TO OF THE NEWS

Brent Plunges Below $72/B After the OPEC Conference

Oil prices have been falling since the summer, but the slide accelerated shortly before and just after the 166th meeting of the **OPEC** ministerial Conference that took place in Vienna on 27 November. The organization decided to keep its production ceiling at the existing level of **30 million barrels/day**, as was generally expected, but oil prices lost more ground after it was confirmed that OPEC countries were not going to reduce output.

At around 6.00am GMT on Friday, 28 November, the price of North Sea **Brent** was fetching **$71.60/barrel** for January contracts on **ICE Futures** in London. On the other side of the Atlantic, the price of **light sweet crude** (**West Texas Intermediate**) had slumped to **$68.12/b** at that point, also for January. **Brent** has lost 38% of its value compared with the 2014 high of $115/b it reached in June. As for the **OPEC crude basket**, its price fell from $74.28/b on 25 November to $73.70/b on 26 November and **$70.80/b** on 27 November.

OPEC is divided and thus weakened

The fact that the decision not to reduce production came as no surprise is due to the fact that it was generally known that OPEC was divided, whereas the organization's decisions have to be unanimous. **Saudi Arabia** and its close allies in the Gulf, the **United Arab Emirates** and **Kuwait**, think a price of around $100/b is no longer tenable and that the equilibrium price for the oil market today and in the near future is lower than that, indeed a lot lower. Lower prices effectively have the advantage of stimulating demand and discouraging the supply of higher-cost grades of crude.

As explained earlier in **Arab Oil & Gas** (AOG), Saudi Arabia decided recently to preserve its market share, especially in **Asia**, which implies that it is no longer seeking to defend a level of prices that is deemed unrealistic in the short term. OPEC countries' share of the world oil market has slumped to no more than **33-35%**, whereas it amounted to 42-43% a few years ago [if account is taken of the natural gas liquids produced by OPEC countries, however, their market share is closer to 40% at present].

The major Gulf Arab producers have accumulated considerable financial reserves in recent years

Besides this view of today's oil market, the major producers and exporters in the Gulf have a great capacity to withstand the fall in prices due to the very substantial financial surpluses they accumulated during the years of high crude oil prices, whether held in sovereign wealth funds or in the form of central banks' foreign exchange reserves. For all these reasons, officials in the capitals of Gulf Arab states are displaying considerable equanimity. The market will end up finding a balance, according to the Saudi Oil Minister, Mr. Ali al-Naimi, who described OPEC's refusal to cut its production as a "*good decision*". On the other hand, the Foreign Affairs Minister of Venezuela, Mr. Rafael Ramirez, left the Vienna meeting in a somber mood, according to reporters who covered the event. Moreover, he refused to answer journalists' questions.

The decisions taken by the 166th meeting of the OPEC Conference (Vienna, 27 November 2014)

- → Ms. **Diezani Alison-Madueke**, Minister of Petroleum Resources of **Nigeria**, was elected President of the **OPEC** Conference for a 12-month period with effect from 1 January 2015.
- → Mr. **Mohammed bin Saleh al-Sada**, Minister of Energy and Industry of **Qatar**, was elected Alternate Chairman for 2015.
- → Mr. **Bernard Mommer**, OPEC Governor for **Venezuela**, was elected Chairman of OPEC's Board of Governors for 2015.
- → Mr. **Ahmed Messili**, OPEC Governor for **Algeria**, was elected Alternate Chairman of the Board of Governors for 2015.
- → The mandate of the Secretary General of OPEC, Mr. **Abdalla Salem al-Badri**, was extended for another six months to 31 December 2015.
- → The next meeting of the OPEC Ministerial Conference will take place in Vienna on **5 June 2015**.

OPEC does not intend to bear the entire burden of balancing the oil market

That said, Saudi Arabia and its allies do not want OPEC producers to be the only ones to bear the burden of a possible reduction in production. They think **non-OPEC countries** should carry their share of this burden as well. As Mr. al-Naimi explained, people ask OPEC countries to reduce their production, but why don't they ask the United States to do likewise, given that the U.S. has become the leading liquids producer?

On 25 November, two days before the OPEC Conference, a meeting took place between, on the one hand, two OPEC member countries, Saudi Arabia and Venezuela, and, on the other, two non-OPEC producers, **Russia** and **Mexico**. This unusual format prompted a lot of comment, but nothing tangible emerged from the encounter apart from an announcement that another meeting would take place in February 2015.

Russia pointed out through the intermediary of its Energy Minister, Mr. Alexander Novak, that it was thinking of reducing its production [it is the world's leading crude oil producer and the second largest liquids producer behind the United States], but OPEC did not really regard Moscow's statements as credible despite the announcement by **Rosneft** that it was cutting its output by **25,000 b/d**. This state-owned Russian giant produced **4.2 million b/d** of crude in 2013, however, so it was trimming its output by a mere 0.6%. That was unlikely to impress OPEC and encourage the organization to reduce its own production. What is certain, in any event, is that there is a lot at stake for Russia, since it Finance Minister estimated that the country would lose annual revenues of **72-80 billion euros** on the assumption of a 30% drop in crude oil prices [the Minister also indicated that Russia was losing 32 billion euros a year as a result of the **western sanctions** imposed against Moscow because of its intervention in Ukraine].

Iran did not argue strongly in favor of a reduction in production

While several other OPEC countries besides Venezuela militated for a reduction in output, it has to be admitted that they adopted a relatively discreet posture. **Iran**, which is often portrayed as Venezuela's biggest supporter in this respect, came out in favor of a cut in production but in a very oblique fashion. Its Oil Minister, Mr. Bijan Namdar Zanganeh, acknowledged that one could not return to previous price levels but added that one had to try and secure better prices by taking account of the new market situation. He also suggested that a contribution by non-OPEC countries was desirable. Following what he described as an excellent meeting with his Saudi opposite number, Mr. Zanganeh indicated that the two countries' positions were very close. Market developments had to be closely monitored and action had to be taken in a timely fashion, he explained.

OPEC ended its meeting on 27 November by summarizing as follows the main factors dominating the world oil market at present:

→ The **world economic recovery** is continuing and an improvement is expected in 2015, with growth accelerating to 3.6% from 3.2% in 2014.

→ Another piece of good news is that **world oil demand** will increase again in 2015. But the bad news from OPEC's standpoint is that this positive development will be offset by the 1.36-million b/d increase forecast in **non-OPEC supply**.

→ **Crude oil and refined product stocks** are rising in OECD countries – where they are at very comfortable levels – as well as in non-OECD countries. The market is thus "*extremely well supplied*", in OPEC's words.

→ The organization said it was "*concerned*" about the rapid fall in crude oil prices over the past few months and reiterated that stable oil prices were "*vital*" for the world's "*economic wellbeing*".

The above considerations would normally seem to call for a reduction in the organization's production. Yet its members concluded that, in order to restore market equilibrium, the 30-million b/d production ceiling that has been in force since December 2011 should be maintained. It is also significant that, in its final communiqué, the Conference did not refer to the need for member states to adhere strictly to their quotas, in contrast to what has been its regular practice in the past.

OPEC naturally said it was ready to respond to developments that might have an adverse impact on the preservation of an ordered and balanced market, which is a ritual formula in the organization's literature. It also restated the need for vigilance and asked its Secretariat in Vienna to keep a close watch on developments in market fundamentals and in non-fundamental factors (such as speculation) so as to keep member states fully informed. That is classic OPEC speak, but does not signify anything very concrete for the immediate future. Crude oil prices are continuing to fall, therefore, since OPEC made it clear in Vienna that it no longer intends to defend the level of prices.

According to **Apicorp**, an **OAPEC**-sponsored financial institution, the average breakeven crude oil price that OPEC countries need to balance their budgets is **$105/b** (and **$160/b** in the case of Venezuela …). How long can the organization thus carry on displaying such benign neglect of oil prices? We will discover the answer to that in 2015.

Francis Perrin

Press Release (Extracts) Published after the OPEC Meeting on 27 November 2014

The 166th Meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC) was held in Vienna, Austria, on Thursday, 27th November 2014 under the Chairmanship of its President, HE Abdourhman Ataher Al-Ahirish, Libyan Vice Prime Minister for Corporations and Head of its Delegation. The Conference congratulated HE Adil Abd Al Mahdi on his appointment as Minister of Oil of Iraq, and thanked his predecessor in office, HE Abdul-Kareem Luaibi Bahedh, for his contribution to the work of the Organization. The Conference elected HE Mrs. Diezani Alison-Madueke CON, Minister of Petroleum Resources of Nigeria and Head of its Delegation, as President of the Conference for one year, with effect from 1st January 2015, and HE Dr. Mohammed Bin Saleh Al Sada, Minister of Energy and Industry of Qatar and Head of its Delegation, as Alternate President, for the same period.

The Conference reviewed the Secretary General's report, the report of the Economic Commission Board (ECB) and a number of administrative matters. The Conference also exchanged views on developments in multilateral environment negotiations, including preparations for COP20/CMP10 which will be held shortly in Lima, Peru; the status of the Organization's on-going energy dialogue with the European Union (EU); its continued cooperative work with various other international organizations for the G-20; as well as its energy dialogue with the Russian Federation and others.

The Conference reviewed the oil market outlook, as presented by the Secretary General, in particular supply/demand projections for the first, second, third and fourth quarters of 2015, with emphasis on the first half of the year. The Conference also considered forecasts for the world economic outlook and noted that the global economic recovery was continuing, albeit very slowly and unevenly spread, with growth forecast at 3.2% for 2014 and 3.6% for 2015.

The Conference also noted, importantly, that, although world oil demand is forecast to increase during the year 2015, this will, yet again, be offset by the projected increase of 1.36 mb/d in non-OPEC supply. The increase in oil and product stock levels in OECD countries, where days of forward cover are comfortably above the five-year average, coupled with the on-going rise in non-OECD inventories, are indications of an extremely well-supplied market.

Recording its concern over the rapid decline in oil prices in recent months, the Conference concurred that stable oil prices – at a level which did not affect global economic growth but which, at the same time, allowed producers to receive a decent income and to invest to meet future demand – were vital for world economic wellbeing. Accordingly, in the interest of restoring market equilibrium, the Conference decided to maintain the production level of 30.0 mb/d, as was agreed in December 2011. As always, in taking this decision, Member Countries confirmed their readiness to respond to developments which could have an adverse impact on the maintenance of an orderly and balanced oil market.

Agreeing on the need to be vigilant given the uncertainties and risks associated with future developments in the world economy, the Conference directed the Secretariat to continue its close monitoring of developments in supply and demand, as well as non-fundamental factors such as speculative activity, keeping Member Countries fully briefed on developments.

The Conference appointed Dr. Bernard Mommer, Venezuelan Governor for OPEC, as Chairman of the Board of Governors for the year 2015, and Mr. Ahmed Messili, Algerian Governor for OPEC, as Alternate Chairman for the same period, with effect from 1st January 2015. The Conference decided to extend the tenure of HE Abdalla S. El-Badri as Secretary General for a further period of six months, until 31st December 2015.

The Conference approved the Budget of the Organization for the year 2015. The Conference resolved that its next Ordinary Meeting will convene in Vienna, Austria, on Friday, 5th June 2015, immediately after the OPEC International Seminar on "Petroleum: An Engine for Development" which will take place at the Vienna Hofburg Palace on 3rd and 4th June 2015.