Opec's failure in the 1980s

OPEC's Failure in the 1980s The Organization of Petroleum Exporting Countries (OPEC), an international oil cartel, was unable to maintain the record oil prices set in the early 1980's. World events, such as the Yom Kippur War and the Iranian Hostage Crises had spiked oil prices to above $60 per barrel by 1980 (2004 dollars) (Williams) . However, these prices were short-term price increases and the cartel was unable to sustain these levels as prices fell dramatically, and by 1985 had fallen to below $20 per barrel (2004 dollars) (Williams). Several market forces confronted OPEC, and it became ineffective at managing supply and unable to control the price. The oil market of the early 1980's saw supply increase as producers found the higher price was worth the opportunity cost to produce more (Tucker, 63). Consumers, willing to conserve at those same high prices, decreased consumption and OPEC was forced to obey the Law of Supply and Demand while its diminished market share neutralized the cartel effect.

OPEC, formed in 1960, had seen steadily falling value in a barrel of oil until key events of the 1970's reversed that trend. Arab solidarity in response to Israel's involvement in the Yom Kippur war of 1973 triggered an oil embargo on nations supporting Israel. OPEC's ability to act in concert while controlling a large percentage of the supply resulted in a market shortage. Consumers were immediately faced with few, if any, practical product alternatives. However, new producers entered the market to produce in locations that were now profitable at these prices. The North Sea began production and the Soviet Union peaked at 12 million barrels per day making it, a non-OPEC member, the world's top producer (" Supply"). The high price also made new technologies feasible that would have not been economical at the lower prices. These forces combined to increase supply.

Consumers also reacted by reducing consumption. The use of less heating oil and more efficient transportation resulted in a declining change in demand through the early 1980's and saw oil consumption stabilize in the second half of the decade. The increase in quantity supplied, coupled with a decrease in quantity demanded resulted in a rapid adjustment as prices sought equilibrium. With other producers entering the market, OPEC's market share decreased and their cartel effect was diminished. In fact, this contributed to a greater decline as OPEC's policy of December 1985 to 'secure and defend for OPEC a fair share in the world oil market' resulted in a sharp increase in production by its members which drove prices even lower (" Resources and Energy").

OPEC was able to stabilize prices below the point that other producers could make a profit. When prices rose and the market found an advantage to increase supply, the cartel could not prevent them from producing. Likewise, when consumers were faced with higher prices, the demand moved along the curve into the area of less demand. The rising supply and decreasing demand resulted in a surplus and the market corrected this surplus by moving the price downward to a point of equilibrium. Because OPEC was not a monopoly, they were forced to obey the Law of Supply and Demand.

Works Cited

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