

OPEC agrees to another production boost

by Paul Watson
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VIENNA, Austria - OPEC ministers agreed Sunday to let 800,000 more barrels a day flow into price-shocked world markets, but analysts said consumers should expect little immediate relief at the gas pump or in this winter's heating oil bills.

The White House reacted with tempered enthusiasm, praising the action by the 11-member Organization of Petroleum Exporting Countries while watching to see what impact it will have on crude oil prices that are as high as those seen during the Persian Gulf crisis in 1990 and on U.S. inventories of heating oil and gasoline, which are running perilously low.

Most energy market analysts see the cartel's production boost, the third this year, as a bit of sleight-of-hand that allows OPEC to claim it is helping angry oil-consuming nations but really brings only about 200,000 new barrels of oil a day to market, given the current cheating on production quotas by OPEC members.

"All this is not anything really significant," Leo Drollas, deputy director of the London-based Centre for Energy Studies, said. "It's like setting up a drip feed, slowly bringing on this tiny amount of excess barrels."

To get a substantial drop in oil prices, 1 million to 1.5 million additional barrels of oil a day are needed, many market watchers say. But a growing group of contrarians - including within OPEC - fret that some of the usual indicators are out of whack, masking a building wave of oil that will swamp the industry, causing crude prices to plummet.

The oil ministers didn't formally announce the 800,000-barrel increase after their Sunday meeting, from which they rushed to a lavish dinner honoring OPEC's 40th anniversary, at Vienna's historic City Hall. But an OPEC official confirmed to reporters

that a deal had been reached and said the details would be laid out at a news conference Monday. The ministers also agreed to meet again Nov. 12 to review production levels.

Boosting output to 26.2 million barrels a day beginning Oct. 1 represents an approximately 3 percent increase for 10 of OPEC's member countries. The 11th member, Iraq, produces about 2.5 million barrels of oil a day under U.N. sanctions.

Roughly 76 million barrels of oil are consumed around the world each day.

Mexico and Oman, key oil producing allies of OPEC, both said they also would increase oil production. Mexico did not specify an amount and Oman said it would add 20,000 to 30,000 barrels a day.

OPEC has been lobbied intensely in recent weeks by the United States, which uses about a quarter of the world's oil, and other nations to boost production so that oil prices will fall.

The U.S. benchmark price on the oil futures market, West Texas intermediate light sweet crude, topped \$55 a barrel on the New York Mercantile Exchange last Thursday, up more than 40 percent since the beginning of the year. Gasoline prices have remained stubbornly high and winter stockpiles of home heating oil are lower than they have been in 24 years, which will bring high prices and possible product shortages in the East when cold weather hits.

Clinton discussed oil prices with Saudi Arabia's Crown Prince Abdullah Bin Abdel Aziz last Wednesday as U.S. Energy Secretary Bill Richardson declared that the United States would like to see oil selling between \$20 and \$25 and that recent prices in the \$34-a-barrel neighborhood are "unacceptably high."

Concerned that high oil prices will reignite inflation and hurt world economic growth, finance ministers of European and Asian countries also urged OPEC action. Consumer anger was dramatically illustrated by fuel protests across Europe, including a

six-day blockade of refineries by French truckers.

While applauding OPEC's new quota increase, the White House said the impact of the move is uncertain. "We've got to digest what they've done today," said White House Chief of Staff John Podesta on "Fox News Sunday."

"We're going to take a hard look to see whether it's enough."

The OPEC increase looks good on paper, but it probably amounts to no more than 200,000 barrels a day in reality, several oil industry analysts said. Chronic quota cheating by OPEC's members means that the Saudis, the cartel's largest producer, "have to cut from their current production to meet their new target, which shows you how silly it is," Drollas said.

Consumers hoping for cheaper gasoline or home heating oil won't get much, if any, relief from OPEC's latest move, said William Edwards, president of the Texas-based Edwards Energy Consultants.

"They will get it eventually, but not this year," Edwards added.

Contrarian voices insist that key supply and demand indicators don't add up.

Respected oil analyst Frederick P. Lueffer of Bear Stearns wrote in a report released Wednesday that nearly 250 million barrels of oil are "missing" based on world supply and demand figures, oil tanker chartering activity and oil company inventory reports.

"We think there is a lot of oil in Asia and on the water. And it's coming here next," Lueffer wrote. "We continue to think (the price of) oil is headed for a tumble."

OPEC officials again blamed high government taxes in consuming countries as the main reason for the soaring cost of gas and home heating oil. Last year in the United States, taxes added an average of \$13.80 to a barrel of oil that OPEC sold for \$16.90, according to an OPEC pamphlet published this July.

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