

Organisation of Petroleum Importing Countries is neither necessary nor desirable.

Prabhakar Deshpande

Abstract: The author has been advocating for the formation of Organisation of Petroleum Importing Countries for almost 25 years. His argument being that Organisation of Petroleum Importing Countries – or OPIC – would countervail the power of Organisation of Petroleum Exporting Countries or OPEC. His argument carried forward, implied that just as Organisation of Petroleum Exporting Countries(OPEC), manipulates the price of crude oil in upward direction by restricting supply, similarly, Organisation of Petroleum Importing Countries(OPIC) could engineer a downward movement of oil prices by constraining demand. And the way OPIC could do that is by shifting to public transportation, better insulation of houses and other strategies to control demand for fuel. However, after so many years of advocating for creation of Organisation of Petroleum Importing Countries, in this research paper, the author takes a complete U-turn and argues that Organisation of petroleum Importing Countries is interestingly not only not necessary, but rather intriguingly not desirable too. He argues that Value of Crude as a percentage of global GDP has been at an acceptable level for long years, and hence it is not necessary to reduce price of crude oil any further. What is more is that if Value of Crude as percentage of Global GDP goes down any further, it would reduce the incentive to invest in research into alternative sources of energy such as solar power or wind power and that would not only be bad for environment but also for energy security in long term.

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I. Introduction

Edmund Burke said “A savage never doubts his first principles. “

The author has begun to doubt his first principles and thus escapes a classification of being a savage. The author has been a fervent and vehement advocate of Organisation of Petroleum Importing Countries or OPIC to collectively cooperate to reduce demand for crude oil and thus force price of crude oil in downward direction. The author's reason for controlling crude oil price was that high crude oil prices not only create inflation in economies of oil importing nations but also cause substantial stagnation, thus creating something of a ‘double whammy’.

The author found from his research that OPEC – Organisation of Petroleum Exporting Countries reduces supply of crude oil by just 3-5% and this inflates crude oil prices by almost 100-200%. In which case, it stands to reason, that if an equivalent cartel of oil importers were to somehow reduce demand for crude oil by just 3-5% then the price of crude oil would fall by 33-50%. And there are many mechanisms to reduce oil demand – switch to public transportation, fuel efficient vehicles, switch to biofuels, houses with better insulation, and so on and so forth. Indeed demand for crude oil could be at least theoretically be reduced by almost 50% or more, and thus certainly very easily practically by upto 10 percent.

Easier said than done

Strategy is one thing; execution is entirely different ball game altogether. While the idea of Organisation of Petroleum Importing Countries may seem sensible and reasonable, there are many road blocks to its realisation.

Firstly the number of oil importing countries is more than 150. How do you get so many nations to agree to an importers cartel.

Secondly politicians may be reluctant to impose restrictions on citizens since they may fear loss of popularity.

Thirdly while it is easy to reduce supply since there are very few organisations that produce oil, reducing demand requires one to convince billions of people to reduce demand.

Fourthly reducing oil demand requires changes in lifestyle, which while theoretically sensible faces enormous blocks in implementation.

Finally, there are very few advocates of Oil Importing Countries union, and hence the idea fizzles off even before taking off due to absolute lack of momentum.

Hence while the of Organisation of Petroleum Importing Countries is theoretically certainly possible, it is definitely impossible on the ground of practical difficulties due to obstacles in implementation.

This has been certainly one of the reasons why the author has subjected his fervently indeed fanatically held position to an introspection. Indeed it could be even argued that the author has changed his views not so much on the grounds of necessity or desirability of Oil importer's cartel, but as much due to its infeasibility that has been proven time and again conclusively.

Is an Oil Importers Cartel Necessary at all, in first place?

But there is at least some degree of truth, that the author has been introspecting on the necessity of oil importer's cartel in first place.

Sure enough, crude oil prices are higher than they were before the 1973 Oil Price Crisis after adjusting for devaluation of currency due to inflation, but the standard of living has increased as well since then with higher disposable incomes and hence people do not quite mind spending more on fuel, since primary needs such as food require lower percentage of income.

Secondly even after accepting the fact that the crude oil prices are higher than they were before the 1973 Oil Price Crisis after adjusting for devaluation of currency due to inflation, this is not creating any major economic problem in terms of severe stagnation or galloping inflation. Hence there is hardly any incentive to bring down crude oil prices. Perhaps the present crude oil prices are not abnormal and comparing present crude oil prices to pre 1973 prices is unfair since the present crude oil prices must be more reasonably compared with average post 1973 prices rather than average pre 1973 price.

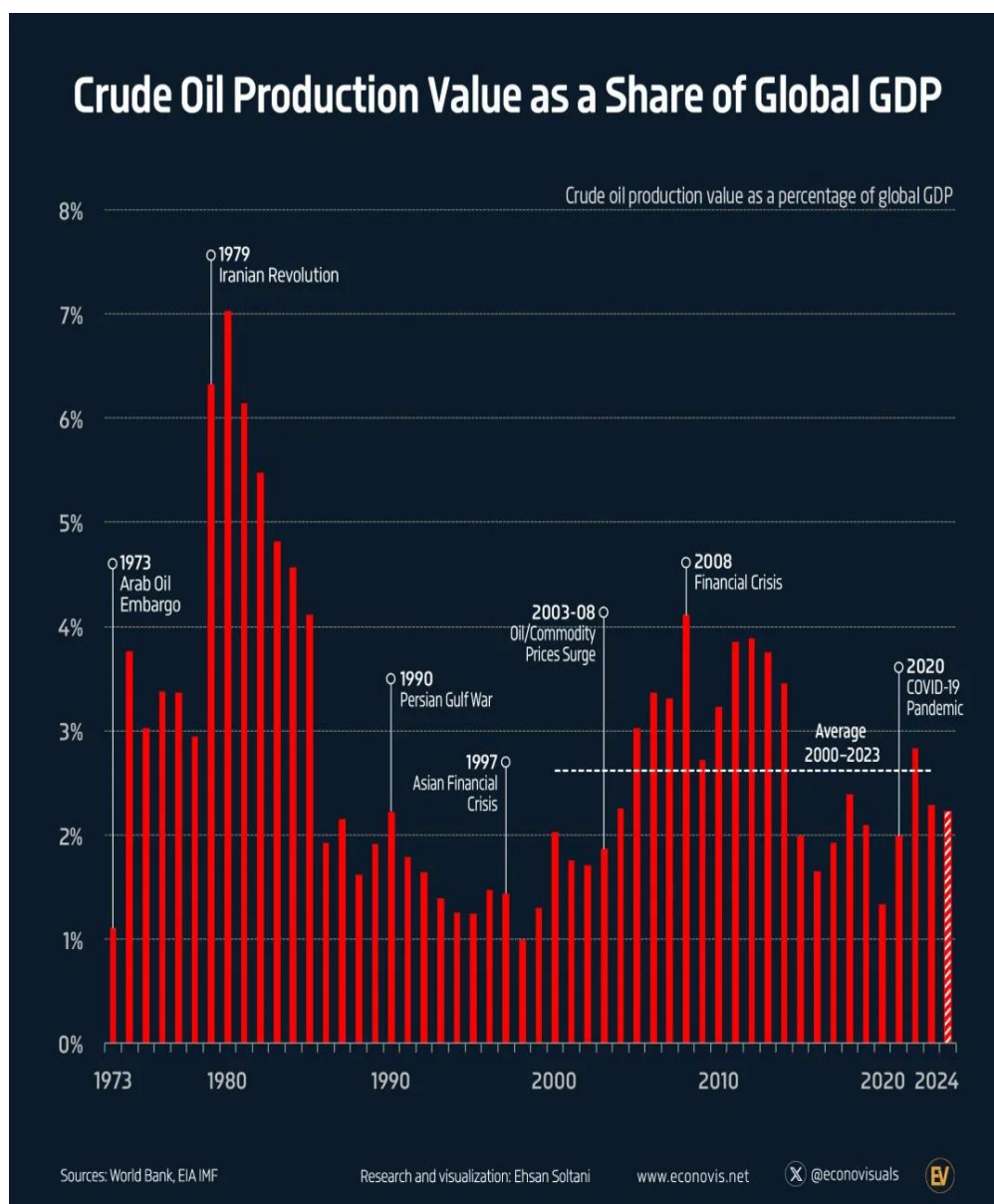


Figure 1: Crude Value as percentage of GDP

Crude Value as percentage of GDP							
1973	1%	1986	2%	1999	1%	2012	4%
1974	4%	1987	2%	2000	2%	2013	4%
1975	3%	1988	2%	2001	2%	2014	3%
1976	3%	1989	2%	2002	2%	2015	2%
1977	3%	1990	2%	2003	2%	2016	2%
1978	3%	1991	2%	2004	2%	2017	2%
1979	6%	1992	2%	2005	3%	2018	2%
1980	7%	1993	1%	2006	3%	2019	2%
1981	6%	1994	1%	2007	3%	2020	1%
1982	5%	1995	1%	2008	4%	2021	2%
1983	5%	1996	1%	2009	3%	2022	3%
1984	5%	1997	1%	2010	3%	2023	2%
1985	4%	1998	1%	2011	4%	2024	2%
1986	2%	1999	1%	2012	4%		

Table 1: Crude Value as percentage of GDP

Average Crude Value as a percentage of GDP is almost lowest of the past 50 years

However, one very important analysis that can reveal the impact of crude oil price on economy, is not crude oil price in itself, but the crude value as a percentage of GDP. Because that not only includes crude oil price adjusted for inflation, but also includes the quantity of crude oil consumed as well as the change in per capita gdp and the population.

So being alarmed by what we consider high crude oil prices is perhaps an unnecessary panic, when you realise that per capita gdp has also increased as also has the currency itself devalued due to inflation. To explain this a crude oil price of 80 dollars in 2024 is not so bad compared to crude oil price of 80 dollars in 2008 when you firstly consider the fact that the dollar has devalued due to inflation and also the average per capita GDP of the world has increased significantly between 2008 and 2024. Of course, this does not account for increase in crude oil consumption. But that gets adjusted for change in population.

So, the parameter that includes all the possible parameters that affect the impact of crude oil on the economy is the crude value as a percentage of GDP, where crude value is average crude oil price multiplied by crude oil consumption at that price. And that crude value has to be compared with global GDP. And if you study figure 1 and table 1, one would find that crude value as percentage of GDP for past few years has been hovering around 2 percent, which may be considerably higher than pre 1973 value of 1 percent, but is substantially lower as well than the average crude value as percentage of GDP post 1973.

For instance, in the early 1980s the crude value as percentage of GDP ranged from 4 percent of GDP to 7 percent of GDP. Indeed, as recently as a decade ago, this figure was between 3 to 4 percent. Why should one compare present crude value as percentage of GDP at 2 percent with pre 1973 crude value as percentage of GDP at 1 percent? Does it not make more sense to compare present crude value as percentage of GDP at 2 percent with average post 1973 crude value as percentage of GDP ranging between 3 to 5 percent on average.

It is more reasonable and sensible to accept that it is almost impossible for crude value as percentage of GDP to ever achieve the pre 1973 value of 1 percent or so and equally realize that when the crude value as percentage of GDP is around 2 percent, that does not create any disastrous impact on economy in terms of stagnation or inflation.

To conclude, given that values of crude value as percentage of GDP and present economic stability, there is absolutely no need for creating Organization of Petroleum Importing Countries to manipulate and engineer crude oil prices in downward direction.

Lower Crude Oil Prices May Not Be Desirable as Well

While the conclusion in the previous section seems sensible an argument that lower crude oil prices may not be desirable defies logic and rationality and reason. Prima facie it seems that lower crude oil prices would be good. After all, even if the crude value as percentage of gdp goes down from 2 percent to 1 percent, that would still mean a saving of 1 percent of gdp which while not substantial is not insignificant.

The reason low crude oil prices are not desirable, may not be apparent in short term, but becomes readily evident and immediately obvious with a long-term consideration. Because low crude oil prices reduce the incentive for research into alternative energy sources such as solar power or wind power or tidal power. And that is very dangerous because the world is rapidly running out of not just crude oil but also coal.

Hence low crude oil prices, by removing the incentive to research and invest in alternate energy resources, jeopardize and sabotage future energy security of the world. Hence while Organization of Petroleum Importing Countries to reduce crude oil price may seem sensible with short term view of immediate gratification, the idea is not well thought out for long term welfare when you consider the impact of low crude oil prices on research and investment in alternate energy sources, which is crucial for future energy security. Hence, we may certainly conclude based upon previous analysis that neither is low crude oil price desirable, nor is Organization of Petroleum Importing Countries established to achieve low crude oil price desirable.

II. Conclusion

They say, if you can't beat them, you might as well join them. The author has been something of a lone wolf advocating for creating Organization of Petroleum Importing Countries to achieve low crude oil prices. While he has not faced strong opposition to his ideas, he has had to live with complete lack of any enthusiasm for his idea from any quarter of society and that includes media, polity and academia.

Hence, the author has reflected and come to conclusion that his idea of Organization of Petroleum Importing Countries is a characteristic of youthful zeal that he had 25 years ago, but his wisdom that characterizes his old age should now prevail over his zeal. This means that the author is retracting his advocacy of Organization of Petroleum Importing Countries.

The author now believes, that Organization of Petroleum Importing Countries which he has been advocating for past 25 years, is not necessary since crude value as percentage of gdp, for past 10 odd years, has been lowest since 1973. Besides such as organization is not even desirable because its goal of low crude oil prices would reduce the incentive for research into alternate energy resources and that would mean poor prospects of future energy security. While low crude oil prices may be tempting in short term, but if that means reduction in future energy security then such low crude prices are disastrous and devastating.

In a nutshell, the author unambiguously declares having abandoned completely his 25-year project for creation of Organisation of Petroleum Importing Countries to reduce crude oil prices.

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