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"The Peace on The Horizon - 70 Years after The World War 2 in the Middle East"(24)

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Chapter 3: The grace of Allah – Oil boom

3-2(24) Formation of OPEC



Crude oil price in 1948 after World War II was \$ 2.8 per barrel. Barrel is a measurement unit peculiar to petroleum. When there was no dedicated transport facility like a pipeline or tank lorry, oil was put in a wooden barrel, loaded on a coach and sent to the market. One barrel is 42 gallons corresponding to 160 liters. Therefore, the crude oil price at that time was 2 cents per liter, and around 2 yen in Japanese currency. It would be 25 dollars of the present value taking into consideration the subsequent inflation ratio. This price was not much different from the bottom price in 2015.

The oil-producing countries, however, got only nominal share of selling price. They got royalties and small amounts of dividends paid by Western oil companies including Seven Sisters. Oil producing countries negotiated with oil companies in search of an increase in share. But their efforts had been meaningless. Western oil companies monopolized every fields of business from crude production, refining, distribution and marketing. Oil producing countries could not stand to oil companies. It was a typical example that in 1951 Prime Minister Mossadegh of Iran tried to nationalize the oil industry, but he was defeated by severe counterattacks of Seven Sisters.

Demand for oil increased rapidly during the postwar reconstruction period, so oil companies were able to get sufficient profits merely by increasing production while leaving prices unchanged. It was good news for oil consuming countries and consumers that oil was cheap. Japan was the country that received the greatest benefit. With cheap oil as a weapon, Japan overcame the hard time of post-war era and reeled up the coming high growth.

However, in the postwar recession in 1959 when the demand for oil dropped, Seven Sisters lowered the crude oil purchase price (posted price, P.P.). Until then, the oil producing countries had been

suffered from decreasing revenue due to the upsurge of inflation. Their revenue has fallen further with the lowering of the posted price.

It was out of patience for oil producing countries. They stand up against oil majors. Oil producing countries had learned from the Iranian case that they could not defeat oil majors by individual negotiation. They had to unite together. In September 1960 OPEC (Organization of the Petroleum Exporting Countries) was formed. Initial member states were Saudi Arabia, Iran, Iraq, Kuwait and Venezuela. All of them had no means to earn the money other than oil. Libya, Indonesia, the United Arab Emirates, Algeria and Nigeria have joined the OPEC one after another in the following 10 years.

OPEC member countries struggled against the oil majors aiming to increase oil revenue, but the wall was thick and the results did not go up very well. There was only one means left. It was the nationalization of oil industry which Iran could not fulfill formerly. The radical Libya, which was not satisfied with moderate members such as Saudi Arabia, nationalized the oil industry in 1970 as a front runner. Muammar Gaddafi had grasped the power in coup d'etat one year before. His many barbarous political decisions were famous, and the nationalization of the oil industry was his first brutal outcome.

Nationalization of the petroleum industry will be the trend of the world afterwards. In the background there were two UN resolutions on natural resources. The first one was the resolution 1803 of "Permanent sovereignty over natural resources" at the United Nations General Assembly in 1962. This was further strengthened by the resolution 2158 of 1966. At this time, three principles were resolved; (1) Resources are originally attributable to their own country, (2) Development and sales of resource are self-directed by the country where the resource is located, (3) Foreign capital engaged in resource development is to be controlled by host country. It clearly recognized the validity of nationalization of natural resources.

OPEC who gained the courage by the UN resolutions started the marching in the 1970s. Not only did it fear Seven Sisters, but also it caused oil shocks around the world when Yom Kippur War / October War took place in 1973. Oil consuming countries were scared furiously.

(To be continued ----)