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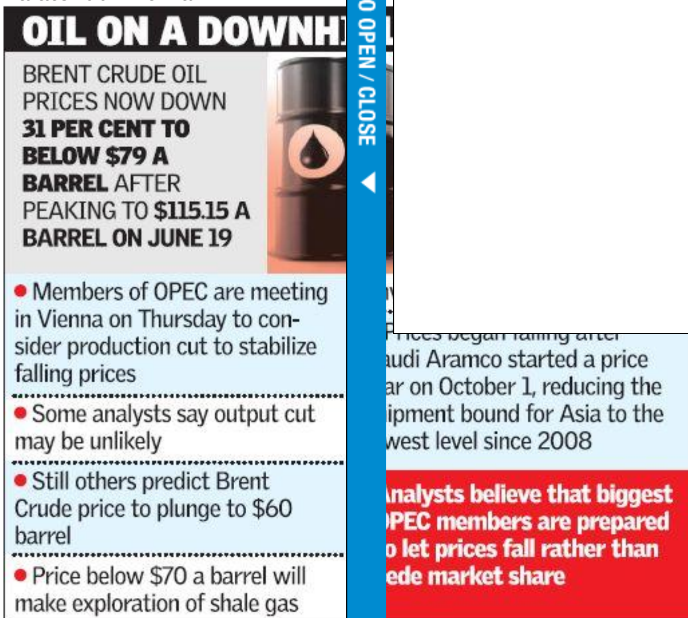
**OPEC meeting keeps world on the edge**

Lalatendu Mishra






As oil ministers of the Organization of the Petroleum Exporting Countries (OPEC) meet in Vienna on Thursday to press for a one million barrels a day production cut to support falling Brent crude oil prices, speculation is rife that Brent crude prices may stabilise at the current level or may plunge further to $75 a barrel due to lack of consensus among members.

As some major oil producers have hinted at continuing their production to retain the market share, some analysts have predicted that the prices may plunge to $60 a barrel level, which seems unlikely.

The price of Brent crude oil peaked this year at $115.15 a barrel on June 19. Since then, prices are down 31per cent to below $79 a barrel.

"Most of the oil price declines occurred after Saudi Aramco started a price war on October 1 for all its exports, reducing those bound for Asia to the lowest level since 2008. The move suggests that the biggest member of the OPEC is prepared to let prices fall rather than cede market share by paring output to clear a supply surplus," said Aviral Gupta, Founder & Investment Strategist, Mynte Advisors.

"Saudi Arabia would need to reduce output about 500,000 barrels a day to eliminate the supply glut now stemming from the highest U.S. output in three decades. It is expected that crude oil prices could plunge to $60 a barrel if OPEC does not agree on a significant output cut when it meets in Vienna," he added.

However, this level would be unsustainable and might not be achieved, said experts.

"To my mind, the price may not go down that much. The price has come down is due to the additional production coming from the U.S. from the shale reserves.

Now there is a cost involved in producing such fuel and in case the price goes below $70, it may not be sustainable and there could be an automatic correction in prices," said Rajesh Mokashi, Deputy Managing Director, CARE Ratings Ltd.

He said as prices fall, the OPEC nations would be forced to increase production to maintain their incomes and hence would not let it go below $70 a barrel. Therefore, a level of $60 will be difficult to sustain.

A further correction in Brent crude prices may bring down the prices of petrol and diesel. Apart from this, the softening of the crude prices will have many positives for the Indian economy.

"The import bill will come down substantially and given that oil accounts for around 32-35 per cent of total imports, there will be a major gain in the import bill which will get reflected in a lower current account deficit (CAD). A lower CAD will also ensure that the exchange rate remains stable in the present range of Rs.61-62 per dollar," said Mr. Mokashi.

According to analysts, the lower crude oil price will help lower the subsidy bill on kerosene and LPG. Inflation, which is a major concern, will benefit as products such as naphtha and ATF will come at lower prices.

This will further lower other costs for companies using these fuels which in turn will bring about a secondary decline in prices of final products.

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