

CHAPTER IV

ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES AS THE FACTOR OF PRESIDENT JOKO WIDODO CHANGING POLICY

In this chapter, the writer discusses environment that affect the decision making process. As the writer mention previously in chapter II there are inputs of the policy that include the influences from the environment such as OPEC as the 70% crude oil stakeholder from their country members and the influence of the Rupiah over dollar that makes a significant role in the national state budget. The writer gives information about OPEC, profile of OPEC, the history of the OPEC all the data about history of OPEC oil price and how OPEC influence the world oil price toward gas price.

A. The History of Organization of the Petroleum Exporting Countries (OPEC)

Intergovernmental organization that is engaged in crude oil sector to coordinate and unify petroleum policies among member countries. In order to secure fair and stable prices for petroleum producers to achieve an efficient economic and regular supply of petroleum to consuming nations and fair return on capital to those investing in the industry.

The headquarters was in Geneva, Switzerland. And moved to Vienna, Austria. Created by five founding members Iran, Iraq, Kuwait, Saudi Arabia and Venezuela at the Baghdad Conference on September 10th until September 14th, Five OPEC country formed an alliance to regulate the supply and price of oil. These countries realized they had a non-renewable resources. If they competed with each other, the price of oil would be so low that they would run out sooner than if oil prices were higher.

Table 4.1: Organization of the Petroleum Exporting Countries members

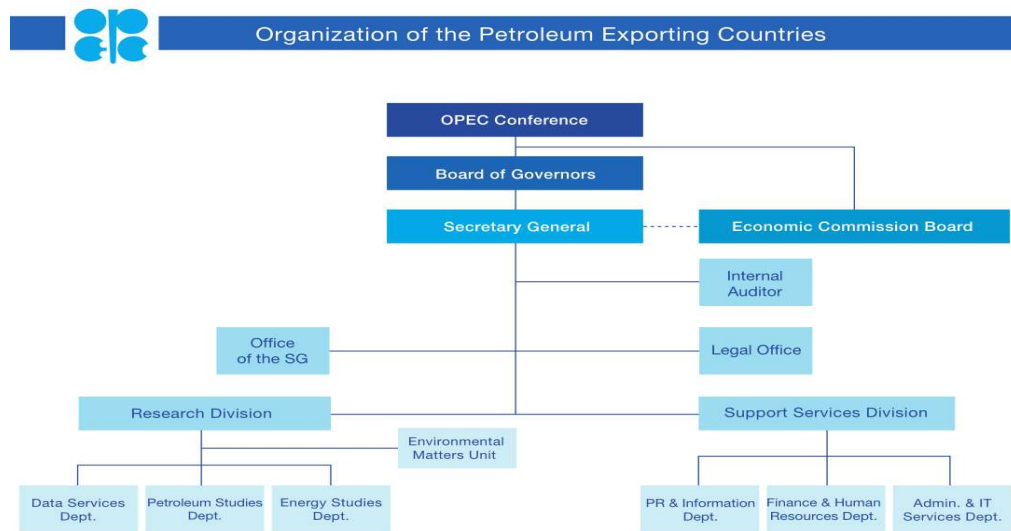
OPEC Country	Joined	Located	Oil produced (mbpd) 2015	Comment
Algeria	1969	Africa	1.16	
Angola	2007	Africa	1.77	
Ecuador	1973	Central America	0.54	
Gabon	1975	Africa	NA	TERMINATED
Indonesia	1962	Asia	0.69	Will resign rather than cut.
Iran	1960	Middle East	3.15	
Iraq	1960	Middle East	3.5	
Kuwait	1960	Middle East	2.86	
Libya	1962	Middle East	0.40	
Nigeria	1971	Africa	1.75	
Qatar	1961	Middle East	0.66	
Saudi Arabia	1967	Middle East	10.19	
UAE	1960	Middle East	2.99	
Venezuela		Central America	2.65	
TOTAL OPEC			32.32	

Source: OPEC Annual Statistic Bulletin 2016

Followed by another member's country that have oil resources such as: Qatar joined in 1961; Indonesia joined in 1962, and suspended its membership in January

2009, but reactive in January 2016; Ecuador joined in 1973, suspended its memberships in December 1992, but reactivated in October 2007; Angola joined in 2007; and Gabon joined in 1975, quitted membership in January 1995 but rejoined in July 2016 but decided to quit or be terminated from OPEC membership.⁶²

Figure 4.1: Organization of the Petroleum Exporting Countries Structure



Source: OPEC Web site

OPEC'S organization consists of three main bodies: OPEC Conference, Board of Governors, and Secretary General, supported by other agencies that are under the main body in accordance with the structure of OPEC. In the first branch, there is Conference which has the supreme power in determining policy. Second is Board

⁶²OPEC. (2017). Brief History. Retrieved from OPEC: http://www.opec.org/opec_web/en/about_us/24.htm

of Governors that consist of governor appointed by each OPEC members to sit in council convenes at least twice a year. The task of the Board of Governors is to make decisions, recommendations, reports, and consider making a financial budget in the conference of OPEC. And the third is Secretary General which is responsible for the implementation of all resolutions passed by the Conference and carrying out all decisions made by the Board of Governors. It also conducts research, the findings of which constituting key inputs in decision-making. Representative of the Organization and Chief Executive of the Secretariat. In this capacity, he administers the affairs of the Organization in accordance with the directions of the Board of Governors. It further consists of the Office of the Secretary General, the Legal Office, the Research Division and the Support Services Division. The Research Division comprises Data Services, Petroleum Studies and Energy Studies departments. The Support Services Division includes Public Relations & Information, Finance & Human Resources and Administration & IT Services departments.⁶³

The establishment of OPEC in Baghdad in September 1960 with the formation of five oil producing developing countries, at the beginning focused on the international economical and political landscape, with extensive decolonization and the birth of many new independent states in the developing world. Emphasized its

⁶³OPEC.(2017). Secretary General. Retrieved from OPEC:
http://www.opec.org/opec_web/en/about_us/149.htm

collective vision by setting up its objective and established its secretariat, first time in Geneva and moved, In Vienna in 1965. In 1968 OPEC developed the inalienable right of all countries to exercise permanent sovereignty over their natural resources in the interest of their national development and in 1969 membership grew to ten.⁶⁴

OPEC member country took control of their domestic petroleum industries and acquired a major in the crude oil on world markets, OPEC developed to international prominence during 1970s. Oil prices have been extremely volatile. They are affected by more than the laws of supply and demand. They are based upon the price of oil futures contracts on the commodities markets. That means commodities traders control oil prices. In 1975 membership grew to 13.

OPEC experience sought fairness, balance and realism in the treatment of oil supply. Followed by the price which moved less dramatically than in 1970 and 1980. One country left OPEC, while another suspended its membership. However post-soviet world with globalization, the communications revolution and other high-tech trend a solid recovery followed in a more integrated oil market.⁶⁵

In the 2000s OPEC becomes prominent in supporting the oil sector, as part of global efforts to address the economic crisis. OPEC oil price band mechanism helped strengthening and stabilizing crude oil prices. Oil becomes used increasingly

⁶⁴OPEC, Loc.cit.

⁶⁵ibid

as an asset class. One country joined OPEC, another reactivated its membership and a third suspended it. OPEC was struggling to maintain market share, which fell from 44.5 percent in 2012 to 41.8 percent in 2014. That's because of a 16 percent increase in U.S. shale oil production. As the oil supply increase, price fell from \$108.54 in April 2012 to \$34.72 in December 2015.⁶⁶

B. History of World Oil Price 1974 - 2016

Table 4.2: Oil price by years (Dollars per barrel)

Year	Average	Low	High	Causes
1974		\$9.59 Jan	\$13.06 Jun	OPEC oil embargo ended
1975		\$12.77 Jan	\$15.04 Nov	Stagflation
1976		\$13.27 Jan	\$13.71 Dec	Economy recovered
1977		\$14.11 Feb	\$14.76 Dec	Fed raise and lowered rates
1978		\$14.41 Feb	\$14.76 Dec	
1979		\$15.50	\$28.91 Dec	Iran-Iraq War. Fed rate 20%
1980		\$30.75 Jan	\$35.63 Dec	Iran oil embargo
1981		\$35.43 Oct	\$39.00 Feb	Reagan cut taxes
1982		\$32.78 May	\$35.54 Jan	Recession end inflation
1983		\$27.95 Apr	\$31.40 Jan	
1984		\$28.02 Dec	\$29.26 May	
1985		\$26.2126.21 Dec	\$27.60 May	
1986	\$15.05	\$10.91	\$24.93	OPEC adds to supply
1987	\$19.20	\$16.45	\$19.32	
1988	\$15.97	\$12.66	\$15.93	
1989	\$19.64	\$16.04	\$20.05	
1990	\$24.53	\$15.15	\$32.88	Gulf War
1991	\$21.54	\$17.17	\$22.30	SPR released oil
1992	\$20.58	\$16.00	\$19.83	
1993	\$18.43	\$12.56	\$18.35	
1994	\$17.40	\$12.90	\$17.52	NAFTA allowed cheap oil
1995	\$18.43	\$16.29	\$18.56	
1996	\$22.12	\$17.48	\$23.22	
1997	\$20.61	\$15.95	\$23.02	
1998	\$14.42	\$9.39	\$14.33	
1999	\$19.34	\$10.16	\$24.35	Prices doubled
2000	\$30.38	\$24.29	\$30.56	
2001	\$25.98	\$15.95	\$24.63	Recession
2002	\$26.18	\$17.04	\$27.14	Afghanistan War

⁶⁶ibid

2003	\$31.08	\$24.48	\$32.23	
2004	\$41.51	\$30.11	\$45.36	
2005	\$56.64	\$37.56	\$58.79	Hurricane Katrina
2006	\$66.05	\$52.70	\$67.99	Bernake becomes Fed chair
2007	\$72.34	\$49.57	\$85.53	
2008	\$99.67	\$35.59	\$127.77	
2009	\$61.95	\$36.84	\$74.40	Great Recession
2010	\$79.48	\$73.73	\$85.59	
2011	\$94.88	\$87.61	\$107.98	
2012	\$94.05	\$92.99	\$108.54	Iran threatened Straits
2013	\$97.98	\$90.36	\$104.16	Of Hormuz
2014	\$93.17	\$57.36	\$100.26	
2015	\$49.08	\$34.72	\$58.90	Dollar rose 15%. U.S. shale oil increased.
2016	\$50.89	\$36.36	\$50.50	

Source: *Thebalance Web site*⁶⁷

History of crude oil tended to increase from 1960 until 2016 or nowadays, there are several factors that influence the price such as OPEC oil embargo that made the world oil price is triggered to increase, stagflation that strengthened the price more costly, recovered economy, Iran Iraq war and Iran oil embargo that created big influence in the history of world oil price at the 20 century, OPEC adds supply to stabilize the Iran influence, Gulf war in 1990 created oil price high but not as high as Iran war, NAFTA allowed cheap price to stabilize the gulf war influence, Afghanistan war, hurricane Katrina, great recession, Iran that threatened straits of Hormuz create big influence in the history of world oil price as the expensive one,

⁶⁷Amadeo, K. (2016, December). How Crude Oil Prices Affect Gas Prices. Retrieved from The Balance Website: <https://www.thebalance.com/how-crude-oil-prices-affect-gas-prices-3306230>

Dollar rose 15%. U.S. shale oil increased. Since the beginning, there was OPEC that already intervened the world crude oil price.

C. Organization of the Petroleum Exporting Countries Crude Oil Determination Over the Price of Fuel Oil

Fuel oil prices are caused by high crude oil prices because crude oil prices make up around 71 percent of the price of gasoline or fuel oil. The remaining or the rest 29 percent comes from distribution cost, corporate profits, and federal taxes, which is more stable, so that the daily change in the price of fuel oil depends and reflects on the crude oil price fluctuations, and is also related with supply and demand of the sources.⁶⁸

OPEC is an organization of the host exporting country which is oil producing countries that produce 46 percent of the world's oil⁶⁹ and more than 80 percent of the world's proven crude oil reserves are located in OPEC member countries.⁷⁰

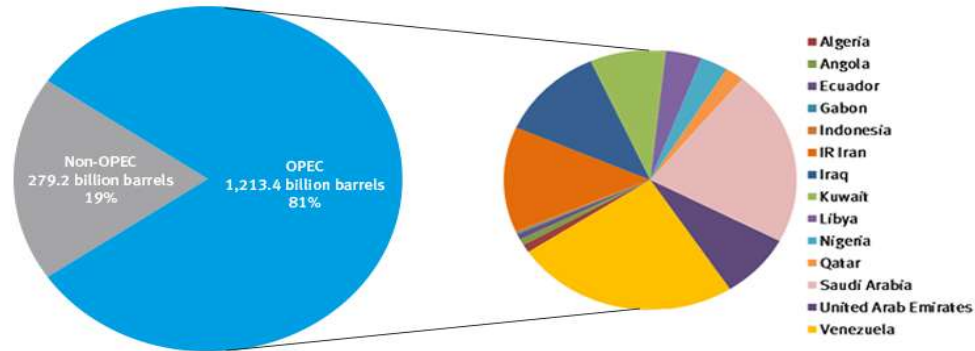
⁶⁸ibid

⁶⁹ibid

⁷⁰OPEC. (2017). *OPEC share of world crude oil reserves, 2015*. Retrieved from OPEC Web site: http://www.opec.org/opec_web/en/data_graphs/330.htm

Figure 4.2: OPEC Annual Statistic Oil reserves

OPEC share of world crude oil reserves, 2015



OPEC proven crude oil reserves , at end 2015 (billion barrels, OPEC share)					
Venezuela	300.88	24.8%	Kuwait	101.50	8.4%
Saudi Arabia	266.46	22.0%	United Arab Emirates	97.80	8.1%
IR Iran	158.40	13.1%	Libya	48.36	4.0%
Iraq	142.50	11.7%	Nigeria	37.06	3.1%
			Qatar	25.24	2.1%
			Algeria	12.20	1.0%
			Angola	9.52	0.8%
			Ecuador	8.27	0.7%
			Indonesia	3.23	0.3%
			Gabon	2.00	0.2%

Source: OPEC Annual Statistical Bulletin 2016.

Source: OPEC Annual Statistic Bulletin⁷¹

In addition to production, OPEC use it production to impact prices its production quotas. According to the data from the history of world oil prices in 2008 until now there is a financial crash in crude oil and fuel oil, and what causes the price swings.

In 2008 – Crude oil price increase sharply to its all-time high of \$143.68/barrel on July 8. Which affected the fuel oil price becoming to \$4.16/gallon. Because of the financial crisis, both fuel oil and crude oil prices reached high and set by commodities traders when they think there is going to be more demand. And in

⁷¹ibid

December OPEC removed 2.2 million barrels from daily production. In 2009 – This time fuel oil prices fell, down to \$1.67/gallon on December 29. In the other hand crude oil fell to \$39.41barrel on February 18.

In 2010 – Crude oil price stayed within the range of \$70-\$80/barrel and breached \$90/barrel in December. And the fuel oil staying in \$3.00/gallon.2014 – Crude oil price fell to \$62/barrel by the end of the year. That sent fuel oil price fell to \$2.45/gallon. That was due to the fact that United States produced plenty of shale oil, and OPEC didn't lower supply quotas.

In 2016 – The price continued to fall in January down to \$26/barrel by the end of the month. Fuel oil fell to \$1.83/gallon on February 15. When OPEC announced a production cutback in November, Crude oil price increased above \$54/barrel in December. That has sent fuel oil price increased to \$2.42/gallon.

In the last few years the crude oil price has been in the state of uncertainty, starting from price which increased reaching US \$90 per barrel in 2011, then in 2012 increased to above US \$125 per barrel, decreased in 2013 to US \$100 per barrel, above US \$100 per barrel in 2014⁷², then dropped below above US \$ 48 per barrel in 2015, Until a drastic price dropped below US \$30 per barrel in 2016.⁷³ The

⁷²www.money.cnn.com, *Oil prices surge above \$106, gasoline tops \$ 3.50*, September 29, 2014

⁷³www.bloomberg.com, *Crude Falls Below \$30 a Barrel for the First Time in 12 Years*, January 13, 2016

change of oil price fluctuations in the last 5 years tends to decrease. Even though briefly rising in 2012.

From the fluctuation oil price has influenced to the Indonesia as the importer of the crude oil where Indonesia would buy the oil with cheap price. Therefore, by decreasing fuel oil price, Indonesia acquired benefit. According to PT. PERTAMINA, from following the fluctuation of oil price which is now decreasing PT. PERTAMINA has acquired profit as much as Rp22.1 trillion.

OPEC has played a big role in the fluctuation of the oil price in the world with around 80% oil share world crude oil reserved as the exporter crude oil around the world, from the member countries that joined OPEC are: Algeria, Angola, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia UAE and Venezuela.⁷⁴

With OPEC, Indonesia as the country that import crude oil and the one of the largest oil importing countries, Indonesia requires OPEC to require oil supply with more assured. There is also a chance of countries who have trillions of dollars deposits such as Kuwait and Qatar on OPEC members. Indonesia could attract them to infuse investment, so the incoming investment would be a lot more.

⁷⁴OPEC. (2016). *OPEC share of world crude oil reserves, 2015*. Retrieved from OPEC Annual Statistical Bulletin 2016: http://www.opec.org/opec_web/en/data_graphs/330.htm

This explanation is about to prove the hypothesis point 2. To respond the international challenge in oil sector which is OPEC as 70% crude oil stake holder by following the fluctuation. And point 3. The influence of OPEC as 70% stake holder of the exporting crude oil and fluctuation world oil price Rupiah over Dollar US.

The Emergence of OPEC gives clear explanation that policy taken by Indonesia government depends on OPEC as the environment in crude oil. By OPEC, Indonesia needs to follow the fluctuation which OPEC has made by its production quota exporting crude oil. Bulletin above can tell that OPEC has big influence in the setting of crude oil price. In the 2008 until 2016 OPEC has fully controlled the crude oil price at financial crisis. In 2008 OPEC removed 2.2 million barrels oil to maintenance and to keep the price that will give benefit to the producer country followed by year to year in 2014, it fell because too much crude oil quota in the market and in the 2016 OPEC cut it production again to increase the price.

Because of that phenomena, if a country is still using the policy that subsidize the fuel oil price, it will be financial burden for the national budget and is not effective. Reduction and subsidy elimination on fuel oil is needed, considering that the condition of petroleum in Indonesia and the world today which tends to rise.