger Ring in the 1st district of Vienna. Right the present headquarters at Obere Donastrasse in the 2nd district after renovation is pictured.



Copies of the headquarters agreements as agreed and signed by OPEC and the Republic of Austria in 1965.

the membership of Abu Dhabi, which joined in 1967. The total population of OPEC's Members is around half a billion and although there is a multiplicity of political, economic and social systems, as well as cultures, languages and religions, common to all of them is the shared economic interest deriving from their status as developing countries with abundant supplies of crude oil, the sale of which provides the bulk of their export revenues.

Within a decade-and-a-half of its formation, OPEC had provided its Member Countries with the support and confidence to assert their legitimate rights in the energy industry, particularly with regard to ownership of their domestic petroleum sectors and acquiring a major

influence on the pricing of crude on world markets. This condition and awareness has underlined the strength of the Organization up to the present day. OPEC is now accepted as an established part of the international petroleum — as well as economic — community.

OPEC moved its Secretariat from Geneva to Vienna in 1965, five years after its creation. The move was made at the invitation of the Federal Government of Austria and the City of Vienna, as part of their commendable plan to turn the city into a major centre for intergovernmental organizations and other international bodies. The Austrian authorities have achieved a remarkably high level of success with this welcome initiative.



Above from left to right:

1. 10th Meeting of the OPEC Conference, the first meeting in Vienna, Austria, December 15–17, 1965.
2. 36th Meeting of the OPEC Conference, Vienna, Austria, November 19–20, 1973.
3. 41st Meeting of the OPEC Conference, Vienna, Austria, September 12–13, 1974.
4. 48th Meeting of the OPEC Conference, Doha, Qatar, December 15–17, 1976.
5. 54th Meeting of the OPEC Conference, Geneva, Switzerland, June 26–28, 1979.

Below from left to right:

1. Qatar's Minister of Energy and Industry, Abdullah bin Hamad Al Attiyah, answering questions from the press, during the 118th Meeting of the OPEC Conference, Vienna, Austria, November 14, 2001.
2. Dr Subroto (l), OPEC Secretary General from 1988–94, receiving an award from the Republic of Austria, presented by Austrian President, Dr Thomas Klestil, on June 17, 1994.
3. Dr Rilwanu Lukman (r), OPEC Secretary General from 1995–2000, receiving an award from Austrian Foreign Minister, Benita Ferrero-Waldner, on December 21, 2000.
4. First OPEC Journalists Award Ceremony on March 16, 2002.
5. L-r: the Director of OPEC's Research Division, Dr Adnan Shihab-Eldin; incoming OPEC Secretary General, Dr Alvaro Silva-Calderón; outgoing OPEC Secretary General, Dr Alf Rodríguez Araque; Nigerian Minister of Petroleum Resources, Dr Lukman; the (then) Saudi Arabian OPEC Governor, Suleiman Jaser Al-Herbish (at a farewell for Dr Rodríguez).
6. Saudi Arabian Minister of Petroleum and Mineral Resources, Ali I. Naimi (c), HRH Prince Abdulaziz Bin Salman, Deputy Minister of Petroleum and Mineral Resources, Saudi Arabia (r), attending the 102nd Meeting of the OPEC Conference, Vienna, Austria, April 25, 1997.
7. OPEC Staff gathered in front of the OPEC headquarters.

Their far-sighted, internationalist policy was a major source of attraction to OPEC and, when it was accompanied by the offer of a congenial working environment and by the warmth and hospitality of OPEC's hosts, then the Organization's decision to settle in the Austrian capital was indeed hard to resist. For OPEC's part, it believes that, over the years, the Organization and its staff members have made a solid contribution to the Viennese way of life, to its culture, to its economy and to its developing multicultural outlook. A similar situation applies at a national level, to Austria as a whole. OPEC remains confident of the continuation of this harmonious relationship well into the future.

Today, the question is often asked how a small group of developing countries could evolve into an organization of such influence and standing in the world energy community. The fact is, as the years have passed, OPEC has achieved an astonishing degree of success. The





Organization provided these countries with the support and the confidence to assert their legitimate rights in the petroleum industry, particularly in terms of the exploitation of their indigenous resources, as well as having an influential say in the pricing of their oil on world markets. OPEC is respected far and wide as an established part of the international petroleum community and its 45 years of achievement have resulted in an Organization with enormous experience of life in the fast lane of world oil supply.

Of course, it goes without saying that the modern-day high-tech world of the 21st century is a very different place to that which greeted OPEC at its formation all those years ago. Globalization has proved to be a powerful force of transformation, opening up borders to trade and leading to the creation of new economic blocks that are continuing to undergo rapid social, political and economic change. This ongoing development has inevitably

led to the liberalization of the energy sector, a process that continues to evolve as oil industry players adapt their market strategies to the new order and increasingly move towards forging partnerships to help meet the new challenges posed. Environmental concerns have come to the fore and the dimensions and complexity of the contemporary challenges facing all of us, whether oil producers or consumers, are considerable.

Unfortunately, some things never change and, as in the past, a considerable number of people still live in extreme poverty. Many have to survive on just \$1 dollar a day. It is a situation that is totally unacceptable to OPEC and its Member Countries who will continue in their efforts, not only to secure a stable oil market with fair and equitable prices, but also for conditions that will enable these very poor countries to have access to cheap sources of energy. It is one sure way in which the scourge of poverty can be alleviated.



OPEC is born ...



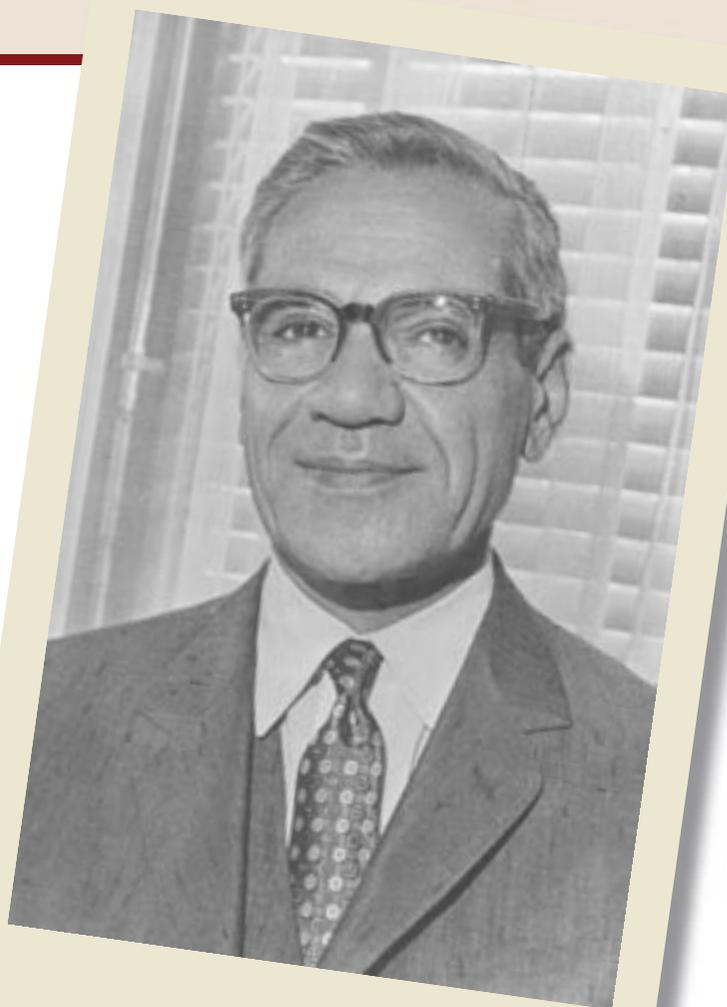
The following article is based on an exclusive interview conducted by the OPEC Bulletin in July 1990 with

the Organization's first Secretary General, *Dr Fuad Rouhani*,

who offered his personal recollections of OPEC's early history.

Dr Rouhani, formerly Deputy Chairman of the National Iranian Oil Company (NIOC), served as Secretary General from January 1961 to April 1964. Unfortunately, he passed away in January 2004 at the age of 96.

“... best years of my life!”



“My recollection of the period when I was OPEC Secretary General is one of having been entrusted with a duty of helping to promote harmony and solidarity among oil-producing countries,” said Dr Fuad Rouhani in the interview held in Geneva.

At that time, he stated, the major oil companies were in a position of dominance over all aspects of the industry and no attention was being paid to the rightful dues and interests of the producing countries.

“Such a state could not endure because it did not pay any attention to the interests of one of the parties, in fact, the most important party of the international set up — the countries that owned the oil resources. It was quite obvious that the international set up would have to be adjusted in a way that would recognize the place and rights of these countries and I personally felt that a change would undoubtedly come about in which that situation would be ensured.”

Dr Rouhani noted that in 1960, one year before his appointment, talks were being held outside Iran for the

coming together of the producing countries.

“We knew these talks were going on, and on August 31, 1960, the Shah of Iran summoned me and told me that he agreed that Iran should join the other producing countries in setting up a consultative organization.

“He instructed me to go to Baghdad and take part in the meeting which would be discussing these arrangements. And so I went to Baghdad and attended the first meeting.”

Dr Rouhani stressed that Iran was never reticent about any proposal which aimed at bringing the producing countries together, because it felt that the reason why it had not been able to implement its own nationalization law was that there was no solidarity among the producing states.

Asked about the meeting in Baghdad that marked the establishment of OPEC, he said: “I have a very clear recollection of the meeting in Baghdad in September 1960 to which I attached a great deal of importance. It was one of unanimity in regard to the main objective, but one of openness towards the discussion of the different ways and means.

“My directive from the Shah was to agree to any decision that the members of that meeting would take which would look forward to a rational, logical investigation of the situation, as a result of which we would enter into negotiations with the companies. Eventually, when I put forward that directive at the private meeting where the heads of the delegation were present they all agreed that Iran’s point of view was correct.”

Optimistic

Dr Rouhani continued: “I was completely optimistic (about the move) because I was very much impressed by the spirit and attitude of all those representatives who were present and their willingness to discuss matters objectively and without bias. I signed the resolutions of the first meeting with complete confidence and optimism.”

He pointed out that the major international oil companies that dominated the oil industry at that time — collectively known as the Seven Sisters — had an attitude of blank refusal to accept OPEC as an international organization representing all producing Members.

“Throughout, they insisted that each producing country should speak for itself. That was the view of the major companies. But the smaller companies, the independent companies, had a different view. They were anxious to strengthen their position and, of course, from that point

of view they were only too anxious to come to terms with the producing countries and to enter into partnership arrangements with them,” he explained.

At the second OPEC Conference in Caracas in 1961, where Dr Rouhani was appointed Secretary General, he was also given the assignment of negotiating a host agreement with the Swiss government, because it was decided that Geneva was the most appropriate place for the OPEC Secretariat to be set up.

Setting up

“When I arrived in Geneva early in 1961 we had no office and I sat in the Venezuelan Consulate and I used the Consul’s office for about a month, while conducting my negotiations with the Swiss government. I went to Berne, I spoke to the Ministry of Foreign Affairs and they accepted that OPEC should start its Secretariat in Geneva.

“But they said that they would not extend to the Organization full diplomatic immunity, because at that time they had a great deal of difficulty with regard to the question of immunity as applying to the organizations of the United Nations and other organizations.

“All we required from them was, first of all, protection of our establishment, the archives, and the offices of the Secretariat being recognized as an international establishment. I also needed authority to be able to bring in, at that time, I figured just offhand, 40 employees from among the Member Countries, without any conditions being set.”

However, Dr Rouhani pointed out that at the various OPEC Meetings held during his term as Secretary General, the question continued to come up as to why the Organization could not have full diplomatic immunity.

“It was insisted that OPEC, as an organization, must have full immunity and privileges and it was because of that, that the year I left, discussions began with the Austrian government over the host agreement from Austria,” he said.

Dr Rouhani said that, from a personal point of view,

being Secretary General of OPEC was the most satisfying period in his whole career which spanned 45 years of service to his country in various positions.

“I think the period of my mandate as Secretary General of OPEC was the most satisfying because it fitted into an ideal to which I have always been attached throughout my whole career — that is being in the position to help towards the promotion of international understanding, fellowship and co-operation. And I had that feeling in OPEC.”

Dr Rouhani said he had a sense of acute nostalgia when he thought back to his term as Secretary General of the Organization.

“The reason for my feeling of nostalgia is that, when OPEC started, the producing countries were engaged in a heroic contest with an adversary outside the Organization, which was the major companies. There’s no doubt about that.

Sympathy

“Another reason for my feeling of nostalgia is that at that time, of course, the world knew that the producing countries were an oppressed group, which was denied its rights by the major oil companies and the governments standing behind them. The whole world knew this situation and so treated with understanding and respect those small producing countries that were fighting the companies in order to restore their rights.

“World opinion was favourable, one of sympathy towards a number of countries that were engaged in a heroic fight against an adversary which had refused to grant them their dues,” he said.

Dr Rouhani concluded by saying that there was no doubt in his mind that OPEC fulfilled a need in the international set up of the oil industry.

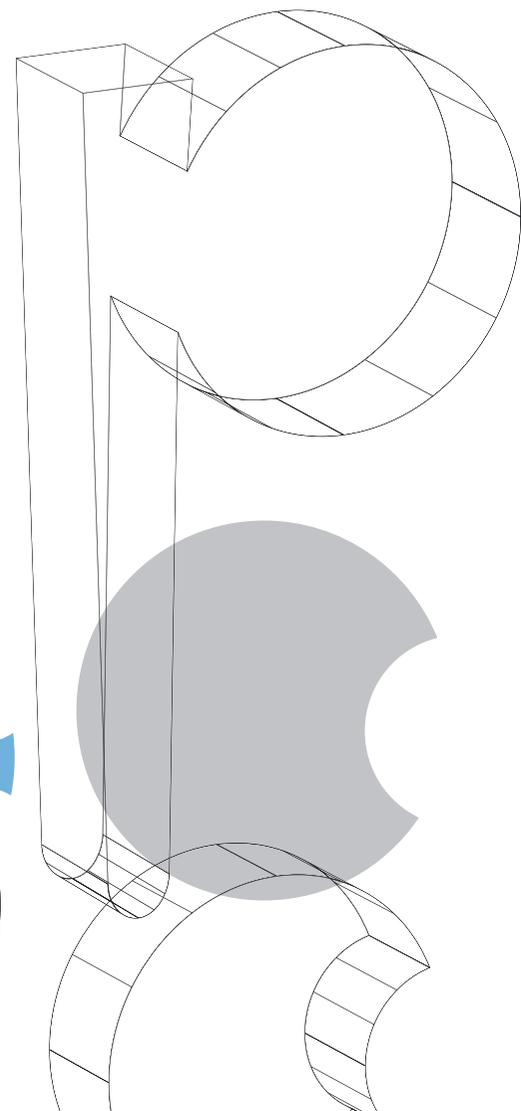
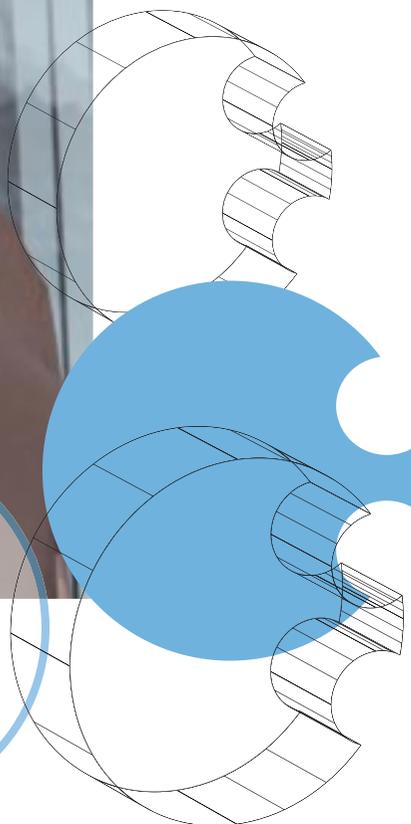
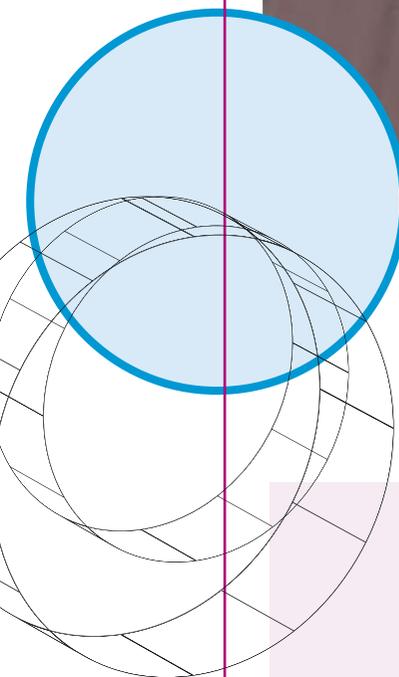
“I think that need ... will remain as long as oil continues to be such an important component of the whole world energy pattern. As long as that situation remains, OPEC will continue to be a necessary organization.” ❁



Pictured above is Dr Rouhani attending the 1st OPEC Conference in Baghdad.

“The Shah of Iran summoned me and told me that he agreed that Iran should join the other producing countries in setting up a consultative organization. He instructed me to go to Baghdad and take part in the meeting which would be discussing these arrangements.”

Gertrude Svoboda



How do you feel about designing a logo that has become the identifying symbol of a major intergovernmental Organization?

I feel very good. I didn't believe I would win the prize. I am very happy it is still your logo.

Can you tell us something about the competition?

My name was probably mentioned because I had done earlier work for the Austrian Ministry of Foreign Affairs. I was doing designs for stamps.

I was told it was an international competition open to several artists and that I had been selected to take part.

As far as I know, it was at first only open to artists from Austria, because this was OPEC's host country. I later understood that it was extended to Member Countries of the Organization. The competition took place in 1969.

What inspired the design?

The letters O P and C came easily enough, but it was

necessary to make the E round; however, the right-hand point of the E could not be round.

The design had to be simple, so that it could be used everywhere. I wanted one that could be used in many different types of situation, from trams, to barrels, and so on. The simpler the design, the easier it could be used.

I never thought my design would be selected and I was surprised when I won.

It is incredible to me that the logo is now seen around the world.

The beauty of the script is that it is not too tied to a conventional type and therefore makes a greater impression, especially to people not familiar with our writing style, such as readers of Arabic.

How long did it take to design it?

It is difficult to say. I did many different designs, and, in the end, submitted four or five. There was no limit to the number of entries.

is a unique lady.

She has defined OPEC in a way like no other person!

Her handiwork is in evidence in all four corners of the world — from OPEC’s Secretariat in Vienna, to each of its 11 Member Countries, to international oil companies and related areas of business, trade and commerce, to conference halls and legislative assemblies, and to research institutes, universities and other centres of learning.

Gertrude designed the OPEC logo.

That was way back in 1969, when OPEC was still a fledgling Organization, seeking to assert itself in a petroleum industry dominated by the established industrial powers.

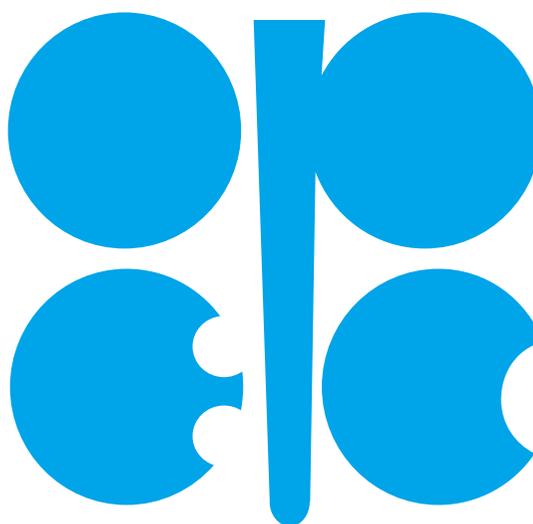
Very few people outside of oil circles had actually heard of OPEC at the time, although that was all to change in the 1970s.

And yet Gertrude produced a design which is still as vibrant, appealing, elegant, relevant and ingenious today as it was 36 years ago!

Well, what is Gertrude doing now? We will give you a clue.

But this is not a very helpful clue, because this remarkable lady is still working at 78 years of age!

We took the opportunity to invite Gertrude, who lives in Vienna, to the OPEC Secretariat recently, to tell us, in her own words, about the origins of the OPEC logo and the competition that induced her to design it.



If you were designing the logo today, would it be different?

I don’t think so. I could not think of anything better or something that would stick in the mind more.

What about the colour?

My submitted designs were in black, to bring out the contrast, although I also tried some different colours. However, I did not make the choice about using blue.

Have you designed any other well-known logos?

No.

Did you win a prize for your design?

Yes, a money prize, although I cannot remember exactly how much it was. However, it did enable me to take my three children on holiday to Salzburg.

I was invited by the then-Secretary General to a prize-giving ceremony.

I hear you have a daughter whose career is also in graphic design?

Yes, that is true.

Have you had much to do with OPEC since the competition was held?

I don’t have much to do with oil, particularly because I don’t own a car! But I am always happy to see the logo.

I am also pleased that OPEC has grown since 1969 and become more important, because its beginnings were very small. It is a bit like seeing your children grow up.

Do people in Austria see OPEC differently today?

I think it has grown in importance and that people talk about it more.

Do many people know you designed the OPEC logo?

Only my family and close friends.

What is your professional background?

Script, book design, heraldry, signs, certificates and so on. I have done a lot of work for the Niederösterreichische Landesregierung. I am still working today.

Thank you.





OPEC has been a prominent member of the world energy community for a long time now, and will continue to be so for many years to come. But it is easy to lose sight of the true achievement and progress made by this quite unique group of developing countries that has one precious commodity in common

oil

OPEC steps up to face challenges of the future

Two fundamental objectives have formed the cornerstone of the Organization's existence over the past 45 years. These comprise establishing and maintaining a stable oil market with fair and reasonable prices, both for producers and consumers, as well as securing a fair return for producers and investors from the sale of the oil Member Countries produce.

OPEC's formative years were both difficult and challenging. The Organization had to overcome several rollercoaster periods sparked by such events as severe price declines, extreme market volatility and even conflicts between some of its Members. In fact, during the more difficult times, its demise was predicted on more than one occasion. However, in all the adversity a dogged strength of unity among Member Countries shone through to the extent that the Organization not only managed to survive, but actually emerged as a stronger and more influential international player.

But after successfully negotiating the difficulties of the past, what has the modern-day oil market in store for OPEC? Well, some of the Organization's detractors still advocate an international oil market operating free of any outside influence, even though the harsh experiences of the past have clearly proved otherwise. The fact is of all the commodities traded on world markets today, oil

is without doubt the most unpredictable and volatile. If nothing else, the events of the last two years have shown us that. Oil is a commodity that simply needs some level of management. OPEC and indeed all producers have learned — often to their cost — just how complex and diverse the oil market is, and just how quickly things can spiral out of control. Prices can crash or soar overnight, such is the acute sensitivity and spontaneity of the market, especially in the 21st century where globalization is proving to be a powerful force and a fundamental source of change. And as the oil market of the new Millennium has shown, nowadays it is a series of non-fundamental factors — issues not related to the supply of crude oil — that are playing a critical role in the direction oil prices take.

For example, hype and speculation caused by geopolitical tensions and uncertainty over future supply security have proved to be extremely problematic for the oil industry — a situation that is not only difficult to counteract, but one that snowballs with each successive event that raises its influential head. To leave such a sensitive trading environment to its own devices against this kind of unpredictable background would be a recipe for disaster. Hence OPEC's continued commitment to bringing about oil market stability.



Oil demand outlook

m b/d

Reference	2010	2015	2020	2025
OECD	50.7	52.0	53.0	53.9
Developing countries	33.8	39.2	45.1	51.3
Transition economies	5.3	5.6	5.9	6.1
Total world	89.9	96.8	104.0	111.3

- Oil **demand increases** by an average of **1.5m b/d** annually
- Four-fifths of the increase in demand of **28m b/d** over the period 2005–2025 comes from developing countries
- **Transportation** continues to be the dominant source of growth

The record high prices seen today are the result of the market's increasing sensitivity to a combination of factors — in particular a demand surge in Asia and the United States, which has sparked concern that the producers will struggle to match this sudden call for extra supplies. Exacerbating the situation are the related problem areas of refining and distribution, where bottlenecks are constricting supplies of oil products in the consuming countries. Then there are the geopolitical tensions, which just add to spiraling speculation in the futures markets. Even the weather, in the shape of the hurricanes seen in the Americas, is adding a hefty premium to current oil price levels.

Together, all these factors have pushed prices to record levels, even though, in real terms, taking into account levels of inflation and currency rates, they are actually still below the highs of the early 1980s.

Surplus

At the outset of the price rise, OPEC moved quickly and efficiently to try and counter the situation and at least limit the extent of the price increases. During last year alone it boosted output by a total of 3.5 million b/d, even though consumers remained well supplied. And this year it has added another 1 million b/d, in fact in 2004, there was a generous surplus of oil on the market. But through its actions, the Organization wanted to issue an assurance of more-than-adequate supply and instill confidence among the industry's players that the rising demand forecast would be comfortably met. In this way, OPEC actually managed to allay market fears of a possible supply shortage and, for some time at least, prices did fall back to more reasonable levels.

Needless to say from its actions, OPEC was — and is — very concerned to see prices rising to these exorbitant levels. It has been said in many quarters that its Members are only concerned with getting the highest price they can for the oil they sell. Well this is a misconception. OPEC has always recognized that it is not in the interest of the global economy, of which its Members are an integral part, to have the price of oil at unsustainably high levels over a long period of time. Even from a perspective of self-interest, the Organization does not want the price of oil to be so high as to make it less competitive as a global energy source.

The clear perception within the Organization is that for prices to be sustainable and acceptable to both producers and consumers, they should neither be too low, nor



too high. OPEC requires a level of price that guarantees fair returns to investors and the owners of the product, while the consumers need a price that can be comfortably accommodated in their fiscal calculations.

It is already certain that, for the foreseeable future, oil will maintain its leading position in satisfying the world's growing energy needs, so it is important that this trade-off materializes. One without the other simply creates an imbalance that, in the long run, is counterproductive to both sides.

OPEC, in accounting for some 80 per cent of the world's proven oil reserves, will be called upon to supply the extra oil the world will need in the years ahead. Looking at the latest forecasts drawn up by the OPEC Secretariat in Vienna,



world economic growth is expected to expand by around 3.6 per cent annually over the next 15 years. In keeping with this forecast, oil demand is set to rise by 28m b/d from this year to reach 111.3m b/d by 2025, representing annual average growth of around 1.5m b/d (*see table*).

With non-OPEC oil production in the first two decades of this century forecast to reach its plateau, OPEC Member Countries will be relied upon to supply the lion's share of the new demand, which will come mostly from the developing nations, especially those in Asia. In fact, by 2025, OPEC will likely be producing around 54m b/d of crude, nearly half of all global output.

At the same time, world demand for natural gas, the new fuel of choice, due to its environmental advantages, is rising at almost twice the pace of oil. Secretariat figures show that the global call on gas is forecast to double over the next 15 years. OPEC Members also possess considerable reserves of this fuel — around 89 trillion standard cubic metres, out of a world total of 181 tr cu m. However, their current marketed output only satisfies some 16 per cent of world production. Therefore, the room for future development is considerable.

Forecast

Looking at a breakdown of forecast demand, OECD countries will continue to account for the lion's share of demand, as the region's economies register average annual economic growth of 2.4 per cent up to 2020. However, almost 75 per cent of the increase in global demand will come from the developing countries, whose consumption will almost double as they see their growth expand considerably. Asian countries, forecast to experience annual economic growth of over five per cent up to 2020, will remain the key source of oil demand in the developing world. China, with annual economic growth projected at around 6.4 per cent, and India, with growth of about 5.5 per cent per annum, will be central to this expansion.

Again Secretariat forecasts show that, up to 2025, the Asian region is expected to account for a rise of 18m b/d in oil demand, which represents 65 per cent of the total in all developing states. In fact, the increase in Asia is almost half the global expansion expected over this period. An expected boom in the transportation sector of these countries is a particularly important factor.

These figures confirm that just as oil played a key role in fuelling the development of the industrialized countries in the 20th century, it will now play just as important

a role in supporting the future growth of the economies of the developing world. That can only be good news for helping to bring down levels of global poverty and improving the standards of living of the planet's least fortunate inhabitants.

Capacity

OPEC will, of course, need to expand its production capacity to meet this extra demand in the future. Indeed, the current oil market anxieties over future security of supply have prompted some OPEC Member Countries to speed up their capacity-building programmes, already to good effect. However, the scale of investments these Members will need to make to meet the expected demand growth over the next few decades is enormous, although the outlay will still be well below the costs non-OPEC producers will have to incur, due to the accessibility and hence relative cheapness of OPEC oil.

The oil industry itself is undergoing a metamorphosis. It is still readjusting following a spate of mega-mergers in recent years, but is also applying huge technological changes as a result of advances in both upstream and downstream operations. Today, because of pressing — and justified — environmental awareness, the world is demanding that oil is a cleaner, safer and more efficient fuel. Huge investment has already been made in meeting these increasingly tighter environmental regulations, as well as conforming to the broader demands of sustainable development.

All this is being carried out in the name of progress and OPEC, for one, hopes that the lessons of the past will be used to plot the decisions of the future so that the new and challenging demands of the 21st century can be successfully met. The Organization, through its continued commitment to the oil market and the global economy in general, will do all in its power to see the face of oil continue to change for the better.

That commitment entails ensuring that all players in the industry are able to prosper in a market that reflects fairness, stability, and one that is hopefully free of price volatility. At 45, OPEC has come of age. It has grown into a well co-ordinated, responsible and vibrant force, possessing a strong will to succeed. The mistakes of the past have been taken on board and valuable lessons have been learned. OPEC has survived. It has prospered. It has surmounted the insurmountable. It is now ready to tackle the challenges the future will surely continue to bring.



Saudi Aramco

Stability through co-operation —



‘Stability through co-operation’
— this was the slogan OPEC used during its 25th anniversary celebrations in 1985.

Nothing much has changed, however, because this simple three-word message is as valid today as it was then, and as it was 25 years earlier, when OPEC was established in September 1960.

In this feature, we take an in-depth look at the association between OPEC and co-operation.

the way forward from a long time back!

The dynamics of co-operation

Producer-consumer co-operation has always existed. It must exist, by definition. You cannot have a buyer and seller in the market who do not co-operate with each other at some level, even if it is only by eye contact! Thus, when we examine the issue of producer-consumer co-operation, we must realise that we are already some way down this road. It then becomes a case of finding ways of improving this process.

Co-operation is a means to an end, and not the end itself. In other words, the road must lead somewhere. We have to know where we are going. It is not sufficient just to reach the road.

Co-operation is a two-way process, with suggestions of “give-and-take”, “listening to the views of others”, “seeking the common ground” and so on. For example, consumers who are concerned about security of supply should accept that, conversely, producers are concerned about security of demand.

The word “co-operation” can so easily be used as just a cliché. People merely pay lip-service to it. They become complacent. The word loses its vital edge. In reality, however, to be truly effective, the concept of co-operation, as well as its practice, needs to be kept fresh and alive at all times, and well-targeted. We need to take co-operation seriously and endeavour to apply it at all times.

And effective co-operation has a long-term dimension to it. This, in turn, requires perseverance, steadfastness and the ability to successfully handle challenging impulses that may arise along the way; and yet, at the same time, it must accommodate evolving trends.

Failure to heed these general observations can compromise discussions on co-operation, before they have even had a chance to get off the ground.

With this in mind, what are we actually looking at, when we refer to co-operation in the petroleum industry? Why is it important? What do we mean by it?

In its most simplistic form, co-operation should play an important role in the process of getting petroleum to consumers. In any marketing environment, there is the constant quest to improve efficiency and effectiveness and to remain one step ahead of the competition; every tool at one’s disposal should be used in this process, subject to moral and ethical considerations. A healthy relationship between buyers and sellers is crucial, and this rides hand-in-hand with co-operation.

Petroleum is no exception to this. In fact, due to the pre-eminent position of petroleum as an energy source at the heart of the global economy, it is vital to ensure that it reaches consumers in the most efficient and effective manner. Here we encounter such parameters as cost,



logistics and security, as well as conflicts between short-term and long-term targets. There are also the benefits crude oil has over other commercial energy sources — accessibility, versatility, transportability, cost, etc — and the rising profile of gas, especially for environmental reasons. On top of this, there is



the broader energy vision, embracing such perspectives as sovereign rights, sustainable development and environmentalism. And finally, there are the understandable differences in backgrounds, cultures, philosophies, practices and procedures among the parties operating within the industry itself: OPEC and

non-OPEC producers, producers and consumers, oil companies, investors, traders and so on.

When you bring these factors altogether, when you go back to basics and say: “I want to get oil to the consumer” or “I want to get gas to the consumer”, and when you are confronted by the confusion, the conflicts, the complexities and the costs, then the case for co-operation becomes compelling.

How does this apply itself in practice?

Let us begin by looking at the near term.

There are big variations in the extent and the intensity of co-operation, particularly as you move along the upstream/downstream spectrum, which includes exploration, development, extraction, processing, transport and distribution, as well as the sales and marketing that binds these elements together. There can also be critical economic, political and strategic dimensions, as well as the basic geophysical and geographical ones.

With the vast majority of day-to-day activities, co-operation takes place as a matter of course, quietly and with little or no outside attention. However, sometimes there are notable differences among the parties involved or it is necessary to involve a broader cross-section of the industry in a matter, or it could simply be the case that an in-depth look at an issue is required. Then you become aware of the dynamics of co-operation.

Conferences, seminars and other such fora can provide a means of achieving breakthroughs on such occasions, or for extending our horizons, and they are greatly to be wel-





comed, especially when they have sessions devoted to co-operation.

Co-operation is central to OPEC's thinking. Without it, the impact of our market-stabilisation measures would be diminished. Our production agreements have been receiving valuable support from many leading non-OPEC oil producers, and the market at large has benefited from this. Moreover, our close relationship with these producers, as well as the feedback we have received from consumers, has assisted us in the drawing-up of agreements which are realistic and practical.

But what of tomorrow?

OPEC is as committed to the achievement of market order and stability in the future as it is today. Indeed, decisions taken today will affect the way the market performs in the years and decades ahead. In order to help with its strategic long-term planning, OPEC has been using, since the early 1980s, its own econometric model — the OPEC World Energy Model (OWEM) — to create scenarios

about the oil market's possible behaviour up to 20 years ahead.

OWEM's present reference case scenario projects a continued rise in oil demand in the early decades of the 21st century, at an average annual growth rate of 1.5 per cent up to 2025, reaching 111 million barrels/day. With non-OPEC output expected to reach a plateau of 55–57m b/d in the post-2010 period, OPEC will be meeting nearly half the world's oil demand in 20 years' time, according to this scenario.

OPEC has the resources to meet the growing oil requirement, to ensure that the market remains well-supplied with crude at all times, at reasonable prices that are compatible with robust growth in the world economy. The Organization is committed to maintaining and developing sound investment strategies, and will see that these are put into effect, in a timely and sufficient manner, to provide the required production capacity for oil that is cleaner, safer and more efficient than ever before.





But this is by no means a straightforward task. There are many uncertainties which make sound investment planning a hazardous business, in an industry where the lead times for new plant and equipment can be very long and the capital requirements enormous. Future economic growth rates, consumer government policies and technological advances and the oil price path lie at the heart of these uncertainties. Over-investment implies heavy costs to be borne by producers, while under-investment will lead to severe price volatility.

Thus every effort must be made to reduce uncertainties and to share the risks involved. Dialogue and co-operation have a big role to play in this, and this includes all interested parties, consumers as well as producers. There has been much progress in this area across the world over the past couple of decades, and a growing number of institutionalised fora, aimed at enhancing co-operation and dialogue, are appearing in the key energy centres across the world. Indeed, major advances have been made in both Asia and Europe this year.

In January, the first Round Table of Asian Oil and Gas Ministers was held in New Delhi, under the umbrella of the International Energy Forum (IEF) Secretariat. The IEF itself has been highly successful over the past dozen or so years as an inspiration for, and organiser of, producer/consumer dialogue, and its permanent Secretariat is now set up in an OPEC country, Saudi Arabia. OPEC also engages in annual dialogue with high-level energy officials and research institutes from Russia, Japan, China and South Korea, while the latest in a series of joint meetings among OPEC and non-OPEC producers was held in Oman in October 2004.

In May, the third joint OPEC-International Energy Agency workshop was held in Kuwait, with its focus on the Middle East and North Africa region, which is expected to play a growing role in world energy markets in the coming decades. The workshop was seen as an additional step in the strengthening of the spirit of co-operation and dialogue, which has been a welcome feature of relations between OPEC and the IEA, formally and informally, in recent years.

And in June, the first meeting of a newly established EU-OPEC Energy Dialogue was held in Brussels. This provided the two bodies with the opportunity to sit round a table together and take a fresh new look at the oil market, examine how its challenges are viewed from the perspectives of our two organizations, and seek means of addressing them. It was seen as a natural extension of the warm relations that have existed for decades in many areas of activity involving Members of the two groups, for example, with the Euro-Mediterranean dialogue and the EuroGulf Dialogue for Energy Stability and Sustainability, which was launched in 2002 with the objective of enhancing co-operation between the EU and the Gulf Co-operation Council.

Thus, whether it is at the basic level of buyer meeting seller in a one-to-one transaction, or in meetings between two politico-economic groups, or in sessions of large inter-governmental fora, dialogue and co-operation have a major role to play in the international oil market both now and in the future, and OPEC will continue to encourage this and to participate in it to the full.





Co-operation within OPEC – a backbone of steel

OPEC was founded on the premise of co-operation in September 1960. Let us look at the OPEC Statute, which was drafted shortly after our foundation. This begins: “The principal aim of the Organization 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.”

It continues: “The Organization shall devise ways and means of ensuring the stabilization of prices in international markets, with a view to eliminating harmful and unnecessary fluctuations.

“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.”

To understand the full significance of this declaration, you must appreciate the historical context.

Here were five oil-producing, developing countries – four from the Middle East and the fifth, Venezuela, from half-way across the world – joining forces to safeguard their legitimate national interests at a time when the international petroleum industry, outside the former Soviet Union, was under the iron grip of the established industrial powers. Much of the developing world was still

dominated by powerful colonial interests, even though this centuries-old enforced institution was gradually being dismantled. Indeed, some countries had already gained independence by 1960 and others would soon follow.

In such a climate, the formation of OPEC was a brave act, a pioneering act, an act that demonstrated that even developing countries had rights, that their indigenous natural resources were more than just a convenience for the rich consumer nations, to be pumped out of the ground as and when these foreign powers deemed fit.

Looked at in this way, co-operation within OPEC had a backbone of steel. And this backbone has remained as OPEC has grown over the years, becoming an established, respected member of the global energy community.

Other oil-producing developing countries joined OPEC in the next decade and a half, extending the Organization’s reach to



The first workshop jointly organized by OPEC and the IEA took place in Vienna.



North Africa, West Africa and South-East Asia and reinforcing its central core of co-operation. They were all committed to OPEC's longstanding objectives of ensuring order and stability in the international oil market, with secure supply, steady demand, reasonable prices and fair returns to investors.

The next major advance occurred in the late-1980s. This was a consequence of three linked developments. First, there was the gradual erosion of the oil price structure in the early 1980s and its eventual collapse in 1986, which caused severe domestic upheavals and huge revenue losses for oil producers. Secondly, there was a significant reduction in OPEC's market influence, due to its sizeable loss of market share since the late 1970s. And thirdly, there was the realization by non-OPEC producers after 1986 that market-stabilization measures were urgently needed and that OPEC required support in providing these.

In other words, non-OPEC producers — from both the developing and developed worlds — had finally acknowledged what OPEC had been saying for years, that co-operation is vital for the ongoing welfare of the international oil market.

It was only a matter of time before this process broadened out further, and this occurred with major advances in producer-consumer dialogue in the 1990s, in tandem with the rising profile of the International Energy Forum, whose specific purpose was to provide the setting for such dialogue. This process received its formal seal of approval with the recent decision to establish a permanent Secretariat

for this forum in an OPEC Member Country, Saudi Arabia.

When presented in this manner, there seems little doubt that the concept of co-operation within the world oil industry is now well-established — although, of course, such is the complexity of this industry and the underlying forces and pressures that propel it, that there is still plenty of scope for improvement. But, since the end of the 1980s, there has come the clear realization that the industry is better-off if there is an underlying consensus on, at least, the major issues that concern all parties — such as pricing, stability, security of demand and supply, investment, environmental issues and sustainable development.

Edited extract from a speech by the former OPEC Secretary General, Dr Alvaro Silva-Calderón, to the International Institute of Energy Policy and Diplomacy of MGIMO-University and the Ministry of Foreign Affairs of the Russian Federation, at the 3rd Russian Oil and Gas Week in Moscow in November 2003.





Reuters/OPEC



AP Photo

From left to right:
 OPEC Acting for the Secretary General, Dr Adnan Shihab-Eldin; Nigerian Presidential Adviser on Petroleum and Energy, HE Dr Edmund Maduabebe Daukoru; OPEC President of the Conference and Minister of Energy of Kuwait, HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah; EU Energy Commissioner, Andris Piebalgs; Luxembourg's Minister of the Economy and Foreign Trade, Jeannot Krecké; UK Minister for Energy, Malcolm Wicks; and the Netherlands Minister of Economic Affairs, Laurens Brinkhorst.



OPEC

OPEC has a much broader vision on global developments in general, both economic and socio-political, than is immediately apparent from its oil market activities, even though, obviously, these form the core of the Organization's main thrust of operation. The "other side" of OPEC embraces such important issues facing mankind as sustainable development, environmental harmony and globalization.

For many decades, OPEC Member Countries have provided development assistance on both a bilateral and multilateral basis, as an expression of South-South solidarity, friendship and mutual support. Over the years, OPEC aid has taken diversified and innovative forms, including loans, grants and equity participation, in an attempt to maximise the impact of the assistance delivered and to meet the changing needs and priorities of the beneficiary countries.

The tradition of providing flexible, untied and highly-concessional assistance began with the establishment of the Kuwait Fund for Arab Economic Development in 1961. Other Member Countries soon followed suit with similar bilateral agencies.



and development

The joint move into multilateral development financing came in the early 1970s when Member Countries, acting in partnership, decided to pool their resources and co-ordinate activities in pursuit of greater effectiveness and relevance in the delivery of much-needed development assistance. The first product of this was the Arab Fund for Economic and Social Development, which was founded in 1971. The Arab Bank for Economic Development in Africa was set up two years later with the specific purpose of promoting economic, financial and technical co-operation between African and Arab countries.

Considerable impetus was given to the multilateral aid movement at the Conference of Sovereigns and Heads of State of OPEC Member Countries, which took place in Algiers in March 1975 and has since been referred to as the First OPEC Summit.

The Solemn Declaration that emanated from that landmark event saw the “Sovereigns and Heads of State reaffirm the natural solidarity which unites their countries with the other developing countries in their struggle to overcome under-development.”

It said: “They recognize that the countries most affected by the world economic crisis are the developing countries and therefore reaffirm their decision to implement measures that will strengthen their co-operation with those countries ... In this context, they have agreed

to co-ordinate their programmes for financial co-operation, in order to better assist the most affected developing countries, especially in overcoming their balance of payments difficulties. They have also decided to co-ordinate such financial measures with long-term loans that will contribute to the development of those economies.”

On a more general note, the Solemn Declaration stated that the Sovereigns and Heads of State “conclude that the interdependence of nations, manifested in the world economic situation, requires a new emphasis on international co-operation and declare themselves prepared to contribute with their efforts to the objectives of world economic development and stability.”

They also “reaffirm that the decisive causes of such anomalies lie in the longstanding and persistent ills which have been allowed to accumulate over the years, such as the general tendency of the developed countries to consume excessively and to waste scarce resources, as well as inappropriate and short-sighted economic policies in the industrialized world.”

The Sovereigns and Heads of State also “attach the greatest importance to the transfer of technology, which, in their opinion, constitutes a major test of adherence of the developed countries to the principle of international co-operation in favour of development.”

In addition, they “declare that their countries are will-



Reuters



ing to continue to make positive contributions towards the solution of the major problems affecting the world economy and to promote genuine co-operation which is the key to the establishment of a new international economic order.”

One important outcome of this was the establishment of the specialist multilateral aid agency, the OPEC Special Fund, in January 1976. Renamed four years later, the Vienna-based OPEC Fund for International Development is a multilateral development finance institution which seeks to promote co-operation between OPEC Member States and other developing countries.

THE SOLEMN DECLARATION

The Algiers Solemn Declaration marked its inception by reaffirming “the natural solidarity which unites OPEC Countries with other developing countries in their struggle to overcome under development,” and called for measures to strengthen co-operation between these countries.

All developing countries, with the exception of OPEC Member States, are in principle eligible for Fund assistance. The least developed and other low-income countries in general, however, are accorded higher priority and therefore receive a large share of the Fund’s assistance.

Over the years, the Fund has spread its presence to 119 countries, of which 50 are in Africa, 40 in Asia, 25 in Latin America and the Caribbean, and four in Europe. Since its inception, the Fund has implemented 15 lending programmes, the latest of which covered the period 2002–04. The 16th lending programme, approved for a three-year duration, became effective January 1, 2005. Including grants and contributions to other institutions, the Fund’s total approved commitments as of the end of June 2005 stood at \$7,657 million, while disbursements reached \$5,061.8m.

OPEC reaffirmed its commitment to assisting other developing countries at its Second Summit of Sovereigns and Heads of State and Government in Caracas, Venezuela, in September 2000, on the occasion of the Organization’s 40th anniversary.



This Summit's Solemn Declaration emphasised the strategic importance of oil as an energy source for mankind, as well as the contribution of Member Countries to world economic prosperity through the provision of oil.

It stressed that economic and social development and the eradication of poverty should be the overriding global priority: "To this end, OPEC will continue its historic record of taking the issues of the developing countries into full consideration, *inter alia*, through their individual aid programmes, as well as through the OPEC Fund for International Development and the International Fund for Agricultural Development; and urges the industrialized countries to recognize that the biggest environmental tragedy facing the globe is human poverty."

It called on consuming nations to pursue energy-related policies which were compatible with global sustainable development. Also, it noted "with concern" that the debt levels of many developing countries had become unsustainable and called for a substantive effort for debt reduction initiatives by the international donor community.

The Caracas Summit helped prepare OPEC Member Countries for participation in the World Summit on Sustainable Development in Johannesburg two years later.

The Organization followed the course of the Johannesburg Summit very carefully with a particular interest in the way the development proceedings dovetailed with energy issues, with a view to improving access to reliable, affordable, economically-viable, socially-acceptable and environmentally-sound energy services and resources.



This all fitted in well with the philosophies and practices pursued within the Organization, in a spirit of solidarity with the pressing needs of the developing world. In this context, three observations can be made about how OPEC's actions are expediting efforts to create the type of energy landscape envisaged by the World Summit.

First, it seeks to provide the type of energy that is required. For example, while it is very easy for people to talk in terms of a rapid, wholesale shift to renewables, the reality is that the contribution of renewables to the energy scene is expected to remain small for the foreseeable future and that it will be many decades before they make a significant impact.

Thus, in the meantime, all other available energy sources, with due attention to environmental concerns, must be accessed, enhanced and utilised to tackle the dire problems of mankind and support sustainable development.

Advances in technology continue to make oil a cleaner and even more desirable fuel and one that will maintain its leading role in the energy mix for decades to come — duly inspired by the resolve and actions of OPEC, which possesses four-fifths of the world's proven crude oil reserves.

Indeed, oil plays an important role in the transition of many countries towards a wider use of commercial energy

and in the future it should contribute towards economic growth in developing countries.

Secondly, the Organization endeavours to provide the necessary stable market conditions. Oil is the world's leading commercial energy source and, as such, has a significant impact on the health of the global economy and, in turn, on the economic prospects of all nations, including the vulnerable developing nations.

COMMITMENT TO STABILITY

The actions OPEC takes, therefore, in the oil market can ultimately have repercussions right along the economic chain into the domain of national development. OPEC Members are conscious of this enormous responsibility and it is a powerful driving force in the Organization's unswerving commitment to market order and stability.

And thirdly, OPEC tends to the future welfare of the oil market. It remains hopeful about the ability of many currently impoverished nations to make steady advances

along the path of sustainable development, and this will, of course, be accompanied by growing energy demand for decades to come.

OPEC wants to make sure that the oil market never falls short, in its ability to meet rising oil demand. Therefore, its Vienna-based Secretariat devotes many of its resources to research into the future market outlook and supply capabilities, so as to provide the best possible guidance to Member Countries as they set about making their investment plans. These countries themselves, of course, also carry out their own research.

In conclusion, OPEC operates on two broad fronts in contributing to the process of economic and social advancement in other developing countries.

The first is through direct assistance on a bilateral or multilateral basis and the second is by optimising the supply of oil both now and in the future. This is a longstanding commitment, whose roots were established within a year of the founding of the Organization, and it is one which will remain with OPEC for decades to come. ■■





Reuters

Oil prices: to the sky or stabilization?

Dr Adnan Shihab-Eldin, Acting for the OPEC Secretary General, delivered this speech to the Alfred Berg ABN AMRO Nordic Energy Conference in Oslo, Norway, on August 30, 2005.

MY FIRST REACTION ON SEEING A TITLE LIKE “OIL PRICES: TO THE SKY OR STABILIZATION?”

is to reemphasise OPEC's commitment to stabilization. After all, this is what OPEC sees as one of its principal objectives in the international oil market. OPEC's very first Resolution, adopted at its formative Conference in Baghdad in September 1960, states that “Members shall study and formulate a system to ensure the stabilization of prices.” This was revised slightly and formalised in the OPEC Statute during the following year, and since then has provided one of the main guiding principles for all our actions. Article 2B of the Statute reads: “The Organization shall devise ways and means of ensuring the stabilization of prices in international oil markets, with a view to eliminating harmful and unnecessary fluctuations.”

But there is more to it than that. What price levels are consistent — or compatible — with stabilization? The time dimension also enters the picture, as there is the recognition of the fact that the international oil market is constantly evolving, with continually shifting fundamentals. For most of the time, such changes are barely detectable. But, as we have seen over the past 15 months or so, they can be very apparent — or, at least, the possibility that there has been a significant shift in fundamentals can be very apparent. This is because, even now, in this most recent case, it is not totally clear whether there has been a significant shift in market fundamentals, let alone the true nature and extent of such an occurrence. There is also the fact that, in the final analysis, the oil market is prone to volatility — as has been demonstrated repeatedly in the past, as well as at the present time. This is the exact opposite of what is required from a commodity that has such a central role to play in the modern world.

Let us look at Article 2C of the OPEC Statute to help define some of the parameters that OPEC considers as appropriate for stabilization: “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, regular and economic supply

of petroleum to consuming nations; and a fair return on their capital to those investing in the petroleum industry.” There is also another important parameter and that is the assurance of steady, predictable demand; this is often overlooked by consumers, but, for producers, is as important and as fundamental as security of supply, especially when one is weighing-up investment options for the future. Security of demand goes hand-in-hand with security of supply.

Let us now turn to the other half of the title of this address: “Oil prices: to the sky ...?” This prompts us to ask: “How high is the sky?” We also find ourselves engaging in the issue of real and nominal prices (I shall elaborate upon this a little later). (Figure 1) Some people with long memories will recall that, at the beginning of the 1980s, some analysts were predicting crude oil prices, in nominal terms, of US \$100 a barrel by the year 2000! In fact, our records show that the nominal price of OPEC's Reference Basket was not even a quarter of that — \$23.89/b — on December 31, 1999! Even now, in these highly unusual times, the Basket price penetrated the \$50/b mark for the first time ever in only March this year.

OPEC, like all producers, does not want excessive oil prices in either direction, high or low. Nor does it want volatility. We remember how, after the high prices and volatility of the 1970s, there was a big switch away from oil, especially OPEC oil, in the first half of the 1980s, so much so that prices weakened at first and then collapsed in 1986. In July of that year, the price of OPEC's Reference Basket — projected back, because this reference yardstick was introduced in January 1987 — fell well below \$9/b, and this compared with an annual average of \$32.4 in 1982. In a period of just six years — from 1979 to 1985 — OPEC crude oil production declined by more than half, and only now is it approaching its pre-1980 levels — after a quarter of a century. The big loss of production, coupled to the price collapse, struck a double blow to OPEC's Member Countries, whose domestic economies had become heavily dependant on the receipt of steady, viable petroleum revenues to finance their much-needed



economic and social development programmes.

There are other downsides to excessively high oil prices — in the context of the international oil market. (Figure 2) Notably, these can distort the distribution of returns from oil sales, with, in many countries, particularly in Europe, consumer governments benefiting the most, through the receipt of higher levels of extra revenue, from taxation, than either the producers or the refiners receive. It is interesting to note that, averaged across the last five-year period (2000–04), the oil tax revenues of the G-7 countries were significantly higher than OPEC’s oil export revenues. Indeed, only in 2004 was there a change in the situation, in the wake of the high oil prices, but this was only to a slight degree and because, for that year, tax revenues grew by less than export revenues. (Figure 3) But the international oil companies (IOCs) stand to benefit the most. Last year, the five largest IOCs saw their revenue increase by more than \$250 billion.

I should now like to tie all of this in with what is actually happening in the oil market at the present time.

(Figure 4) Over the past year or so, we have seen how quickly volatility and steeply rising prices can occur, following an extended period of relative stability — even

when the market is well-supplied with crude. An unusual convergence of factors has been responsible for this.

First, there has been strong global economic growth and a consequent big rise in the demand for oil, especially in China, and, globally, this has led to concern about the near-term availability of spare production capacity. This is in spite of the fact that, throughout, the market has remained well-supplied with crude. While the higher and apparently sustainable economic growth has no doubt contributed to some extent to the price levels we are seeing today, what is of more significance is the recognition that serious problems downstream in key consuming regions are increasingly putting pressure on crude prices. These problems have been due, in great part, to inadequate past investment and increasingly stringent product specifications, and have resulted in a lack of effective global refining capacity to meet the growth in demand for light products; this is now running at close to 100 per cent in practically all regions. Adding to the market nervousness have been the geopolitical tensions in some producing areas, as well as unexpected weather patterns, most notably Hurricane Katrina at the present time. Overall, the resultant bullish state of the market has led to a rise in activity by non-commercials, in particular pension and index funds in futures markets, leading, in turn, to further volatility and higher price levels.

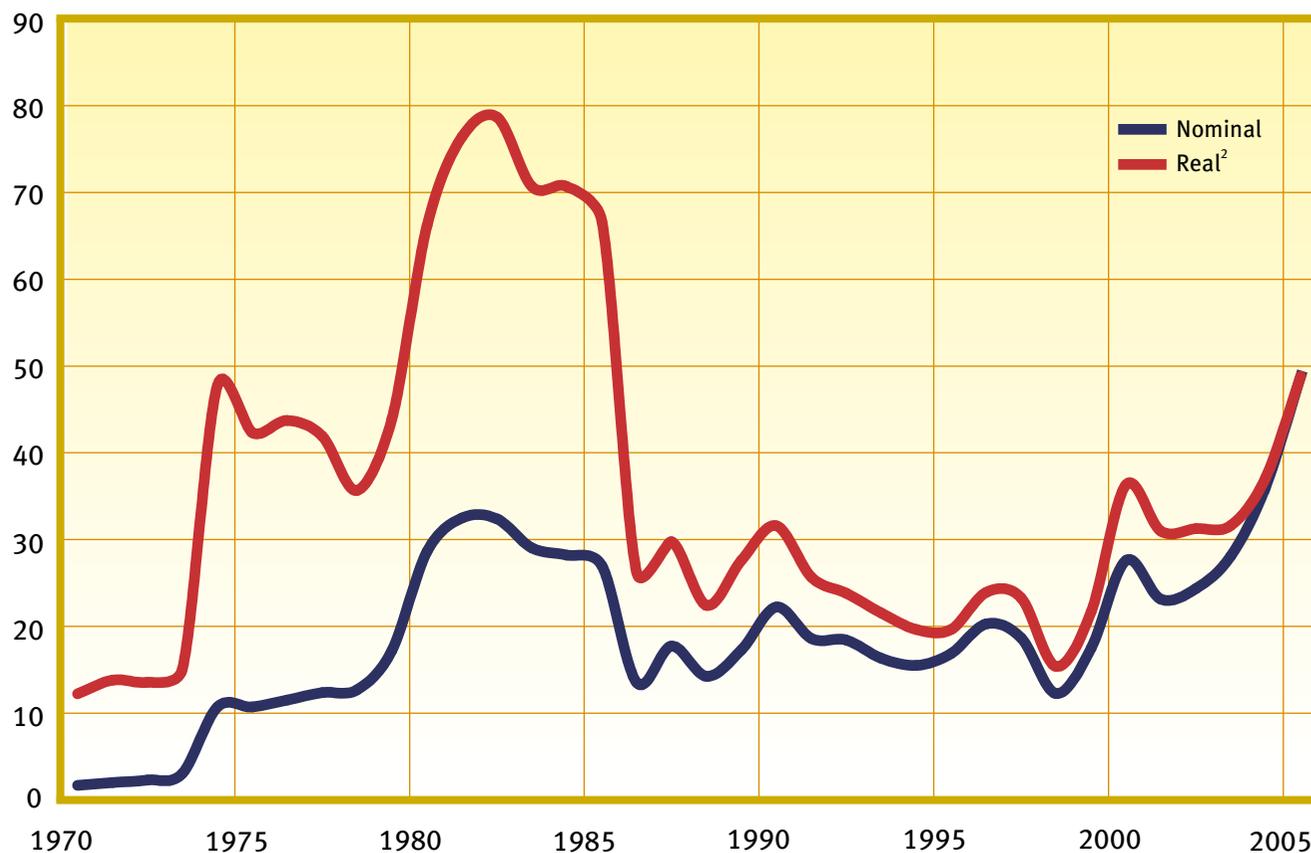
Clearly, there are no winners from such a situation. It can have an adverse effect on activities at all levels within the market and, ultimately, have negative repercussions for both producers and consumers. Volatility can be highly detrimental to investment, either for domestic development or in future production capacity — in addition to the day-to-day workings of the market-place. If prices are so high that they cannot be sustained, they may well be followed by very low prices and reduced revenues not long afterwards.

Of course, “high” is a relative term. Although prices have recently been at record-breaking levels in nominal terms, if we put them in their proper historical context, we will find that, in real terms, they are well below those witnessed two decades ago. In other words, when we adjust for inflation and exchange rate movements, we find that the average nominal price of around \$36/b for the OPEC Reference Basket last year would, in real terms, correspond to a price of \$80/b in 1982. In addition, one must be aware of the fact that the world, especially the developed part, has become much wealthier since the early 1980s.

Moreover, there is no evidence that the recent high

Figure 1: OPEC Reference Basket price in real and nominal terms

(Base: 2005¹ = \$100/b)



1. Year-to-date average including August 2005.
2. Inflation and exchange-rate adjusted.

oil prices have, so far, had a significant impact on economic growth, which continues to be robust. If there is one lesson we have learned from the exceptional oil market conditions of 2004, it is that the world economy has become less sensitive to oil price increases than it was three decades ago. Indeed, despite another 50 per cent rise in oil prices so far this year, there has been no visible impact on economic growth. If anything, it is economic growth that has been driving up oil prices, rather than the other way round.

Important here is oil intensity — the amount of oil required for a unit of GDP. Across the world at large, this has fallen by around 50 per cent since 1970, due to such factors as technology, government policies and changing consumer behaviour. Thus the world is less dependant on oil for its economic growth. There is, however, no room for complacency.

In response to the present volatility and high prices,

OPEC has acted on two broad fronts. First, it has raised its production ceiling on several occasions, by a total of 4.5 million barrels a day, and this has been reflected in actual rises in its production. This has, in turn, led to a steady rise in OECD commercial oil stocks, which are exceeding their five-year average, in both absolute terms in days of forward cover. And secondly, OPEC's Member Countries have accelerated their plans to bring on-stream new production capacity. These actions have been taken, in spite of the fact that the market — a pretty nervous market — has been well-supplied with oil throughout this period. In fact, without such prompt OPEC actions, it is hard to imagine where the market would be today.

Our latest projections show that the average level of world oil demand will rise by 1.6m b/d to 83.6m b/d in 2005, compared with 2004, and then by another 1.6m b/d in 2006. But, unlike in the 1980s, the 1990s and the early part of this century, non-OPEC supply will not rise in



line with this; instead, it is projected to grow by only 0.9 per cent in 2005 and 1.3m b/d in 2006. Indeed, for the third year in a row, the growth in non-OPEC supply is falling behind that of world oil demand, and this new trend is expected to continue at least into next year. Russian supply growth has almost vanished.

Average OPEC production capacity is now expected to rise to 32.7m b/d this year, and this will be well above the 28.9m b/d call on OPEC.

Early forecasts for 2006 see world oil demand rising by another 1.6m b/d to 85.2m b/d and non-OPEC supply growing by a slightly lower 1.3m b/d to 56.0m b/d. This will leave a difference of 29.2m b/d, which is 300,000 b/d above that of 2005. However, average OPEC production capacity is expected to rise to 33.9m b/d in 2006. As a result, average OPEC spare capacity for the year should stand at around ten per cent, which will reflect favourable historical proportions and compares with around eight per cent expected for 2005 and 6.6 per cent in 2004.

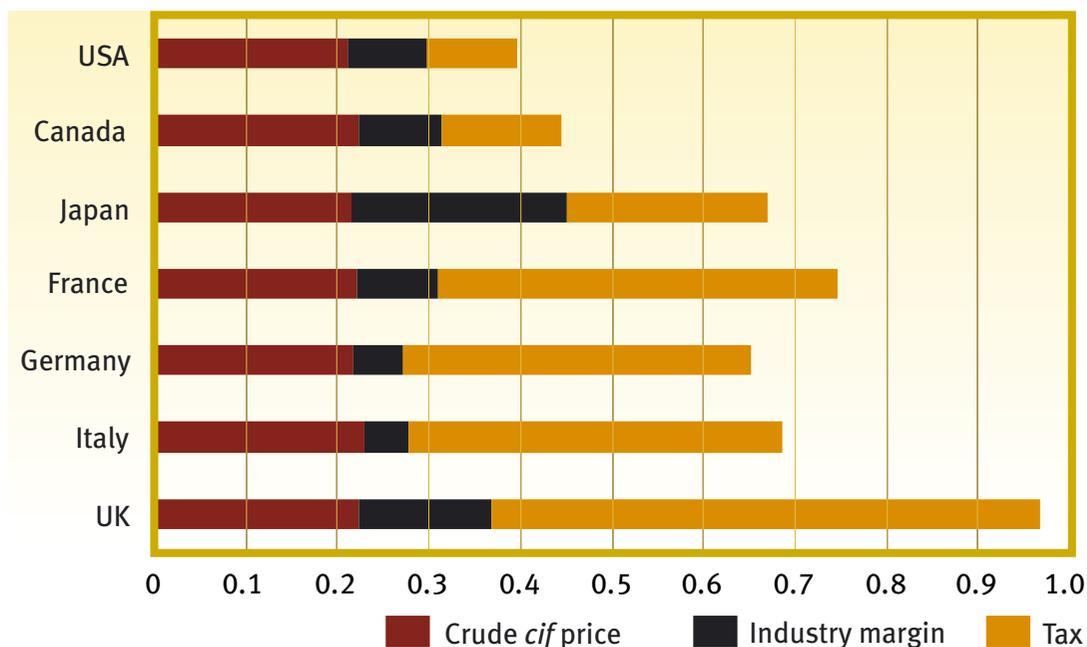
Furthermore, OPEC has accelerated plans to increase crude production capacity to meet the expected growth in demand further in the future, with production capacity growing by 3.5–4.0m b/d between 2006 and 2010, in addition to gains of 1.5m b/d in the production of OPEC natural gas liquids and other liquids. Therefore, we are confident that, through OPEC's actions, there will be enough crude in the market to meet robust oil demand growth in the near future.

However, the efforts of OPEC and non-OPEC producers to increase capacity upstream stand in sharp contrast to developments in world refinery capacity, where increases have lagged well behind demand growth and the rises in OPEC and non-OPEC crude supply. Corresponding efforts need to materialise downstream, where, in some regions, refiners are currently running at 98 per cent or close to full capacity. OPEC Member Countries have taken the initiative — on their own and in partnership with others — to pursue and invest in downstream projects. However, with-

Figure 2: Who gets what from a litre of oil in the G7?

2004

“It is clear from everything I have said so far that OPEC and its Member Countries are totally committed to an orderly oil market ...”



out meaningful and timely measures in the main consuming countries, the high and volatile oil prices noted in the recent Group of Eight communiqué are likely to remain a feature of the market.

It is clear from everything I have said so far that OPEC and its Member Countries are totally committed to an orderly oil market, with stable prices that are at reasonable levels acceptable to producers and consumers alike. Indeed, if there were not such acceptability, then the market would not remain stable for very long.

Our experience has shown us that it is considered perfectly acceptable within the market at large to talk in terms of a target range for prices. The price band scheme OPEC introduced in the year 2000 ran very successfully until last year, when the exceptional market conditions shifted the goalposts, so to speak, so far that we decided to suspend it, for re-evaluation. For those of you who do not know, the purpose of the price band was to keep oil prices within a range of \$22–28/b for the Reference Basket, through OPEC adjusting its production level whenever it looked as if prices were settling outside this range. The scheme worked so well that, across the three full years of its operation, 2001–03, the Basket price average \$25.2/b, which was almost exactly at the centre of

the band. But let me stress that the band has only been suspended and that it is planned to reintroduce it, with a new, carefully calculated and realistic range, when the market settles down again.

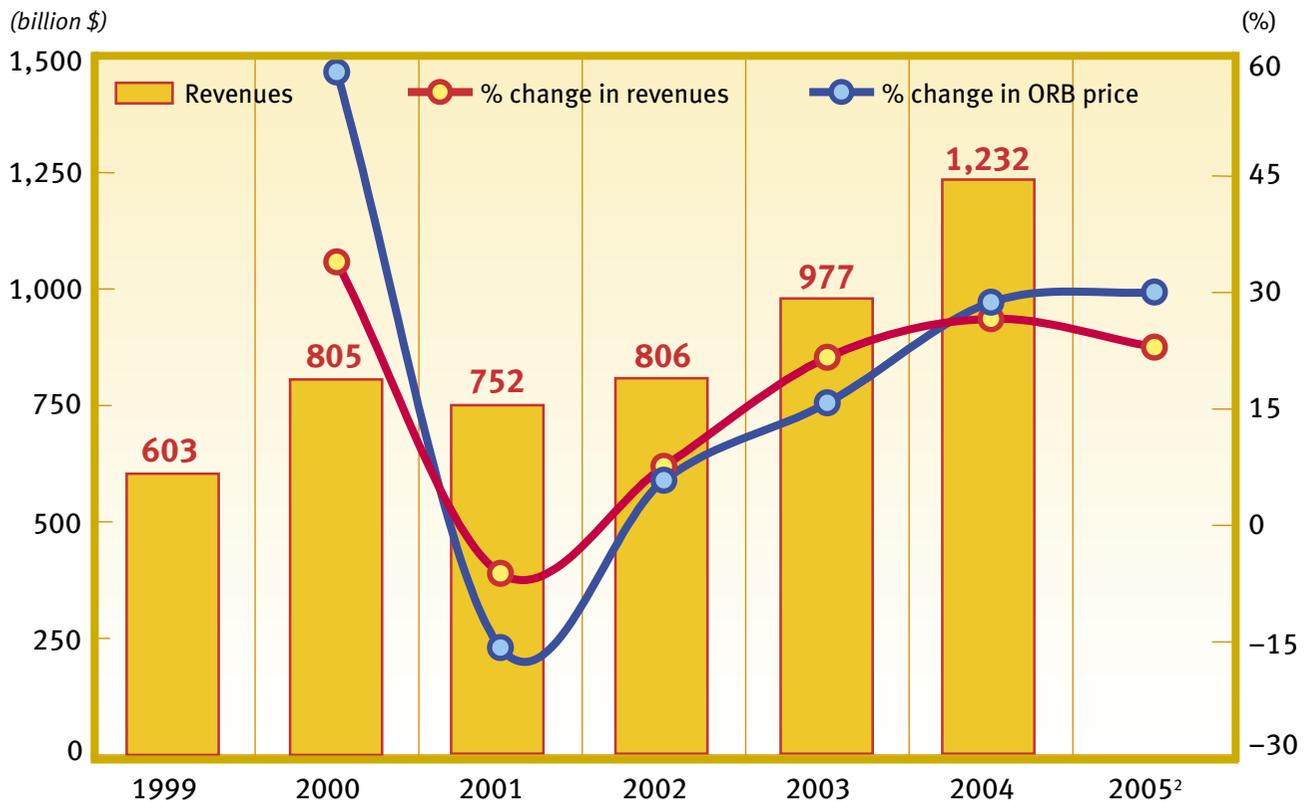
Let me now say a few words about the future, because OPEC is as committed to market stability in five, ten or 15 years' time as it is today. Indeed, decisions taken today will affect the way the market performs in the future.

The reference case scenario from OPEC's World Energy Model shows that global oil demand will continue to rise up to 2025, at an annual average rate of 1.5 per cent, to 111 million barrels a day. More than three-quarters of the increase will come from developing countries, whose consumption will almost double. This scenario is based on the assumption of an average annual world economic growth rate of 3.5 per cent for the period up to 2025, with the forecast rate of almost 5.0 per cent for the developing countries being double the OECD's projected 2.4 per cent.

There should, however, be plenty of oil around to meet this demand. The world's oil resource base is not a constraint, and this is not likely to become even an issue for decades to come.

Overall non-OPEC output will continue to increase,

Figure 3: Revenue of major international oil companies¹



1. Which constituted about 39 per cent of the total oil companies' revenues in 2003, and 55 per cent of the revenues if the NOCs (more than 50 per cent state-owned) are excluded.
2. First half 2005.

but more slowly, reaching a plateau of 55–57m b/d in the post-2010 period; this represents a rise of 5–7m b/d from 2004.

However, OPEC's Member Countries, with around four-fifths of the world's proven crude oil reserves, have both the capability and the will to continue expanding their oil production capacity to meet the rising levels of demand. Averaged out, a dollar of investment in the OPEC area yields more than four times as much production capacity as a dollar of investment elsewhere. In 2025, the reference case, therefore, sees OPEC meeting almost half the world's oil demand, with 55m b/d.

The overall scale of investment required for all of this will run into hundreds of billions of dollars in the coming decades, although, globally, it will not be very different to past levels.

Numerous possibilities for investment exist, although recently a move towards more involvement from the international oil companies (IOCs) in the upstream activities of some OPEC Member Countries has been observed.

However, other Members might choose to meet the investment challenge through their national oil companies, or they could do it in partnership with the IOCs. Of prime importance will be the establishment of fair and workable agreements, reached through open and transparent procedures. There will have to be adequate incentives for the investor, yet suitable protection and recompense for the owner of the resource. And there will have to be a clear commitment to sustainable long-term development by the IOCs in setting up partnerships.

But clouding the picture for investment are many uncertainties about the market outlook, on both the demand and supply sides. Notable drivers of uncertainty are future economic growth rates, consumer government policies, technological advances and the oil price path. It can prove very costly if the industry does not get its sums right. Over-investment may result in excessive, idle capacity, while under-investment may lead to a crude shortage. Both cases, therefore, can create severe price volatility.

Figure 4: OPEC Reference Basket price, 2004–05

\$/b



Increasingly, attention is being turned increasingly to investment in the downstream, in the same way as we are placing more focus on this part of the supply chain for the near term. The move towards demand for ever lighter and cleaner products represents a significant challenge for the downstream sector, and substantial investment will be required to meet this in the years ahead. As with the shorter term, if the required investment does not take place in a timely manner, this sector will remain a source of volatility and tightness. As it stands now, it does not appear that the growth in refinery capacity will match demand growth before 2007.

I hope I have used this time well to impress upon you how seriously OPEC takes the issue of order and stability in the international oil market, for both now and the future.

Speaking to an audience which contains His Excellency Per Kristian Foss, the Norwegian Minister of Finance, and key executives from the Nordic energy industry and associated sectors, I am sure this message has

been well understood and appreciated. As the world's third-largest oil-exporter, and the largest among the established market economies, Norway is better placed than most to appreciate the challenges facing the industry as a whole. On top of this, the country is also the world's third-largest gas-exporter.

Over the years, OPEC has placed great value on the support its market-stabilization measures have received from Norway, particularly at critical times for the industry, and this has been to our mutual benefit. We also welcome the fact that Norway — like OPEC itself — has been a prime mover in producer-consumer dialogue. Indeed, Norway has provided the first Secretary General of the International Energy Forum, Arne Walther, and the Secretariat of this still relatively new specialist producer-consumer institution has been set up in an OPEC Member Country, Saudi Arabia.

We believe that such common areas of interest, attitudes and actions have already served the industry well, and that they will continue to do so in the future. ☛

Forthcoming events

Commercial and trading aspects of oil refining, September 25–29, 2005, London, UK. Details: Petroleum Economist, 15/17 St Cross Street, London EC1N 8UW, UK. Tel: +44 20 7831 5588; fax: +44 20 7831 4567/5313; e-mail: steward@petroleum-economist.com; Web site: www.petroleum-economist.com.

Introduction to Canada's oil sands industry, September 26–27, 2005, Calgary, Canada. Details: Canadian Energy Research Institute, #150, 3512–33 Street NW, Calgary T2L 2A6, Canada. Tel: +1 403 220 2357; fax: +1 403 284 4181; e-mail: sjohnsgaard@ceri.ca; Web site: www.ceri.ca/Training.

18th World Petroleum Congress, September 26–30, 2005, Johannesburg, South Africa. Details: ITE South Africa, PO Box 785170, Sandton, 2146, Johannesburg, South Africa. Tel: +27 11 302 4600; fax: +27 11 302 4601; e-mail: media@itesouthafrica.co.za; Web site: www.18wpc.com.

Defect elimination in Asian oil, gas & chemicals, September 27–28, 2005, Kuala Lumpur, Malaysia. Details: IQPC Worldwide Pte Ltd, 1 Shenton Way #13–07, 068803 Singapore. Tel: +65 6722 9388; fax: +65 6720 3804; e-mail: enquiry@iqpc.com.sg; Web site: www.oilandgasiq.com.

AESIEAP CEO conference & exhibition, September 28–30, 2005, New Delhi, India. Details: IndiaCore Response Team, PO Box 6650, New Delhi 110 018, India. Tel: +91 11 5545 5626; fax: +91 11 2561 1622; e-mail: cvjvarma@indiapower.org or cvj@vsnl.com; Web site: www.ceo2005.org.

26th Executive retreat, September 29–30, 2005, Bagshot, UK. Details: CGES, 17 Knightsbridge, London SW1X 7LY, UK. Tel +44 20 7235 4334; fax: +44 20 7235 4338/5038; e-mail: marketing@cges.co.uk; Web site: www.cges.co.uk.

Gas-to-liquids, September 29–30, 2005, London, UK. Details: SMI Conferences Ltd, The Clove Building, Maguire Street, London SE1 2NQ, UK. Tel: +44 870 9090 711; fax: +44 870 9090 712; e-mail: client_service@smi-online.co.uk; Web site: www.smi-online.co.uk.

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13th Kazakhstan international oil & gas exhibition and conference (KIOGE 2005), October 4–7, 2005, Almaty, Kazakhstan. Details: ITE Group Plc, 105 Salusbury Road, London NW6 6RG, UK. Tel: +44 20 7596 5000; fax: +44 20 7596 5111; e-mail: matthew.moss@ite-exhibitions.com; Web site: www.ite-exhibitions.com.

3rd Petroleum breakfast, October 5, 2005, London, UK. Details: Global Pacific & Partners, Suite 27, 78 Marylebone High Street, Marylebone, London W1U 5AP, UK. Tel: +44 20 7487 3173; fax: +44 20 7487 5611; e-mail: duncan@glopac.com; Web site: www.petro21.com.

Oil & gas transportation in the CIS & Caspian region major pipeline and export projects, October 11–12, 2005, London, UK. Details: The Energy Exchange Ltd, Barclays Bank, 128 High Street, Cheltenham, Gloucestershire GL50 1EL, UK. Tel: +44 20 7067 1800; e-mail: y.akhmetshina@theenergyexchange.co.uk; Web site: www.theenergyexchange.co.uk.

Dynamics of LNG markets, October 17–21, 2005, Port of Spain, Trinidad. Details: CWC Associates Ltd, 3 Tyers Gate, London SE1 3HX, UK. Tel: +44 20 7089 4200; fax: +44 20 7089 4201; e-mail: bookings@thecwcgroup.com; Web site: www.thecwcgroup.com.

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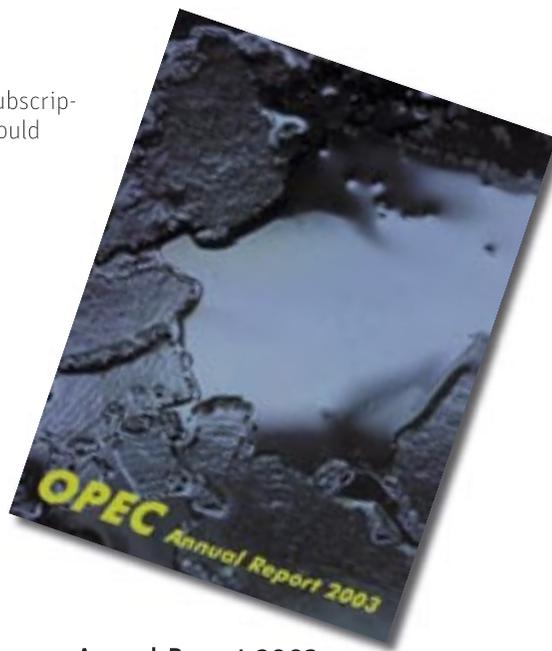
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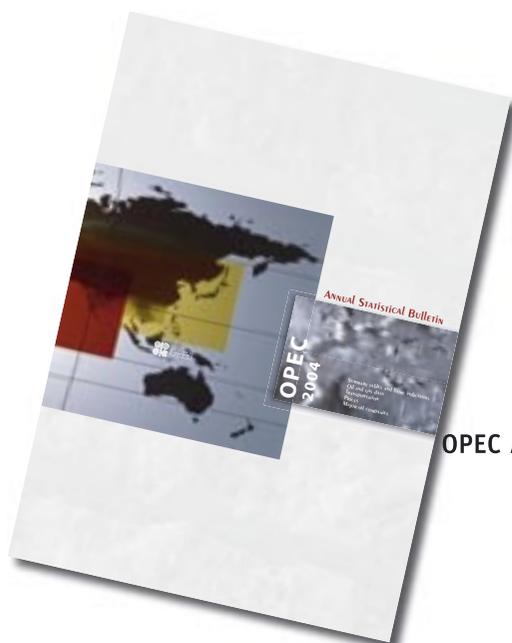


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