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As OPEC Meets, Fresh Doubts About Its Power

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When the secretary general of the Organization of the Petroleum Exporting Countries spoke in London in October 2003, he advocated moderation in oil prices, sounding a familiar OPEC theme that extremely high prices could drive off consumers.

"OPEC knows, through both intuition and experience, that it does not operate in a vacuum," said Alvaro Silva-Calderón, then the secretary general. "If it wants to sell its oil, then it must attract buyers. And it does not attract buyers by scaring them off, or being unreliable." He added, "Producers need consumers and consumers need producers."

When he gave that speech, OPEC's price target for a barrel of crude oil ranged from $22 to $28. Three years later, the price of oil has nearly tripled. And as OPEC prepares to meet on Monday, the group is worried that high oil prices will chase consumers to alternate energy sources, weaken Western and Asian economies to the point of hurting demand and bring about a boost in supply from non-OPEC countries.

While OPEC ministers no longer forecast prices in the mid-$20s, they still talk about a sustainable price in the $50 to $55 range -- well below current market levels, which have already fallen more than $10 a barrel from the $78 peak in mid-July. Every $10 drop in the price of crude oil knocks about 25 cents off the price of a gallon of gasoline.

The 11-member organization is not expected to make changes in output or production quotas on Monday. But its very lack of action raises questions about whether the group, which produces nearly 40 percent of the world's petroleum, can still act effectively to sway prices or whether its members are simply riding the cyclical waves of the market.

"OPEC has been a hostage to fortune: to what happens on the demand side, to non-OPEC output and geopolitics," said Leo Drollas, deputy executive director and chief economist of the Center for Global Energy Studies in London. At the same time, he noted, its members are "crying all the way to the bank."

In order to act effectively as a cartel, OPEC would have to be able to cut or increase supplies to influence prices. But outside Saudi Arabia, OPEC members have virtually no excess capacity to help drive down prices. And outside Saudi Arabia, hardly any OPEC member has the political will or desire to cut production.

At the moment, the only factors reining in production by the group have nothing to do with oil policy. Nigeria's output has been cut by 600,000 barrels a day because of insurgents sabotaging pipelines in the Niger Delta. Iraq's production has been trimmed by about 800,000 barrels a day by the continuing mayhem there. Venezuela, which is busy quarreling with oil workers' unions and foreign oil companies, is falling about 600,000 barrels a day short of what it once produced. If the would-be cartel is holding back, it isn't by grand design.

And few of the members can boost production immediately -- except Saudi Arabia. The kingdom has a capacity of more than 10 million barrels a day, but it is currently producing around 9.1 million barrels. That has prompted some critics to complain that Saudi Arabia is not doing all it can to lower oil prices.

Saudi oil minister Ali Naimi, citing rising world crude oil inventories, has said that supplies are plentiful and that customers aren't interested in buying more.

Drollas called that "disingenuous." He said, "It's a question of price." The extra oil Saudi Arabia can produce is heavy, high-sulfur crude that costs more to refine and yields a lower-value range of products. Saudi Arabia provides a discount to customers, but Drollas said that isn't enough. "People will lift your oil if they can take it to a refinery and make money," he added.

At the same time, oil analysts say, prices over $70 a barrel make many OPEC members nervous. While OPEC countries sit on top of four-fifths of the world's proven oil reserves, if prices are high enough all sorts of other sources become attractive, from the icy waters off Sakhalin Island to the mile-and-a-half-deep waters in the Gulf of Mexico, from gas liquids projects in the Persian Gulf to the unwieldy oil sands in Canada.

"What's keeping them more anxious is demand," said Roget Diwan, an OPEC expert at PFC Energy, a consulting group. "They want to see China keep growing. They want a soft landing in the United States. They don't want to see a crash."

The outdated OPEC price band was suspended in early 2005, but Diwan said Saudi Arabia and others will try to keep the price around $60. "It's in their interest," he said. "They won't do it to please America."

Indeed many consultants and oil executives who have spoken to Naimi say that the Saudi was miffed earlier this year when President Bush said the United States should reduce dependence on Middle Eastern oil while his administration was urging the kingdom to boost its production capacity to ease world prices. Saudi Arabia has committed to expand its production capacity to 12.5 million barrels a day.

Other OPEC countries could also step up exploration and boost output. A Cambridge Energy Research Associates forecast issued last month predicted that oil and gas liquids production would hit 110 million barrels a day by 2015, up from 89 million barrels today, with most of that coming from OPEC nations.

By then, who knows what prices will be.

"My theory is that the reason the price of oil is very high today is that it was excessively low 10 years ago and the reason it's going to be low 10 years from now is that it is excessively high today," said Paolo Scaroni, chief executive of Italian oil giant ENI SpA. "When the price is very low no one invests in development. Prices go up and everybody invests."