US pressure on OPEC meeting to increase oil production

Joe Lopez
27 March 2000

Despite the recent slight fall in crude oil prices from the March 8 high of $34 per barrel, today's meeting of the Organisation of Petroleum Exporting Countries (OPEC) in Vienna takes place amid increased pressure from the United States for a rise in production and a cut in prices.

In the week leading up to the meeting, which will decide on OPEC production levels for the next six months, US Energy Secretary Bill Richardson undertook a tour of oil producing nations, meeting energy ministers from Nigeria, Algeria, the United Arab Emirates, Indonesia and Norway to seek greater production. Last month Richardson conducted similar visits but without securing any firm commitments on increased volumes.

World oil prices have hovered around the $30 per barrel mark for the last two months, rising from a December 1998 low of $10 per barrel after an agreement in March 1999 between OPEC members and four non-OPEC countries—Mexico, Russia, Norway and Oman—to cut their output and arrest the slump in prices.

The agreement has reduced daily output by around five million barrels per day to 75 million compared to an estimated world consumption of 77 million barrels.

The US is demanding increased production of about two million barrels per day, but this figure is thought to be higher than that being considered by the major oil producers, who are fearful of a return to the price levels of December 1998.

Both the OPEC and non-OPEC producers are concerned that if production is raised to the levels demanded by the US, then prices will start to fall as demand for oil slows in the latter half of this year.

Outgoing OPEC general secretary Rilwana Lukman said that the OPEC group expects the demand for crude to fall by 2.8 million barrels a day, limiting the need for more production. Lukman has estimated that the price slump of a year ago cost oil producing nations $50-60 billion in lost revenue.

Responding to US demands that OPEC increase production, Venezuelan President Hugo Chavez told president Clinton in a telephone conversation that if high oil prices were of concern to Washington, then here in Venezuela “we're worried also about high poverty and by the foreign debt.” Oil accounts for about half of government revenue in Venezuela. It is OPEC's second largest producer and the world's third largest exporter.

Increasing demands are being raised in the US for Clinton to release oil from the country's Strategic Petroleum Reserves in order to force down prices for heating oil and gasoline, as well as demands for “tougher action” against both OPEC and non-OPEC countries.

With continued low oil prices proving extremely beneficial for US inflation figures, and thereby helping to sustain the stock market boom, US politicians have responded with increasingly bellicose statements to attempts by the oil-producing nations to restore price levels.

Energy Secretary Richardson stated that the Clinton administration had been “caught napping” by the price increases. Republican National Committee chairman Jim Nicholson followed by declaring that the Clinton-Gore administration had “dozed off as OPEC issued a declaration of economic war on the United States and it played Rip Van Winkle for the last seven years as domestic oil production sank to a trickle.”

Last week, in a 382 to 38 vote, the US House of Representatives passed legislation introduced by the Republicans instructing the president to prepare a report on the current oil situation and to undertake efforts to force OPEC and non-OPEC countries to boost their production levels.

However many Republican representatives wanted stronger action. Earlier Republican Benjamin Gilman, chairman of the House International Relations Committee, had called for the withholding and possible suspension of US aid and arms sales to countries found to be engaged in oil price fixing detrimental to the US economy. But these demands were toned down in amendments to the initial legislation.

According to an article in the *Washington Post*, the bill was being stripped of its threats of sanctions prior to its presentation to the House, after objections from Texas and California legislators whose districts include major defence contractors.

“Officials of the Aerospace Industries Association, American Electronics Association and other groups fought inclusion of mandatory or unilateral sanctions against oil producing countries that are major clients,” it said. The article also referred to a letter from the lobby groups stating: “Aside from worsening the oil supply/price situation, sanctions could damage US national security relationships with some of the OPEC members.”

In response to calls for the release of oil from the Strategic Petroleum Reserves, Richardson said although the option was being considered it would not be undertaken prior to the OPEC meeting.

Unnamed Clinton administration officials told the media that Richardson privately had expressed concern that the talk of US use of its emergency oil reserve or threats against oil producing countries could anger some OPEC members and jeopardise any increase in production.

The Republicans again denounced the Clinton administration this week over the handling of the oil supply crisis. Republican Senate Majority Leader Trent Lott, who last week filed a bill to suspend the US federal government's 18.4 cents per gallon gasoline tax, said dependence on foreign oil was a threat to national security. Citing a 1994 report by the then Commerce Secretary Ron Brown, which pointed to “US vulnerability to oil supply interruptions”, Lott said the Clinton administration had failed to act.

The issue of oil remained in the background under conditions in which prices were falling. But with the trade deficit regularly hitting new monthly records, US ruling circles have become increasingly concerned about the restoration of prices even to the levels they reached four or five years ago. January's record deficit of $28 billion could be exceeded in coming months as the effect of oil prices of $30 a barrel flow through.

According to US oil market officials, even if OPEC agrees to increase production beginning in April, it would still take four to six weeks for any of the additional oil to reach the US market and have an impact on price.

And if production increases are not forthcoming, then the threats by the US against oil-producing nations seem certain to be stepped up.