

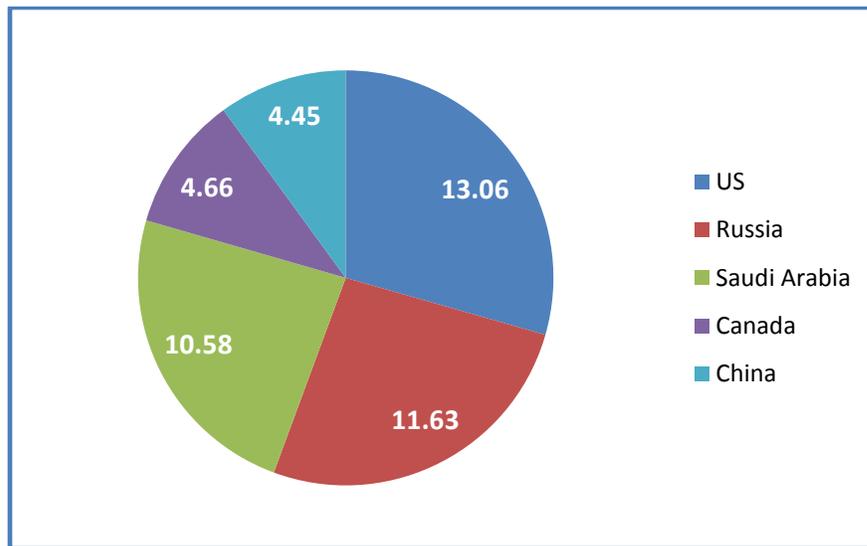
The Doha Oil Producers’ Meeting and Implications

Introduction

Major oil producing countries, including OPEC and non-OPEC members, assembled at Doha on 17th April, 2016 to discuss ongoing problem of supply-demand mismatch in the global oil market. This was the first time after a decade that OPEC met up with non-member countries to regulate oil production and hence guide prices. The main aim of the meeting was to mutually decide on freezing output of oil at January 2016 levels, at least till October 2016, in order to stabilize the global oil prices.

The attendees were from about 20 countries including Russia, Saudi Arabia, Qatar, Venezuela, Algeria, Angola, Azerbaijan, Colombia, Ecuador, Indonesia, Iraq, Kazakhstan, Kuwait, Mexico, Nigeria, Oman and the United Arab Emirates. These countries account for more than 60% of the world’s total oil production. Iran, which was also supposed to attend the meeting, backed out showing unwillingness towards production freeze.

Exhibit 1: Top 5 Oil Producing Countries in the World – Percentage share



Source: International Energy Agency

Table 1 show that OPEC accounts for around 40% of total oil produced with Saudi Arabia being the dominant country with share of around 11%. US and Russia from the non-OPEC cartel account for almost 25% of total production in the world. But evidently the OPEC voice is important and matters given that 40% of the output is being controlled by the cartel, while the other producers are not part of such a group that can get together and influence output and hence prices.

Table 1: World Oil Production - OPEC vs. non OPEC

	Oil Production (mn bls/day)	Share in World Supply (%)	
OPEC			Share in total OPEC
Saudi Arabia	10.21	10.58	25.93
Iraq	4.22	4.37	10.72
Iran	3.22	3.34	8.18
UAE	2.86	2.96	7.26
Kuwait	2.81	2.91	7.14
Total OPEC	39.38	40.80	100.00
Non OPEC			Share in total non OPEC
US	12.60	13.06	22.06
Russia	11.22	11.63	19.64
Canada	4.50	4.66	7.88
China	4.29	4.45	7.51
Brazil	2.52	2.61	4.41
Total non OPEC	57.12	59.19	100.00
Total world production	96.51	100.00	-

Source: International Energy Agency

Background

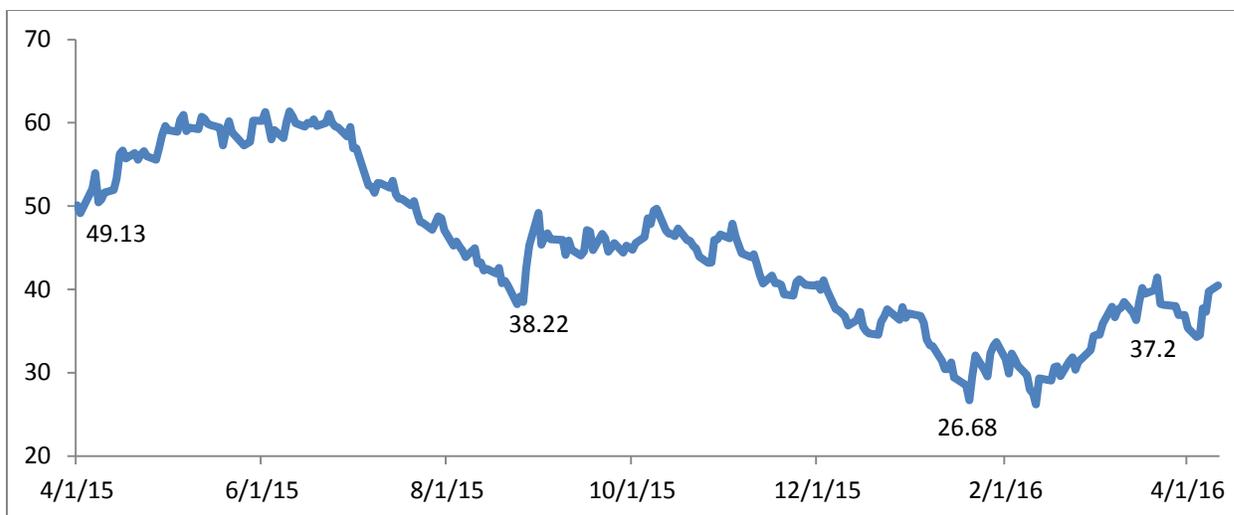
The world has been dealing with the situation of oversupply of oil for the last 2 years. This basically came about after OPEC countries started engaging in price war with US shale oil companies, by reducing their own oil prices by increasing their production. The slowdown in China, one of the major importers of oil, further aggravated the situation on the demand side.

As a result, the oil prices have fallen drastically over the last 2 years, much longer than general expectations, reflecting a severe oil glut situation. The movement in FY16 has been presented in Exhibit 2 below. During this period the price has remained less than \$ 60/barrel and touched a low of just a little over \$ 26. Hence there has been some volatility in price.

There was a need felt globally, for OPEC members to reduce their production which would consequently lead to revival in oil prices. However, the reluctance of countries to initiate output reduction, fearing loss of their market share, has been a matter of concern and has led to the sustained oversupply of oil and downward trajectory for oil prices in general. Also with the embargo on oil exports being lifted on Iran, the supply is to increase further.

Exhibit 2: Daily Prices of WTI Crude Oil (2015-16)

(Dollars per Barrel)



Source: U.S. Energy Information Administration
Average price for this period was 44.7 dollars per barrel

Prior to the meeting

The meeting was considered crucial as the output freeze was expected to aid reduction in oil prices. Earlier this year, some major oil producers namely; Russia, Saudi Arabia, Venezuela, and Qatar agreed on freezing output at January 2016 levels. It was thus expected that post this crucial decision other nations will follow suit.

Saudi Arabia, however, was assertive that this output freeze wouldn't happen without Iran. Moreover, Iran showed reluctance on freezing output levels. This reluctance came in after the US afflicted oil sanctions on Iran were removed after 3 years, post the latter agreeing on curbing its nuclear programme. Iran has thus been very keen on increasing its market share to regain its pre-sanctions output level, which is about 4 million barrels of production a day, nearly 1 million barrels more than the current production.

Iran had still agreed to send a representative for the meeting, however, backed out ultimately, stating that it had been informed that only countries willing to agree to freeze output levels were supposed to attend the meeting.

Conclusion and impact of the meeting

Due to Iran's back out, the meeting, even after severe deliberations, fizzled out and ended without agreement on output freeze. Saudi Arabia refused to go ahead without Iran retaining its original stance. However, the effectiveness of output freeze was still considered uncertain, in light of Russia and Saudi Arabia recently recording their highest production of oil in the last few years: Russia recorded 10.9 million barrels a day and Saudi Arabia

recorded 10.1 million recently. Even if the output freeze was to happen without Iran, the proposed rise in output by Iran could undermine the efforts of reducing the global oil glut.

Moreover, only a freeze, in absence of real-terms cut of output would have most likely had a limited and less durable impact, with oil surplus already reaching peak levels. With recent increase in oil prices, it is also expected that the global oil demand will pick up eventually in the latter half of the year, reducing the overall glut, as also voiced by International Energy Agency earlier this month.

Forecast by IMF and IEA

In April 2016, IMF projected average annual oil prices to be around \$34.75 per barrel, declining by 32% from 2015 price levels (compared to a 14% decline projected by IMF for 2016 in January). EIA and other private forecasters have spoken of a range of \$ 40-45 for the year which will cross \$ 50 in 2017. However, in spite of the geopolitical tension in Middle East and the Doha meeting not reaching any concrete agreement, IMF said that high inventory levels and a prompt response from US shale companies will help in keeping oil prices steady in near future.

IEA stated in a report last week, that the world oil surplus should reduce to 0.2 million barrels a day in the later 6 months if the year, from 1.5 million in the first half. While stating that it didn't expect much from the Doha deal, it projected an increase in fuel consumption by 1.2 million barrels a day i.e. by 1.2%, in 2016.

CARE's view

Chance of a second meeting of the oil producing countries has been expressed; however the dates and attendees of the same are uncertain as of now. Overall, in spite of the negative sentiment post the result of the meeting, all may not be lost, as doubts over effectiveness of the proposed output freeze continued to be raised. In general, the commitment of the countries in implementing an output freeze, the geopolitical relations amongst them, the changing scenario of global oil demand and general volatility of global markets, will chalk out the path for oil prices this year.

India is the fourth largest consumer of crude oil at around 3.6 mn barrels a day and comes after USA, China, and Japan.

The price should hover around the \$ 40 mark based on present conditions in the world economy, though there will be periods of extreme volatility based on developments mainly in the geo-political space. From the Indian standpoint, given the large imports of oil, the following is likely.

- Input costs for industry will remain benign
- Inflation on this score should not be an issue. However, given that the government has been rebalancing the tax rates, the final benefit for the consumer may just about be neutral.
- Trade deficit and hence current account deficit should remain under control as long as prices do not move up sharply and remain there. While demand factors are unlikely to shake the equilibrium, the supply side issues could. The ratio of oil imports to total imports had come down from 30% in FY15 to 22% in FY16.

- While government fuel subsidy will remain in check, given that there will not be a fall in prices, the additional benefit of release of resources would be lower this year.
- As refinery products are significant in our exports, there will be downward pressure both in terms of value of exports as well as quantity as the global economy is expected to just about maintain its growth trajectory.

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