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NIGERIA'S MEMBERSHIP OF THE ORGANISATION OF THE PETROLEUM EXPORTING COUNTRIES (OPEC): WEIGHING THE COST AND BENEFIT

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ABSTRACT: *Crude oil remains an essential commodity that fuels the economy of countries the world over. On a high demand from time-to-time in the international oil market, countries endowed with the 'black gold' produce and export barrels of oil daily at a given price determined by the market forces of demand and supply. Nigeria, the largest oil producing country in Africa, maximum production capacity is 2.5 million barrels per day (bpd). Heavily dependent on the proceeds from the sales of her Bonny Light crude oil, it is in the best interest of the Nigerian State for oil prices to be high in the volatile international oil market. Hence, it became a full Member State of the cartel – Organisation of the Petroleum Exporting Countries (OPEC) in 1971. Over four decades later, Nigeria's membership of OPEC became a topic for debate among erudite scholars, astute analysts and professionals in Nigeria's oil industry following the plummet in oil prices from 2014 which adversely affected the country's undiversified petro-dollar economy. This research paper weighs the cost and benefit of Nigeria's membership of the oil cartel in order to ascertain whether Nigeria should remain a member or use the exit door out of OPEC. Theoretically, Realism was adopted for the study. Also used were the historical and comparative approaches with the qualitative method of secondary data collection.*

KEYWORDS: OPEC, Cartel, Membership, Production Quota, Oil Prices, National Interest

INTRODUCTION

The Organisation of the Petroleum Exporting Countries (OPEC) is a specialised intergovernmental organisation (IGO) that performs the function of stabilising oil prices in the international oil market by reining oil supplies. Founded in September, 1960, the cartel's member countries supply 40% of the crude oil in the international market and collectively have 80% of the world's proven oil reserves. Currently, the Organisation is made up of 14 Member States one of which is the Federal Republic of Nigeria.

In the year 1956, crude oil was first discovered in Nigeria at Oloibiri, present-day Bayelsa State, and in the Ogoni region in 1957 by Shell-BP Petroleum Development Company of Nigeria Limited. Following the discovery of crude oil, pioneer production began in 1958 from the company's oil field in Oloibiri. By the late 60s and early 70s, Nigeria had attained a production level of over 2 million barrels of crude oil daily (Pyagbara, 2003; cited in Ogiri, *et al.*, 2013:20). In order to safeguard it national interest abroad, Nigeria during the military junta of General Yakubu Gowon joined OPEC as the 11th Member State in July, 1971. Over four decades later, Nigeria's membership of OPEC became a topic for debate among scholars, analysts and professionals in Nigeria's oil industry.

It all started with the free fall of oil prices in 2014. Prior to 2014, oil prices were above $100 per barrel. But in 2014, it took a nosedive, dropping below $30 in 2016. The primary cause of the low oil prices was the oil glut (i.e. the oversupply of oil) in the international market. The United States, using the horizontal hydraulic fracturing technique a.k.a 'fracking', extracted oil from shale rocks beneath the surface soil and, flooded the international market with it. Hence, the market forces of demand and supply came into play, causing oil prices to drop. OPEC Member States, especially those that are heavily dependent on the proceeds from the sales of crude oil, looked up to OPEC to influence oil prices by regulating member countries oil production.

This was a daunting task for the cartel as Saudi Arabia did not want to lose its market share while its regional rival, Iran, following the conclusion of the Joint Comprehensive Plan of Action (JCPOA) agreement on its nuclear weapons programme in 2015 with the P5+1 (i.e. the five permanent members of the United Nations Security Council (UNSC) – China, US, Russia, UK and France plus Germany) targeted an oil production of 4 million bpd after economic sanctions were lifted by the US and EU. Despite finally getting Saudi Arabia and most of its Member States to reduce their oil production based on OPEC's revised production quota, oil prices still remain low. Hence the questions arose, is OPEC still a relevant oil cartel in the 21st century?, should Nigeria in its own national interest remain a full member of the Organisation or pull out?.

In order to weigh the cost and benefit of Nigeria's membership of OPEC, this research paper has been compartmentalised into the following sub-headings: statement of the problems; conceptual clarification, theoretical framework; the historical background of the Organisation of the Petroleum Exporting Countries (OPEC); Nigeria's membership of the Organisation of the Petroleum Exporting Countries (OPEC): weighing the cost and benefit and lastly; conclusion.

Statement of the Problems

The Organisation of the Petroleum Exporting Countries (OPEC), with the stated aim of ensuring the stabilisation of oil prices in the international market, appears to be losing its considerable control over the determination of crude oil prices, a position it enjoyed especially from the 1970s onwards (Okwor, 2011). Due to the plunge in oil prices from over $100 in 2014 to below $30 per barrel in 2016, OPEC Member States that are over-reliant on oil revenue had to faced some unforeseen challenges. For instance, Nigeria had to cope with a budget deficit while Venezuela dealt with civil unrest.

OPEC production quota has long been an issue for Member States such as Nigeria. "A production quota refers to the amount of oil a country can extract from the earth" (Kujala, 2013:22). Presently, Nigeria's output level of crude oil is below its maximum production capacity of 2.5 million bpd. The reasons for this unfavourable situation are not farfetched. Following the free fall of oil prices from 2014, OPEC Member States at the Organisation's 171st meeting at Vienna, Austria, on November 30, 2016, agreed to cut about 1.2 million bpd i.e. 4.5% of its oil production to 32.5 million bpd which took effect in January 2017. Nigeria and Libya were exempted from the deal due to the disruption of oil production by the militant group – Niger Delta Avengers (NDA) and political unrest after the 2011 Arab Spring respectively. But on December 07, 2018, OPEC members and the Russia-led non-OPEC members agreed to cap the volume of oil they supply the international market by 1.2 million bpd (800,000 bpd from OPEC members and 400,000 bpd from the non-OPEC members) in order to shore up oil prices. Nigeria this time around was included in the agreement because Nigeria did not request for an exemption. According to the agreement, Nigeria, which recently recorded an improvement in its output level from 1.1/2 million bpd in 2016 to approximately 1.7 million in 2018, could shave up to 40,000 bpd out of the 800,000 bpd for OPEC member countries. That is about 2.5% of Nigeria's current oil production level of approximately 1.7 million bpd. The said agreement took effect from January 2019 (Daily Post, 2016; Okafor, 2018).

Conceptual Clarification

There are three salient concepts that would go a long way in the cerebral understanding of this research paper. These concepts are – i) international organisation, ii) cartel and; ii) national interest.

International Organisation

Otherwise called intergovernmental organisation (IGO), an international organisation (IO) is an "institutional structure created by agreement among two or more sovereign states for the conduct of regular political interactions" (Jacobson, 1984:8). It can also be defined as a "formal, continuous structure established by agreement between members, whether governmental representative or not, from at least two sovereign states with the aim of pursuing the common interest of the membership…" (Archer, 2001:35). Presently, there are more than 100 existing international organisations in the world. For easy distinction, international organisations have been classified based on i) *membership and geographical location* e.g. the African Union (AU) – the regional body for sovereign States on the African continent and; ii) *functions and purpose* e.g. the Organisation of the Petroleum Exporting Countries (OPEC) – an oil cartel that plays the role of regulating oil supplies which influences oil prices in the international market.

Having said this, it is important to note that the above classifications of IOs are not perfect. For instance, the Economic Community of West African States (ECOWAS) is an economic IO for countries geographical located in the West African sub-region. On February 24, 2017, Morocco in North Africa formally applied to become a Member State of ECOWAS. In June 2017, the leaders of ECOWAS Member States agreed to Rabat's request 'in principle' at its 51st Summit in Monrovia, Liberia. If Morocco's request is granted eventually, it would render the 'membership and geographical location' classification meaningless.

Cartel

"In the field of economics, a cartel is defined as an agreement between businesses in the same industry to control a market, to raise the market price of a commodity or good, and act like a monopoly. Over time, most cartels tend to become unstable because artificially high prices create incentives for members to cheat. If all or most members cheat, the cartel falls apart. While cartels damage economic efficiency, their power is often short-lived because of this cheating and the inability to maintain strong barriers to entry" (O'Keefe, 2014:2). A good example of a cartel remains the Organisation of the Petroleum Exporting Countries (OPEC).

National Interest

According to Ojo and Sesay (2002), the concept 'national interest' is one of the most controversial concepts in contemporary international relations owing to the various interpretations and misconceptions by analysts, practitioners as well as politicians and decision-makers around the world.

"National interest can either be objective or subjective. National interest is said to be objective if it is an aggregate of the interest of different groups in a country – ethnic groups, religious groups, political groups etc. Knowing full well that the process involved in arriving at the total of the interest of different groups is time-consuming and expensive, national interest has been subjective i.e. what political leaders perceive them to be" (Ogunnoiki, 2018a:46). Thus, "[w]hen statesmen and bureaucrats are expected or are required to act in the national interest…what is meant is that they are being called upon to take action on issues that would improve the political situation, the economic and social wellbeing, the health and culture of the people as well as their political survival. They are being urged to take action that will improve the lot of the people, rather than pursue policies that will subject the people to domination by other countries…" (Adeniran, 1983:191).

Theoretical Framework

"A theory or the triangulation of theories (depending on whether a single theory is comprehensive enough or not) in a research work is there for the purpose of analysis. In other words, it is used for explaining the causation-effect of a phenomenon, and if possible, to make predictions" (Ogunnoiki, 2018b:118). In the discipline, International Relations (IR), there are several mainstream theories that can be used for analysing Nigeria's membership of OPEC. But considering the theme of this paper, the most appropriate theory for the study is 'Realism'.

There are two groups of realism theorists in IR. The first category is for those that use the human nature to explain the behaviour of States while the second category accommodates those that focus on the anarchical structure of the international system. Realists from ancient times till date includes Kaultilya, Sun Tzu, Niccolò Machiavelli, Thomas Hobbes, Hans J. Morgenthau, Edward H. Carr, Reinhold Neibuhr, John H. Herz, Raymond Aaron, John Mearsheimer, George Kennan, Henry Kissinger and, Georg Schwarzenberger (Ogunnoiki, 2018c).

Realism or Political Realism as some would preferably call it, is a theory predicated on 3S's – 'Statism', 'Self-Help' and 'Survival'. Realism sees 'world politics' as being driven by States with competing national interest. It holds that 'power' and 'national interest' are the keys to unlocking the understanding of international relations. The primary national interest of States is their 'survival' in a hostile environment. Thus, no means is more important to them for survival than the acquisition of power and no principle is more relevant than self-help (Kegley, 2008).

"Furthermore, the realists see the international system as being anarchical in nature. The international system to them comprises of sovereign States which as autonomous entities, answer to no higher authority. Owing to the absence of a world government, States do resort to self-help in order to advance their national interest and ensure their survival" (Ogunnoiki, 2018c:160). Concerning the establishment and role IOs play, the Realists are not too vocal.

Nevertheless, they are of the view that IOs are "just an arena for the game of power-politics between States in pursuit of their national interest" (Ogunnoiki, 2018d:47).

The Historical Background of the Organisation of the Petroleum Exporting Countries (OPEC)

The Organisation of the Petroleum Exporting Countries (OPEC) is an international cartel of oil producing States that has attempted with varied success to manipulate world oil prices for more than three decades (Smith, 2007). After the Second World War (1939-1945), the business of oil exploration and production in the Middle East was controlled by the British company – British Petroleum, the French company – "Compagnie Francaise de Petrole" (now Total), Royal Dutch/Shell (British-Dutch), and the American Companies – Standard Oil of New Jersey (now Exxon), Standard Oil of California (now Chevron), Standard Oil of New York (now ExxonMobil) and, Texaco (now part of Chevron). Together they were called the "Seven Sisters" (Chitadze, 2012) by the Italian businessman, Enrico Mattei in the 50s. With these International Oil Companies (IOCs) dominating the oil industry in the Middle East, there was the need for the formation of an international organisation that would protect the interest of oil producing countries, especially after import quota was placed on Venezuela by the US in 1959.

From September 10-14, 1960, Venezuela, Iran, Iraq, Kuwait and Saudi Arabia converged in Baghdad, Iraq, for the Baghdad Conference which was initiated by Venezuelan Oil Minister, Juan Pablo Pérez Alfonso and, the Saudi Oil Minister, Abdullah al-Tariki. The outcome of the Conference was the establishment of OPEC. In January 1961, the supreme organ of OPEC, the Conference, adopted the constituent instrument of the cartel, the 'Statute', in Caracas, Columbia.

Presently, OPEC's Member States cuts across South America, Africa and the Middle East. Asides the five Founding Members of OPEC i.e. Venezuela, Iran, Iraq, Kuwait and Saudi Arabia, Qatar joined in (1961), Indonesia (1962), Libya (1962), United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), Gabon (1975), Angola (2007), Equatorial Guinea (2017) and Congo (2018) (Lukman, 2000; OPEC, 2019). Ecuador suspended her membership of OPEC in December 1992 only to rejoin in October 2007. Gabon left the cartel in January 1995 but reactivated it on July 01, 2016. Indonesia suspended its membership in January 2009, reactivated it in January 2016, but suspended it again on November 30, 2016. On January 01, 2019, Qatar terminated its 57 years membership of the Organisation (OPEC, 2019).

OPEC has three structural organs – i) The Conference; ii) Board of Governors and; iii) Secretariat. Initially, OPEC's headquarters was situated in Geneva, Switzerland, but its permanent headquarters was opened in Vienna, Austria, on September 01, 1965 (OPEC, 2019).

Nigeria's Membership of the Organisation of the Petroleum Exporting Countries (OPEC): Weighing the Cost and Benefit

For the sake of pointing out the cost of Nigeria's membership of OPEC, a comparison will be made between Nigeria and Saudi Arabia. Nigeria, with a population above 170 million, is the most populous black country in Africa and indeed in the world. Nigeria's maximum production capacity of 2.5 million bpd makes it the largest oil producer in Africa. However, its output level has repeatedly been limited by OPEC's production quota coupled with the destruction of oil facilities by Niger Delta militants which caused its crude oil production to further drop to approximately 1.7 million bpd. Saudi Arabia on the other hand is the Middle East largest oil producer. The Sunni kingdom which has a population of 33 million people, produces over 10 million bpd based on its OPEC-given production quota. From this comparative analysis of the oil production and population of Nigeria and Saudi Arabia, it is safe to say that OPEC's production quota is bias and unfavourable to the Nigerian polity (Aluko, 2004).

What Nigeria has benefited or stands to gain from the oil cartel are not so many as one would expect. OPEC has been a platform where Nigeria acts as a major player in the business of oil production and export. Furthermore, Nigeria's full membership of the exclusive club of top oil producers in the world, has boosted her prestige in the international community. Presently, Nigeria prides itself in producing four Secretary-Generals of OPEC – Chief Meshach Otokiti Feyide (1975-1976), Dr. Rilwanu Lukman (1995-2000), Edmund Daukoru (2006) and, Mohammad Sanusi Barkindo (2016-?).

Placing both the cost and benefit on a scale, it is lucid for all to see that the cost of Nigeria's membership of OPEC outweighs the benefit. Thus, should Nigeria continue her 48 years membership of OPEC or terminate it?.

Nigeria's OPEC Membership Continuity or Outright Exit: The Debate

In recent past, there was the debate among scholars, analysts and professionals in Nigeria's oil industry whether Nigeria should remain a full member of OPEC or completely withdraw its membership from the cartel.

In 2015, at a symposium with the theme 'Nigeria's Energy Evolution – A Glimpse at the Future' to mark the 80th birthday of Chief Fetus Marinho, the former Minister of State (Petroleum)/Minister of Foreign Affairs, Mr. Odein Ajumogobia, having pointed out the failure of OPEC to intervene vis-à-vis the falling oil prices in November 2014 and, the desire of Saudi Arabia and the Arab States in OPEC to maintain their market share, concluded by seriously questioning the benefit of Nigeria remaining a member of OPEC "in the absence of any protection or leverage whatsoever within the organisation" (Salau, 2015).

Also, to have raised an eyebrow on Nigeria remaining a member of OPEC was the former Chairman, Transmission Company of Nigeria (TCN), Ibrahim Waziri. Mr. Waziri was of the view that Nigeria's continuous membership of OPEC, which according to him was based on national sentiments, is irrelevant and destructive to the country. He therefore urged the federal government not to be afraid of experimenting by withdrawing from OPEC since what Nigeria is getting from OPEC can also be gotten outside the cartel that is dominated by Saudi Arabia (Salau, 2015).

Of the contrary view was the former Group Managing Director of the Nigerian National Petroleum Corporation (NNPC), Funsho Kupolokun who said "I feel totally unable to agree with that. If everybody pulls out of OPEC who told you that Saudi Arabia cannot pull out of OPEC, and if that happens, price will go back to $9 a barrel where we were in 20 years ago. Somebody has to do pumping up prices" (Salau, 2015).

In 2016, the incumbent president of Nigeria, Mohammadu Buhari, who was interviewed by Martine Dennis on 'Talk to Al Jazeera' during his visit to Qatar, put an end to the argument. In his words:

> *"Certainly, under my leadership, Nigeria will not withdraw from OPEC. Between 1976 and 1979, I served as petroleum minister. I very much value the institution of OPEC and I think Nigeria will make the necessary sacrifice to remain in OPEC"* (Talk to Al Jazeera, 2016).

From the president's statement, it can be deduced that the continuity of Nigeria's full membership of OPEC will not be convenient, but is in the best interest of the country.

CONCLUSION

In this paper, the cost and benefit of Nigeria's 48 years membership of OPEC were placed on a scale to ascertain whether Nigeria should remain a member of the cartel or terminate it. Of a truth, the cost of Nigeria's membership of OPEC has outweighed the benefit over the years. Nevertheless, Nigeria should not pull out of the Organisation. Using the exit door out of OPEC definitely would give Nigeria the much-needed breathing space to produce crude oil at maximum capacity. However, producing and exporting an unregulated amount of oil would only saturate the international oil market thus, causing oil prices to drop. This foreseeable outcome will not in any way favour Nigeria or any oil producing country the world over. Hence, Nigeria should remain in OPEC, bear the painful production quota which indirectly helps it to manage its non-renewable resource and, assist OPEC in reining oil supplies which would prop up oil prices in the interest of all.

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