The Preconditions for Producer Power: Comments*

**William Page**

Hanns Maull concludes by summarising some of the factors he feels to be relevant to the success of OPEC, and he queries the ability of other commodity producers to follow that lead. "The special ingredients of OPEC power (were) . . . the high degree of importer dependence, the high cost of stock-piling and limited possibilities of substitution and recycling, the producers' power over cheaply exploitable reserves, their substantial foreign exchange reserves and low dependence upon imports . . .".

Perhaps another means of summarising this argument is to say that three factors are relevant to the success of OPEC and OPEC-type action:

1. The existence of oligopolistic power in the market. In this context, this means the extent to which a cutback in supplies will lead to an increase in total revenues, with a distinction made between the short-term and the long-term. Elasticity of demand is relevant, remembering that long-term demand for the final material is not necessarily equivalent to long-term demand for the specific raw materials (as secondary, recycled material or new types of ore may be used to some extent in their place). More traditional substitution, such as aluminium for copper, can also play a role. Elasticity of supply from the rest of the world is a second component and, while of less significance in the long run, the initial level of stocks will play a role.

2. Countervailing power of the consumers. Maull's point relating to the OPEC countries' import dependence upon the consumers is interesting. Dependence can hinge around not simply commodity imports by the producers, but loans, technical assistance and the like. To set off down a path where consumers are likely to retaliate on a large scale is clearly dangerous.

3. The political viability and unity of the producers' organisation, a point perhaps worth more stress than Maull gives it. Regardless of the theoretical merits of producer action of one kind or another, little is going to be achieved if they cannot unite on agreed objectives and actions. For instance, the export cut-backs agreed in late 1974 by the members of CIPEC—the copper organisation—were heralded in many places as quite an achievement, and doubt has been expressed in some quarters as to whether they are in fact being fully implemented. The member countries still possess a degree of competitive spirit between one another. Again, the iron exporters had long and hard negotiations over their objectives, and strong differences of opinion were apparent, with what could be described as a more militant faction being aligned against a more conservative faction.

<table>
<thead>
<tr>
<th>commodity</th>
<th>column 1: % consumption from trade</th>
<th>column 2: producers' share of world reserves</th>
<th>main producing (rather than trading) countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum</td>
<td>90%</td>
<td>70%</td>
<td>USA, USSR, Saudi Arabia, Iran, Venezuela, Kuwait (total: 66%)</td>
</tr>
<tr>
<td>Bauxite</td>
<td>74</td>
<td>62</td>
<td>Jamaica, USSR, Surinam, Guyana, Guinea, USA, Hungary (total: 71%)</td>
</tr>
<tr>
<td>Copper</td>
<td>46</td>
<td>47</td>
<td>USA, USSR, Zambia, Zaire, Canada, Chile, Bolivia, Indonesia, Malaysia, Thailand, China (total: 72%)</td>
</tr>
<tr>
<td>Tin</td>
<td>97</td>
<td>79</td>
<td>Bolivai, Indonesia, Malaysia, Thailand, China (total: 74%)</td>
</tr>
</tbody>
</table>

Notes and sources:

Petroleum: Column 1 is the average of 1971-2 (the 'pre-OPEC' years); data from 'BP Statistical Review of the World Oil Industry 1972'.

Metals: Column 1 is the average for the last three years for which data is available at time of going to press, namely, 1972-3-4; data from Mettalgesellschaft AG: 'Metal Statistics, 1974'.

Column 1: 'Consumers' equals Western Europe, USA, Canada and Japan; the 'producers' of Column 2 equals all countries outside this region.

Column 2: refers to known reserves in 1970 (the metals) or 1972 (petroleum).

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Table 1 takes some of Maull’s points, and compares the situation in the metals business with that of petroleum. The ‘importer dependence’ column shows how much of the metal consumed in the western industrialised countries originates outside them. The highest dependence is for tin: only 3 per cent is mined within these consumer nations. (This is the average for 1972/3/4.) In contrast, only 46 per cent of the copper has to be imported. The figure for petroleum in 1973 was 70 per cent.

Maull quotes the producers’ share of reserves as another factor. Table 1 gives this information for 1970. The producers are, in general, sitting upon a sizeable proportion of known reserves, but it should be stressed that this is only relevant in the long-term context. It can take five to ten years to bring new mines on stream, and so that is the minimal period meant here by ‘long-term’. Then, given this time horizon, the balance of ‘known reserves’ can change, as more exploration is undertaken within the consuming areas. The critical question is not how great a proportion of reserves lie in the producing countries, but whether the industrialised countries have reserves sufficient for their needs.

More needs to be said about substitution. This generally implies the replacement of one metal by another but, in this context, it can mean replacing one type of ore by another. Western aluminium producers have traditionally relied on bauxite; however, much research has been undertaken in recent years on means of extracting aluminium from other ores. Pilot plants are being built.

Under these circumstances, the fact that the bauxite producers have 62 per cent of known reserves loses some of its significance; in a period of time comparable to that necessary to develop a significant proportion of these reserves, dependence upon bauxite can have been reduced. This has a further implication: the idea of a joint copper-bauxite association hinges on the relative degree of substitutability of one for the other, so that putting them together would make for more of a closed system. Bauxite’s weakness weakens the whole chain.

Table 2 gives some information about the producers’ organisations in the metals business. The memberships may expand in the near future which in itself may pose problems. On one hand, an effective cartel needs to include all major producers or exporters but, on the other hand, too many members can cause problems in maintaining unity.

It is hard to assess Maull’s conclusion that OPECs are unlikely to succeed in other minerals. Their problems are great, ranging from political unity, through substitution, to the feeling that OPEC (or its imitators) may be making short-term gains with long-term losses (somewhat different from Maull’s passing comment). This point can be illustrated by conclusions of a study undertaken at the University of Chile: a CIPEC ‘OPEC’ could only work under ‘normal’ market conditions (i.e. not a boom or recession), and then only for a few years.¹

The conclusion that some form of joint consumer-producer agreements offer the best future needs qualifying in two respects. Firstly, more sound information is still needed. Secondly, OPEC’s price increase was a dramatic event by any standards; the scope for less dramatic action (less dramatic because of goals rather than purely because of scope) should not be discounted.