

OPEC: Behavior Cycles, Compliance, and Policy Change

This analysis reviews the recent history of export volumes, prices, and revenues of the Organization of the Petroleum Exporting Countries (OPEC). An overview of cyclical trends in the organization's behavior indicates that changes on the current price defense strategy could materialize anytime in the near future. Since its creation, OPEC has witnessed six different cycles of behavior based on those three factors (volumes, prices, and revenues). The work also revisits countries' production behavior in compliance with OPEC accords to reinforce the analysis. Using Algeria, Iraq, and Venezuela as significant "case studies," the analysis previews the eventual future production increases of those countries within two divergent OPEC scenarios for the mid-term: from re-accommodation to a free-for-all type of policy. Since 1998 OPEC established a market equilibrium policy, which transformed itself recently into a price defense strategy. One of the main contentions of the paper is that OPEC may again shift to a cycle of behavior that would coincide with the key players of long-term interests. In conclusion, a change of policy in OPEC is viable because it is possible to achieve comparable revenue with a combination of larger output volumes and much more moderate prices than we currently have in 2004.