Organization of the Petroleum Exporting Countries (OPEC)

**What is the Organization of the Petroleum Exporting Countries (OPEC)?**

The term Organization of the Petroleum Exporting Countries (OPEC) refers to a group of 13 of the world’s major oil-exporting nations. OPEC was founded in 1960 to coordinate the [petroleum](https://www.investopedia.com/terms/p/petroleum.asp) policies of its members and to provide member states with technical and economic aid.1 OPEC is a [cartel](https://www.investopedia.com/terms/c/cartel.asp) that aims to [manage](https://www.investopedia.com/articles/investing/081315/opec-vs-us-who-controls-oil-prices.asp) the supply of oil in [an effort to set the price of oil on the world market](https://www.investopedia.com/articles/investing/012216/how-opec-and-nonopec-production-affects-oil-prices.asp), in order to avoid fluctuations that might affect the economies of both producing and purchasing countries.2

Countries that belong to OPEC include Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela (the five founders), plus Algeria, Angola, Congo, Equatorial Guinea, Gabon, Libya, Nigeria, and the United Arab Emirates.

KEY TAKEAWAYS

* The Organization of the Petroleum Exporting Countries is a cartel consisting of 13 of the world’s major oil-exporting nations.
* OPEC aims to regulate the supply of oil in order to set the price on the world market.
* The arrival of fracking technology for natural gas in the U.S. has reduced OPEC’s ability to control the world market.
* The organization was established in 1960 by its founding members Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela.
* While OPEC does ensure that there is a steady supply of oil in the global market, it has come under fire for holding considerable power in the industry, which allows it to keep prices as high as possible. **Organization of Petroleum Exporting Countries**

**Understanding the Organization of the Petroleum Exporting Countries (OPEC)**

The Organization of the Petroleum Exporting Countries describes itself as a permanent intergovernmental organization. The organization is designed to "coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets." This ensures that there is a steady supply for consumers and regular income for [petroleum](https://www.investopedia.com/terms/p/petroleum.asp) producers.

It is headquartered in Vienna, Austria, where the OPEC Secretariat, the executive organ, carries out OPEC’s day-to-day business.4 OPEC was established in Baghdad in September 1960 by founding members Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela, and now has 13 member countries.15

The [chief executive officer (CEO)](https://www.investopedia.com/terms/c/ceo.asp) of OPEC is its secretary-general.6 His Excellency Mohammad Sanusi Barkindo of Nigeria was appointed to the position for a three-year term of office on June 2, 2016, and was re-elected to another three-year term in July 2019.78

Some of the world’s greatest oil-producing countries, such as Russia, China, and the U.S., do not belong to OPEC. This leaves them free to pursue their own objectives.

**History of the Organization of the Petroleum Exporting Countries (OPEC)**

As noted above, OPEC was founded in Baghdad in 1960. Five countries took part in the Baghdad Conference between Sept. 10 and 14 that year: Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. The organization established its Secretariat in Geneva before finalizing its location in Vienna in 1965. Three years later, OPEC adopted its Declaratory Statement of Petroleum Policy in Member Countries.1

OPEC's membership expanded to 10 countries in 1969 and was an organization that flew under the radar until Arab member countries cut production and banned exports to the United States and the Netherlands. The [embargo](https://www.investopedia.com/terms/e/embargo.asp) was a response to the West's support of Israel during the Yom Kippur War in October 1973. A year later, oil prices shot up, causing shortages in the U.S. The embargo was lifted in 1974.9 In 1975, OPEC had 13 member countries.1

In 1976, OPEC established the OPEC Fund for International Development. Member countries work with developing nations and the international community to provide private and trade sector financing and grants to non-member countries.10

**Organization of the Petroleum Exporting Countries (OPEC) Member Countries**

According to its statutes, [OPEC](https://www.investopedia.com/articles/economics/09/organization-petroleum-exporting-countries-opec.asp) membership is open to any country that is a substantial exporter of oil and shares the ideals of the organization. After the five founding members, OPEC added 11 additional member countries as of 2019. They are, in order of joining, as follows:

* Qatar (1961)
* Indonesia (1962)
* Libya (1962)
* United Arab Emirates (1967)
* Algeria (1969)
* Nigeria (1971)
* Ecuador (1973)
* Gabon (1975)
* Angola (2007)
* Equatorial Guinea (2017)
* Congo (2018)

Ecuador withdrew from the organization on Jan. 1, 2020. Qatar terminated its membership on Jan. 1, 2019, and Indonesia suspended its membership on Nov. 30, 2016, so as of 2020 the organization consists of 13 states.

**The Organization of the Petroleum Exporting Countries (OPEC) Mission**

According to the OPEC website, the group's mission is “to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic, and regular supply of petroleum to consumers, a steady income to producers, and a fair return on [capital](https://www.investopedia.com/terms/c/capital.asp) for those investing in the petroleum industry.”

The organization is committed to finding ways to ensure that [oil prices are stabilized](https://www.investopedia.com/ask/answers/060415/how-much-influence-does-opec-have-global-price-oil.asp) in the international market without any major fluctuations. Doing this helps keep the interests of member nations while ensuring they receive a regular stream of income from an uninterrupted supply of crude oil to other countries.

OPEC recognizes the founding nations as full members. Any country that wishes to join and whose application is accepted by the organization is also considered a full member. These countries must have significant crude [petroleum](https://www.investopedia.com/terms/p/petroleum.asp) exports. Membership to OPEC is only granted after receiving a vote from at least three-quarters of its full members. Associate memberships are also granted to countries under special conditions.

**How the Organization of the Petroleum Exporting Countries (OPEC) Influences Oil Prices**

Collectively, OPEC is the largest producer and exporter of crude oil and petroleum products in the world. Roughly 40% of the world's oil production and 60% of the world's petroleum market come from the group's member countries and they accounted for more than 80% of the world's proven oil reserves in 2021.

Having said this, it's no surprise that any moves the group makes have a big impact on global energy prices. Oil prices can drop significantly if they decide to supply more oil to the market. On the other hand, if OPEC member countries decide to cut production and curb supplies, prices are highly likely to shoot up.

**Advantages and Disadvantages of the Organization of the Petroleum Exporting Countries (OPEC)**

Advantages

There are several advantages of having a cartel like OPEC operating in the crude oil industry. First, it promotes cooperation among member nations, helping them alleviate some degree of political hostilities. And because the organization's main goal is to stabilize oil production and prices, it is able to exert some influence over production from other nations.

Disadvantages

OPEC’s influence on the market has been widely criticized. Because its member countries hold the vast majority of crude [oil reserves](https://www.investopedia.com/terms/o/oil-reserves.asp), the organization has considerable power in these markets.13 As a cartel, OPEC members have a strong incentive to keep oil prices as high as possible while maintaining their shares of the global market.

Pros

* Promotes cooperation among member nations
* Exerts influence over production from other nations

Cons

* Has considerable power
* Incentivized to keep oil prices high to maintain global market share

**The Organization of the Petroleum Exporting Countries (OPEC) Challenges and Responses**

Oil prices and OPEC's role in the international petroleum market are subject to a number of different factors. The advent of new technology, especially [fracking](https://www.investopedia.com/terms/f/fracking.asp) in the United States, has had a major effect on worldwide oil prices and [has lessened OPEC’s influence on the markets](https://www.investopedia.com/articles/investing/081315/opec-vs-us-who-controls-oil-prices.asp). As a result, worldwide oil production increased and prices dropped significantly, leaving OPEC in a delicate position.

OPEC decided to maintain high production levels and consequently low prices as of mid-2016, in an attempt to push higher-cost producers out of the market and [regain market share](https://www.investopedia.com/ask/answers/033115/what-strategies-do-companies-use-regain-market-share-they-have-lost.asp). However, starting in January 2019, OPEC reduced output by 1.2 million barrels a day for six months due to a concern that an economic slowdown would create a supply glut, extending the agreement for an additional nine months in July 2019.

[Demand for oil dropped during the global crisis](https://www.investopedia.com/articles/investing/100615/will-oil-prices-go-2017.asp), which began in 2020. Producers had an overabundance in supply with no place to store it, as the world experienced lockdowns cutting down demand. This, along with a price war between Russia and Saudi Arabia, led to a drop in oil prices. As a result, the organization decided to cut production by 9.7 million barrels per day between May and July 2020.16 Oil prices continued to experience volatility, leading OPEC to adjust production levels to 7.2 million barrels per day as of January 2021.

OPEC faces considerable challenges from innovation and new, green technology. High oil prices are causing some oil-importing countries to look to unconventional—and cleaner—sources of energy. These alternatives, such as shale production as an alternative energy source, and hybrid and electric cars that reduce the dependence on petroleum products, continue to put pressure on the organization.