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Revisiting OPEC's Democratic Roots in the Age of Climate Emergency

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On 14 September 1960, representatives from Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, gathered in Baghdad and signed their names to a treaty that created the Organization for Petroleum Exporting Countries (OPEC). It stated that: "The principal aim of the Organization shall be the unification of petroleum policies for the Member Countries and the determination of the best means for safeguarding the interests of Member Countries individually and collectively." The current generation of OPEC leadership appears to consider the best means of so safeguarding its members' interests is to perpetuate, for as long as possible, a global economy dependent on oil. OPEC's third and most recent Solemn Declaration, made at Riyadh in 2007, notes members' "commitments to conserve, efficiently manage and prolong the exploitation of their exhaustible petroleum resources." Its current Long-Term Strategy, adopted at Vienna on September 14, 2010, states that oil "has a continuing and important role in the global economy". And on December 12, 2018, H.E. Mohammad Sanusi Barkindo, OPEC's current Secretary General, informed the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change that OPEC members were helping to fund "Appropriate technologies that would… ensure that the over 1.2 trillion barrels of proven oil reserves are not stranded." He went on to note "The energy transition is therefore not a transition from one energy source to another." A commitment to preserving the global oil industry can also be observed in OPEC's history of delay and disruption at international climate negotiations (Depledge, 2008; Chemnick, 2018).

Contrary to Barkindo's statement, however, avoiding dangerous climate change will likely require 'stranding' significant amounts of recoverable oil. Analysis by McGlade and Edkins (2015) indicates that (alongside similar restraints on coal and natural gas) a third of current oil reserves must remain unburned by 2050 in order to hold average global temperature rise to 2 degrees above pre-industrial levels. Because OPEC's reserves are so substantial – over 70% of global reserves – it is likely that substantial amounts of the oil that must remain underground in such a scenario will be in OPEC countries (Denning, 2018). A possible response to this fact, suggested in BP's 2019 *Energy Outlook*, is for low cost oil producers Saudi Arabia, UAE, Kuwait, Iraq, and Russia to pursue a "higher production, lower price" strategy that would "use their comparative advantage to expand their market share in order to help ensure their resources are produced" (BP, 2019, p 89; see also Dale and Fattouh, 2018). BP projects that the lower price of oil in this more competitive scenario would reduce stranding by increasing global demand by 2040 by approximately 3 million barrels a day (mbd) above its baseline projection (BP, 2019, p 88). The possibility of this type of behavior has been identified by Sinn (2012) as the 'green paradox,' in which mere statements of intent to enact policies that reduce demand for fossil fuels over the medium-to-long term incentivize increased production, lower prices, and increased consumption in the short term.

Economic modeling by Scheitrum, Jaffe and Fulton (2016) that takes account of competition from non-OPEC sources of oil indicates that such concerns are warranted. The authors state that:

The incentive for OPEC to strategically defer production is diminished in a world of declining oil demand. Both an increase in non-OPEC reserves and a decrease in oil demand outlook shift the optimal OPEC extraction path in favor of elevated near-term production… Even when faced with large budget shortfalls due to depressed oil prices, our research suggests that perhaps abandoning oil production restraint is the best course of action for OPEC members who may seek to prevent an eventual depreciation or even stranding of large resources.

In theory, therefore, an international supply manager can maintain oil revenues in the face of policy-induced declines in demand growth – and, following a peak of global demand, secular demand decline – by imposing reductions in supply that offset any losses in sales volume through increases in price. In practice, however, by continuing to stabilize prices above the marginal cost of production, OPEC will hasten the arrival of this peak, as well as the speeding the decline that follows. Ultimately, therefore, the green paradox will present OPEC with three options:

1. Dissolve itself, harmoniously or otherwise, allowing pure competition to determine the price of oil, and each individual producer to minimize the stranding of its own reserves;
2. Adopt a 'Goldilocks' strategy, maintaining supply constraint with the aim of holding prices at the highest point at which they are low enough to ensure global dependence on oil is maintained for as long as possible, thereby maximizing the total amount of oil produced;
3. Accept that climate change makes some level of stranding not only inevitable but necessary, and pursue a strategy of leaving as much oil in the ground as possible, equitably distributing such oil as remains to be produced under such a scenario.

The vulnerability of OPEC's members to climate change (see generally IPCC, 2014; for temperature projections in southwest Asia exceeding human adaptability, see Pal and Eltahir, 2015) strongly suggests that if OPEC is to continue, the third strategy would be in the individual and collective best interest of its members (at least if we take those interests to be those of the population-at-large of member states, rather than of its ruling elites). Such a strategy would represent a significant departure from its current approach. But it would not be quite correct to call it unprecedented.

Unlike OPEC's current Secretary General, the primary architects of the 1960 treaty had no intention of using OPEC to permanently defend their economies' dependence on oil. To the contrary: the preamble of the agreement implicitly regrets the extent to which Members "must rely on petroleum income to a large degree in order to balance their annual national budgets," noting that such dependence leaves them vulnerable to "dislocation[s] detrimental" to their economies from fluctuations in the oil price. It further notes that "Petroleum is a wasting asset and to the extent that it is depleted must be replaced by other assets". OPEC's founding treaty thus not only recognized the dangers of oil dependence, but also the necessity of transitioning its members' economies towards different and sustainable sources of wealth generation. For OPEC to become a responsible international organization, therefore, committed to managing a swift and equitable transition away from a global economy dependent on oil, would not only safeguard its members interests; it would mark a return to, not a departure from, its founding principles. The balance of this article provides a brief overview of the half-century of political, intellectual and scientific antecedents to OPEC's creation that demonstrates this to be true.

Juan Pablo Perez Alfonzo and Anticolonial Oil Conservation

Juan Pablo Perez Alfonzo was 25 years old when he joined the 1928 student uprising in Caracas against Venezuela's leader Juan Vincente Gomez and, by implication, the Anglo-Dutch and American oil companies who worked closely with the dictator and benefited from the stable investment environment his brutality facilitated. It was the start of a lifetime of struggle against authoritarianism, imperialism, and the very same oil companies – now known as Shell, ExxonMobil and Chevron – that remain key players in the global industry today (Terzian, 1985).

A lawyer by training, Alfonzo was a rigidly principled individual, and his central commitments were to democracy and the conservation of natural resources (Tugwell, 1975). His political heritage thus descends from early twentieth century American progressives like Gifford Pinchot. America's inaugural Chief Forester, Pinchot was appointed by President Theodore Roosevelt upon the Forest Service's creation in 1905 and fired by President Taft in 1910, after going to war with Taft's Secretary for the Interior, whom he believed was preparing to destroy Roosevelt's legacy by opening vast tracks of America's public land to private exploitation (Bates, 1957). Shortly after his dismissal, Pinchot published *The Fight for Conservation*, a canonical text setting out principles that Alfonzo would later adopt for Venezuela:

The most prosperous nation of today is the United States. Our unexampled wealth and well-being are directly due to the superb natural resources of our country… We are prosperous because our forefathers bequeathed to us a land of marvelous resources still unexhausted. Shall we conserve those resources, and in our turn transmit them, still unexhausted, to our descendants? Unless we do, those who come after us will have to pay the price of misery, degradation, and failure for the progress and prosperity of our day… the conservation of natural resources is the basis, and the only permanent basis, of national success. There are other conditions, but this one lies at the foundation (p 3).

A good progressive, elsewhere Pinchot states, "natural resources must be developed and preserved for the benefit of the many, not merely for the profit of a few" (p 25).

This commitment to conservation through democratic control soon spread far beyond the American forests that inspired it. Following the confirmation of its immense strategic significance in World War One, conservationists sought to apply these principles to oil. As geology advanced in the 1920s, it was recognized that America's prevailing free-market system of oil production, which allowed for the drilling of multiple wells into a single oil reservoir (on the basis of separately-held parcels of land above it) rapidly dissipated the pressure the reservoir was under, permanently reducing the amount of oil that would flow to the surface unaided. This *laissez-faire* approach also generated massive booms in oil production whenever a new reservoir was discovered – along with corresponding busts in the price of oil. None was more significant than that which followed the discovery of the massive Black Giant field in East Texas in October 1930. By May 1931, unrestricted drilling had transformed a region that had never produced oil into one pumping 340,000 barrels a day, with a new well being installed every hour. Unsurprisingly, the price of oil collapsed: from and average of $1/barrel in 1930 to 15 cents. By August, the economic consequences of the price plunge compelled the Governor to declare martial law, and order 1,200 National Guard troops in the oil fields to close the wells. Thereafter, these troops enforced oil production quotas determined by the Texas Railroad Commission (TRC), an elected state regulatory agency (Yergin, 1991; McNally, 2017).

In November 1932, the Texas legislature passed the Market Demand Act, formally empowering the TRC to issue production quotas to private producers to ensure the supply of oil closely matched anticipated demand, and democratic oil conservation was born. In 1935 the establishment of the Interstate Oil Compact Commission united the TRC with equivalent quota-setting commissions from other oil-producing states, bringing fully 80% of U.S. crude production under coordinated (though not federally controlled) management. The spare production capacity held back by this conservationist management peaked in the early 1960s at over 4 million barrels a day, and aside from the period 1944-47, it was not until 1972 that the U.S. returned to fully unconstrained production (McNally, 2017).

On the global scene, oil emerged as an internationally traded commodity at the end of the nineteenth century, a relative latecomer to the centuries-old colonial trade in natural resources, and to the international legal regime that governed it. Under this system, private entities contracted with indigenous authorities for the exclusive right to develop natural resources in a particular territory, with adherence to such 'concession' contracts protected as a matter of international law by the capital-exporting states of Europe and America, on occasion through the threat of force (Miles, 2013). Oil concessions varied in their particulars, but typically involved payment for the right to explore for oil in a given territory, and to own, produce and export any oil found. Notable concessionary oil regimes developed in Indonesia from 1885, Iran from 1901, Mexico from 1910, Iraq from 1912, Venezuela from 1913, and the Arab Gulf states in the 1930s. By the 1920s control of the trade was concentrated in the hands of a small number of American and European oil companies (IOCs) that, notwithstanding being sometime-vigorous competitors in the marketing and distribution of refined petroleum domestically, were frequently close collaborators in controlling the production of crude supply internationally (Yergin, 1991). Following World War Two, Alfonzo would place Venezuela in the vanguard of an anticolonial movement to fundamentally upend this system.

After 27 years in power, the dictator Gomez died in his bed in 1935, inaugurating a period of transition in Venezuela. As repression loosened and tawdry details of agreements negotiated under Gomez increasingly came to light, survivors of the 1928 uprising formed the *Accion Democratica* (AD) party, described by Venezuelan anthropologist Fernando Coronil (1997) as a "multiclass nationalist party whose mission was to unite the Venezuelan people via the state against the foreign powers that had appropriated the resources of its subsoil" (p 102). In 1945 several of AD's leaders joined a cadre of officers in seizing power in the country, promising a transition to democracy. This promise was fulfilled with a new constitution, the country's first free and universal presidential election in 1947, and the peaceful transfer of power from revolutionary junta to President Romulo Gallegos in 1948. Alfonzo served as Development Minister (with responsibility for oil) under the junta at the request of its head, his 1928 comrade Romulo Betancourt, and continued in the role under Gallegos. In keeping with the nationalist-conservationist politics developed by the democratic opposition, Alfonzo instituted reforms including a moratorium on new oil concessions, the creation of an oil workers' trade union confederation, and in 1948, legislation that used the power of taxation to ensure IOCs paid a full 50% of their profits from Venezuelan oil to the government (Terzian, 1985).

Over the same period, however, Middle Eastern production – controlled by the same IOCs that operated in Venezuela, unencumbered by the tax burden of emergent Venezuelan democracy – soared: U.S. imports from the region rose from 1,000 barrels a day in 1947 to 75,000 a day in 1948. By 1949, the region had surpassed Venezuela as the world's third largest producer. The implications for Alfonzo were clear: against opponents as powerful as the IOCs, producing country solidarity was an economic necessity. He began planning a trip to the oil-producing countries of the Middle East. A further coup in late 1948 interceded, however, plunging Venezuela back into another decade of dictatorship, and sending Alfonzo instead to prison, and thence into exile (Terzian, 1985). The new Venezuelan regime saw merit in its democratic predecessors' idea, however, and in September 1949, dispatched three senior officials to tour the Middle East. A little over a year later, Saudi Arabia decreed that henceforth, 50% of the concessionary oil companies' revenue would accrue to the state. In December 1951, Kuwait also adopted the principle of a 50% revenue split, with Iraq following suit two months later (Terzian, 1985). Several years prior to the 1955 Bandung Afro-Asian Conference, a signature example of South-South cooperation had already occurred.

Events in Iran proceeded differently. Reflecting the views of an informed Iranian public, the *Majlis* demanded parity with Venezuela and Saudi Arabia. The sole company operating in Iran, Anglo-Persian, refused, precipitating Prime Minister Mosaddegh's nationalization of the industry in 1951 and, two years later, his ouster in a coup backed by the American and British governments. In the meantime, at Anglo-Persian's insistence, the IOCs imposed a total boycott of Iranian oil, pushing its production from 666,000 barrels a day in 1950 to 20,000 barrels a day in 1952. In order to balance this disruption, the companies increased production in Saudi Arabia, Kuwait and Iraq (Yergin, 1991).

Despite this unsubtle demonstration of the dangers of confronting the IOCs, over the course of the 1950s anticolonial elites, particularly those associated with the Oil Experts Committee of the Arab League, collaborated increasingly closely on gathering and sharing information about the concessionary contracts that governed their oil industries, about which they had been kept in relative ignorance. They discovered 'remarkable similarities' between these, including their vast territorial reach, long duration, and power to control oil production and price. As Dietrich (2017) notes, this information "provided a base of shared knowledge with which to work, and the oil experts voted to form a preparatory committee that would convoke an 'Arab Petroleum Congress' to discuss the problems with the concessions and possible solutions" (p 69).

The Congress convened in April 1959 in Cairo, capital of the United Arab Republic. Democracy had returned to Venezuela in 1958 and its new President, Romulo Betancourt, had convinced Alfonzo to return to his post as oil minister. Ostensibly present as an observer (alongside an Iranian delegation), Alfonzo arrived in Cairo at the head of a delegation of 14 experts (Boué, 2011). According to Yergin (1991), it was at the Cairo Hilton, in the suite of American oil journalist Wanda Jablonski, that Alfonzo first met to Abdullah Tariki, his Saudi counterpart (cf. Boué, 2011). Sixteen years his junior, Tariki was a kindred spirit to Alfonzo: an anticolonial firebrand who had experienced American racism as a student at the University of Texas in the 1940s (he later told Jablonski that he found Californians 'more tolerant of a Mexican' than Texans (Rubino, 2008, p 137)), and returned to Saudi Arabia in 1948 to find Jim Crow transplanted to his homeland by the American executives of the Arabian-American Oil Company (Vitalis, 2007).

As Vitalis (2007) has demonstrated, the treatment of Saudi workers by Aramco was part of a history of racist employment practices stretching back to the mining industry of the American West and Southwest in the late nineteenth century. This oppression elicited responses in Arabia similar to those in Alabama. In May 1955, Vitalis notes, six months before Rosa Parks refused to move to the back of a Montgomery bus, 'a much less well-known bus boycott began in Abqaiq by Saudi workers opposing the same thing – the Jim Crow order that ARAMCO had built in the Eastern Province.' (Vitalis, 2007, p. 172.) As labor unrest continued into 1956, Tariki was among those who supported union representation for Saudi workers, but the King's government made clear that it alone would represent the interests of Saudi workers (Vitalis, 2007). As had happened in Venezuela under Gomez, an authoritarian government conspired with Western oil companies against the interests of its own citizenry. A determination to remake this colonial relationship was at the heart of Alfonzo and Tariki's work. (Colonial attitudes also had climate consequences: Saudi emissions declined precipitously once the government controlled the industry sufficiently to utilize the natural gas associated with oil extraction to generate electricity for its citizens; seeing no economic benefit to itself from such an infrastructure investment, Aramco flared the gas, or simply vented it directly into the atmosphere (Krane, 2019).)

In 1948, the same year Alfonzo went into exile (during which time he lived in the U.S. and made a close study of the Texas Railroad Commission (Yergin, 1991)), Tariki joined the Oil Affairs Supervisory Bureau of the Saudi Ministry of Finance. Energetic and incorruptible, he rose quickly through the ranks. In 1959 he became the first Saudi to join the board of Aramco, and in December 1960, with the establishment of the Ministry of Petroleum and Mineral Resources, he became the first of only six men who have ever held the title of Minister of Petroleum of Saudi Arabia (Vitalis, 2007). The remarkable ascent of a commoner to the position of Saudi oil minister should be understood in the context of the nascent move towards constitutionalism and representative government that occurred in the Kingdom following the death of its founder, Ibn Saud, in 1953. Tariki was a key proponent of these reforms, noting to Aramco executives in 1957 that without them, 'more [oil] revenues would simply be squandered in the same old way' (Vitalis, 2007, p 167). He was so bold as to tell the AP in 1958 that 'we will soon have a constitution; this country will shortly become a constitutional monarchy'. (Terzian, 1985, p 88). This level of freedom – and Tariki's preference for political reform over endlessly expanding oil revenue – would not last.

While the formal proceedings of the 1959 Congress focused on legal and technical questions, Alfonzo and Tariki leveraged their new friendship to clandestinely corral representatives from Iran, Iraq, Kuwait, and the United Arab Republic at an abandoned yacht club on the outskirts of Cairo. There they signed an agreement recording their 'informal consultations'. Known to history as the Maadi Pact (after the yacht club, which is still there), it recommended the creation of an 'Oil Consultation Commission', which would permit the 'discussion of common problems so as to arrive at coincident conclusions' (Terzian, 1985). Common problems on which the pact recorded preliminary general agreement included:

- That the profit share of producing country governments should rise to 60%;
- That national oil companies should in each country be established, along with systems of national planning for the conservation and production of oil;
- That the current international price structure should be maintained, with any change in prices discussed and approved 'by all parties concerned' before being put into effect (Terzian, 1985).

As noted above, the oil ministers gathered in Cairo were well aware of their economies' vulnerability to fluctuations in the oil price. With the IOCs in control of both production levels and price, producing country governments were powerless to constrain production to prevent gluts in the global market, and equally powerless to stop the majors from cutting the price of oil to clear such gluts if they occurred. BP had in fact cut its posted price, without prior consultation, just a few months before the Congress. A further round of cuts in August 1960, again without consultation, was the proximate cause of OPEC's creation. Within hours of the announcement of the cut, Tariki telegraphed Alfonzo; within weeks, the signatories of the Maadi Pact, minus the UAR, had reassembled, this time in Baghdad (Yergin, 1991).

In the 17 months between the Cairo and Baghdad meetings, Alfonzo and Tariki were explicit about their intention to apply the principles of American oil conservation on an international scale. Under the headline 'A Strange New Plan for World Oil,' *Fortune* magazine discussed the pair in its August 1959 issue:

At least two influential oilmen think they know exactly what should be done about the glut that is plaguing and will continue to plague the international oil industry… During the past several months these two gentlemen have been flying about the world, attending oil conferences in Cairo and New York, dispensing information to the press, and trying to sell the oil-exporting countries on a proposition that is almost as world-shaking as it pretends to be world-stabilizing.

The proposition, baldly stated, is that the great oil-producing countries outside the U.S. should get together to limit production and maintain prices. The rationale of this proposal is clear enough. Crude-oil prices outside the U.S. have been falling like overripe fruit. Inside the U.S., however, prices have been holding relatively high and steady because the mighty Texas Railroad Commission, supported by other state and federal bodies, in effect adjusts the supply of U.S. oil to the market. Since Venezuela and the Middle East together produce nearly 80 per cent of the free world's crude outside the U.S.... Perez Alfonzo and Tariki argue that Venezuela and the Middle East should create a kind of international Texas Railroad Commission. Such a body, they think, could keep crude-oil production in line with demand, allocate production equitably among producing countries and companies, and so maintain prices at or close to the elegant level maintained in the U.S.

Ultimately, Alfonzo and Tariki's ambitions for a system of global prorationing foundered in the face of opposition from others who did not share their enthusiasm for conservation, and the 1960 treaty commits members only to 'study and formulate a system to ensure the stabilization of prices by, among other means, the regulation of production'. It was not until the 1980s that OPEC began issuing quotas to its members (Yergin, 1991).

Having played an instrumental role in creating the Organization, moreover, Alfonzo and Tariki's influence within it would not last long. The firebrand Tariki had openly accused Saudi Crown Prince Faisal of corruption in 1961; when Faisal led a successful counter-revolution against King Saud's flirtation with constitutionalism in 1962, Tariki was exiled from the kingdom, only able to return after Faisal's assassination in 1975. Diminished by the loss of his key interlocutor, and frustrated he was unable to convince the fledgling OPEC to embrace production restraint, Alfonzo retired from politics in 1963 (Terzian, 1985). An astute policymaker who had recognized the dangers of the 'resource curse' long before the term was coined in English, Alfonzo had sought since the 1940s to reduce Venezuelan oil production, and to use oil revenue to diversify Venezuela's economy. In retirement he became an ever-more trenchant critic of the industry, ultimately declaring oil to be the "Devil's Excrement" (Steiner, 1979). Although by 1976 Alfonzo was able to see his major domestic goal achieved – the full nationalization of Venezuela's oil industry – the genuinely conservationist vision for the international organization he created has never been fulfilled (Tugwell, 1975).

Oil Conservation Today

It is understandable yet unfortunate that OPEC's founding fathers languish in relative obscurity: neither the leaders of today's IOCs, nor the dictators they continue to work closely with, have much incentive to highlight the achievements of a pair of anti-authoritarian, anti-colonial conservationists. For its part, the climate movement does not typically look to the oil industry for its heroes. Yet as policymakers have begun to follow activists in pursuing "supply side climate policy," Alfonzo and Tariki deserve to be more widely studied – as does the possibility of the organization they created behaving in a manner in keeping with the principles that guided its creation. Both men wrote voluminously about their fight with Big Oil, and while their victories may not have been total, in terms of both power and profit no two individuals have ever cost the majors more. The vast majority of their work, however, and the lessons it contains for those seeking to build a politics around keeping oil in the ground today, remains solely in Spanish and Arabic. That ought to change.

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