**A FINANCIAL OPTION PERSPECTIVE ON OPEC STRATEGY**

Dr Lawrence Haar[[1]](#footnote-2)

**ABSTRACT**

The article examines the use of discretionary production by key OPEC members to protect the long-term value of their reserves. Although interpretations vary on its behaviour and market power, the organisation sees its role as promoting the security of supply through stabilising markets while protecting market share and ensuring a fair return to capital. Given the new and perennial challenges facing its members, there are diverse views on how these policy objectives may be promoted. Using option theory, we argue that the market stabilisation policy of OPEC in effect, provides free risk management to the global market and conflicts fundamentally with its long-term objective of protecting market share through discouraging high-cost marginal producers. Abandoning this policy, the returns to marginal producers, adjusted for risk, would be reduced. As implications of our research, rather than creating a social good through mitigating price risk, OPEC should allow markets to be volatile and even consider using its discretionary buffer in a *pro-cyclic* manner, to protect the long-term value of its reserves.

**Key Words:** OPEC, Risk Management, Shale Petroleum

**JEL Codes**: Q02, Q43, Q48, Q58

ORCID – Dr Lawrence Haar: <https://orcid.org/0000-0003-2850-136>

1. Dr Lawrence Haar is a Senior Lecturer in Banking & Finance, Oxford Brookes Business School, Oxford Brookes University, Headington, Oxford OX3 0BP United Kingdom. [lhaar@brookes.ac.uk](mailto:lhaar@brookes.ac.uk)**[Corresponding Author]** [↑](#footnote-ref-2)