

---

## Discord in the oil world

RIA Novosti - 3/7/2008

---

The 19th World Petroleum Congress (WPC) was held in Madrid, Spain from June 29 to July 3. This is a major event in the oil and gas industry, which takes place once every three years.

For four days running, major oil and gas producers and consumers tried to find ways to curb record oil prices. But key oil players failed to achieve anything, because their views on the problem are poles apart. As the congress was drawing to a close, its participants witnessed one more unpleasant surprise -- Brent crude hit 146 dollars a barrel for the first time in history.

WPC participants agreed on only one point; that oil prices have indeed become prohibitively high. But their statements reflected contrary views, because they are on the opposite sides of the oil market, and look at it through the prism of either demand or supply.

Oil producers were represented by the influential OPEC cartel, which controls 40% of global oil output, and its leader Saudi Arabia, the world's leading oil exporter. Saudi oil minister Ali al-Naimi addressed the conference chanting his routine mantra about sufficient oil supplies and bad speculators who inflated oil prices out of all proportion.

OPEC's President and Algerian energy minister Chakib Khelil took an even tougher stand. He questioned the need to increase investment into the cartel's oil capacities on the grounds that a steady growth in demand for OPEC-supplied oil was not guaranteed. To substantiate his position, he referred to the world's slowing economic growth, an ongoing search for oil outside OPEC, and huge investment in alternative energy sources and energy-saving technologies.

In addition, he advised the United States to halt the fall of the dollar, arguing that the increase of oil prices, which is bought and sold in dollars, is largely due to the depreciation of the greenback.

To be fair to OPEC, it is still increasing its oil output, but step by step in order to prevent the oil bubble from popping suddenly. At the oil conference held in Jidda a week earlier, Saudi Arabia promised to supply the market with an additional 0.2 million barrels of oil per day in July. Thus, in the last two months alone, it increased oil output by 0.5 million and brought it to 9.7 million barrels of oil per day. But this has provided little relief for the oil market.

Few countries outside OPEC support its policy or accept its logic. The International Energy Agency (IEA), which represents the interests of oil consumers, primarily the United States and European countries, tried to press OPEC into commissioning new capacities as soon as possible. This position enjoyed the support of the Western oil companies, which demanded that the Gulf countries give them access to the development of their oil deposits.

But for all that, Western oil companies showed unreserved support for the free market. They defended the so-called speculators whom OPEC had blamed for the trouble, and called them investors who believed in the oil market.

This duality is only natural. Oil giants are making huge profits thanks to these investor-profiteers. Christophe de Margerie, President of French oil

company Total, said that the development of new deposits is becoming increasingly expensive, and that oil should cost at least \$80 per barrel to keep oil companies afloat.

French truck drivers evidently thought little of this argument. On June 30, they blocked main roads in France, and even disrupted commuter traffic.

Protests against soaring fuel prices swept many other countries as well.

The political situation in major oil producers such as Nigeria, Iran and Iraq is pouring more oil on the flames. The commander of the Bahrain-based U.S. 5th Fleet said on June 30 that the United States would not allow Iran to close the Strait of Hormuz, via which the bulk of oil from the Gulf countries is supplied to the world market.

The answer was not long in coming. On July 3, Iranian oil minister Gholam Hossein Nozari warned in the congress's lobby that his country would retaliate strongly against any attack. As a result, Brent crude skyrocketed to more than \$146 per barrel.

The opinions expressed in this article are the author's and do not necessarily represent those of RIA Novosti.

---