OPEC Production Ceiling Left Unchanged at 30 Million bpd at 161st Meeting

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The Organization of Petroleum Exporting Countries, at its 161st General Meeting on June 14 in Vienna, Austria, discussed such topics as recent crude oil price trends, the supply-demand balance in the international oil market in the second half of this year and the future course of the world economy, and decided to leave the oil production ceiling at 30 million barrels per day for its 12 member countries.

In the international oil market, the benchmark West Texas Intermediate crude oil futures price continued an upsurge from the beginning of this year and soared above $100/barrel before weakening on a resurgence of European credit fears from May. Just before the OPEC General Meeting, the WTI futures price moved in the $80-85/barrel range and indicated a market environment change from the upward trend earlier this year. Due mainly to Saudi Arabia's oil output expansion, actual OPEC oil production far exceeded the ceiling of 30 million bpd as set at the 160th OPEC General meeting last December.

Under such market environment, OPEC reached an agreement to keep the production quota unchanged, as well expected by most market analysts including the author. The decision came as no surprise.

This quite-expected decision does not necessarily mean that discussions at the meeting were smooth with no need for coordination of views. Rather, market analysts before the meeting were aware that there were differences over an adjustment of the production quota. Saudi Arabia called for raising the production quota, while Iran and others advocated lowering the quota.

The former view means that the quota has been far below the actual production level, has become meaningless, and should be raised to meet the actual production level, and that crude oil prices including the $80-90/barrel range for the WTI futures and around $100/barrel for the North Sea Brent futures are still historically high and should be stabilized. Another factor behind the view
might have been that world oil demand is expected to moderately increase in the second half of this year as indicated in the communiqué issued after the OPEC meeting (although the demand increase could be covered by a rise in non-OPEC oil output).

The latter view represented by Iran indicates that the production ceiling should be lowered instead of raised for such reasons as (1) the easing supply-demand balance as indicated by crude oil price falls from May in the international oil market and (2) (excessively) abundant supply in the international oil market. Behind this view is a more serious situation for oil-producing countries that cannot take the Saudi Arabian option of expanding oil output to offset the impact of recent oil price falls on oil revenues. They apparently hope to take advantage of a cut in the oil production quota (that can send a signal of supply cuts to the market) to create momentum for a crude oil price upturn to boost oil revenues.

It may not be easy to coordinate the two different views because they indicate that OPEC members could be sharply divided not only over the supply-demand balance in the international oil market but also over policy decisions regarding the impact of an action by OPEC on the world economy and geopolitical decisions for the Middle East and oil-producing countries. One realistic problem is that great uncertainties exist with regard to international politics, the global economy and the international energy situation. Given the risk of great uncertainties, it was realistic and reasonable for OPEC to prevent any OPEC division from surfacing and adopt a wait-and-see policy. In this sense, the OPEC decision met majority expectations.

The OPEC communiqué from the latest general meeting interestingly spells out and puts in order key points and risks for OPEC’s future market analysis. While the presence of geopolitical risks is important, the European economic fears and downside risks to the world economy are even more important for the immediate future. The communiqué signals grave concerns on these problems.

The latest OPEC General Meeting decision indicated a forecast that had been well reflected in the oil market. Therefore, it may not be any major price-moving factor in the international oil market. Rather, the most important crude oil price drivers are the results of the approaching Greek parliamentary election, market fears regarding Spanish government bonds, indications of the debt crisis spillover to Italy and other countries, and other future developments in the European economy that form the downside risks indicated in the communiqué. Just as OPEC members are urged by the cartel, economic stakeholders in the world are required to closely monitor European economic problems and risks to the world economy. They must not only monitor such problems but also make timely, appropriate responses to market developments. Without such
responses, the world economy and the international oil market may plunge into severe turbulence or turmoil. The problem analysis indicated by the OPEC meeting is apparently common to the world economy and international financial markets as well as to the international oil market.

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