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Steep Rise of Oil Prices

The 13 members of OPEC, the Organization of Oil Exporting Countries, agreed in the last week of June on a further steep rise of their official selling prices. On July 1 the basis price, for standard "Arabian light", went up from \$ 14.50 to \$ 18 a barrel. Saudi Arabia and the United Arab Emirates are however the only OPEC countries to adhere to this price. The hard-liners successfully pressed for a premium of up to \$ 2 on the basis price for themselves. With the usual additions for quality and transport cost advantages the Algerian, Libyan and Nigerian prices went to the fixed upper limit of \$ 23.50 a barrel. First calculations of the average price weighted in proportion to the outputs of the individual OPEC countries worked out at about \$ 20, which is almost 20 % more than the level still in force in early June.

The chain of drastic oil price increases started towards the end of 1973 when the OPEC countries, resorting to a partial supply boycott on avowedly political grounds, raised the list prices in a few months from \$ 3 to \$ 11.60 a barrel. The price rise was kept within limits in the following years,

certainly not least because the OPEC felt constrained to take account of the first world-wide recession of the post-war era, a recession which the oil price explosion had helped to bring about.

In the second half of 1978 the trend changed. The oil consumption revived cyclically, and the extra supplies from the new oil producing areas outside the OPEC were gradually absorbed. The expectation of fresh price rises and the political unrest in Iran induced additional demand about the turn of the year, while the stimulation of demand by the severe winter coincided in the early months of 1979 with a suspension of all oil shipments from Iran. The international spot markets for oil and oil derivatives were gripped by a boom to which the OPEC countries reacted with a further rise of the basis price at the beginning of April. The first rise in January was originally to be followed by staged further increases to \$ 14.50 a barrel in October 1979. Now however the basis price was raised to this level six months earlier already, and the OPEC countries were in addition empowered to

impose individual additional charges.

In the first months of this year the total oil supplies by OPEC countries were still above the previous year's level because the reduction and temporary suspension of oil production in Iran concurred with an increase of the output from other sources. Consumption however apparently rose more strongly than the supply, so that more oil had to be withdrawn from stocks than usually happens at this time of the year. Efforts to replenish the stocks are now coinciding with a further increase of consumption, and the supply situation is therefore bound to get correspondingly tighter. It can hardly be expected that the OPEC supplies will be raised significantly. Apart from long-term considerations concerning the exploitation of their oil deposits the OPEC countries have perceived the tremendous effectiveness of a policy of restraint by suppliers as a means of enforcing producers' price demands. In the absence of curbs on the demand side it can hardly be expected that the situation in the oil markets will ease with lasting effect.

Compiled by the Department on Business Cycles and Statistics of HWWA-Institut für Wirtschaftsforschung-Hamburg.

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1978				1979		
	June	September	December	March	June	June 29	July 13
HWWA-Index* (1952-1956 = 100)	314.8	324.0	332.0	351.1	382.6	390.4	405.1
Foodstuffs	249.3	248.3	246.2	247.1	279.9	294.3	286.3
Raw materials other than foodstuffs	346.4	360.6	373.4	401.2	432.2	436.7	462.3
Fuels	557.0	562.7	567.9	603.7	661.3	671.7	740.4
Raw materials for consumer goods	187.1	196.8	212.7	222.9	242.4	239.2	242.1
Raw materials for capital goods	242.8	268.5	286.9	318.6	330.5	334.5	332.1
Reuter's Index (18. 9. 1931 = 100)	1503.2	1481.2	1507.7	1557.1	1620.4	1617.7	1572.3
Moody's Index (31. 12. 1931 = 100)	922.9	944.2	978.6	1063.1	1092.0	1080.1	1083.3

* Index compiled by the Hamburg Institute for International Economics. On dollar-basis.