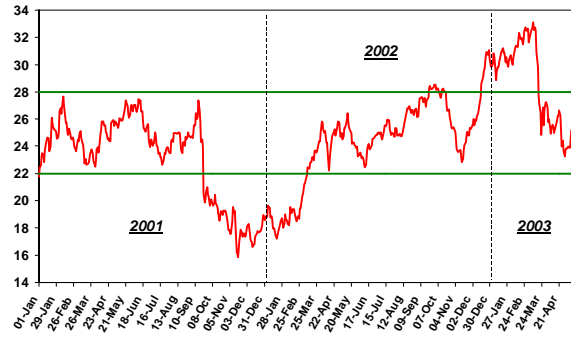


**OPEC Basket Oil Price (\$/bbl): Jan 2001 – May 2003**



The Iraq war has reinforced the key role played by Saudi Arabia in managing the international oil market within what OPEC considers to be “reasonable” price bounds (\$22-\$28 per barrel). Many analysts were anticipating that oil prices might spike to very high levels over \$40 per barrel, given the triple whammy to oil supplies given by the Iraq war, by Nigerian and Venezuelan political instability and also colder than normal winter weather in the USA. But Saudi Arabia’s ability to draw on spare capacity to keep markets well supplied in the face of these challenges has been one of the unsung success stories of the world economy. The United States and Europe did not even need to release strategic stocks as in the first Gulf War. Over three to four weeks, it was reported that Saudi Arabia was able to move production towards its capacity of over 10 million barrels a day.

Thus, the war resulted in minimal disruption to oil supplies outside Iraq and in very little lasting damage to fields and infrastructure within Iraq. Oil prices fell steeply in the week before the conflict, from highs of over \$34 per barrel (Dated Brent), as the market began to anticipate this relatively benign outcome.

Post-war Brent crude oil prices have traded in a relatively narrow range of around \$23-27 per barrel.

OPEC has set its new quota ceiling at a level (25.4 Mb/d) that is broadly in line with the projected call

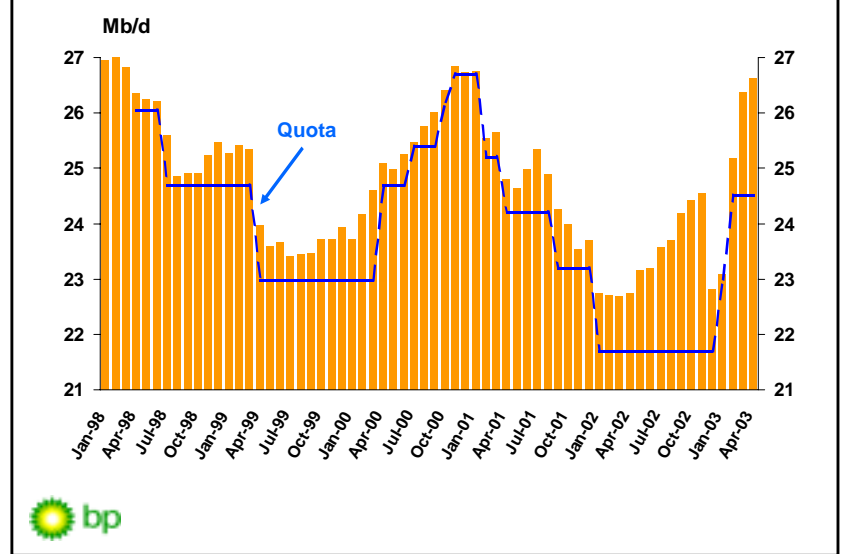
on OPEC crude in the second half of 2002. OPEC is expected to be close to quota in June as key producers such as Saudi Arabia rein back production from recent high levels. The Saudi production quota has been set at 8.256 million barrels a day. As Iraqi exports recover, the rest of OPEC will probably have to cut quotas and production further as the year progresses.

The next OPEC meeting is due on June 11 and future meetings are likely to be increasingly dominated by the issue of quota allocations. The supply disruptions of the last six months have allowed OPEC to put off this difficult debate that is being pushed by members with rapidly growing capacity i.e. Nigeria, Algeria and Libya. This debate now looks set to resume and could complicate OPEC decision making in coming months especially as Iraqi production recovers to pre-war levels and has to be re-integrated. With significant downsides to oil demand possible owing to the impact of SARS and terrorism on world economic growth, OPEC could be beset by problems as 2004 progresses, barring, as ever, unexpected supply disruptions.



**Andrew Barton**

**OPEC 10 Production vs. quota**



**June 6th**

Saudi Arabia on Thursday canceled a proposed \$15 billion natural gas project led by Exxon Mobil after oil companies turned down its final terms, in a major break between Saudi rulers and the U.S. oil industry, analysts said.

An additional \$10 billion in Saudi gas projects headed by Exxon Mobil and Royal Dutch/Shell Group are also likely to be scrapped, industry analysts said. The report was not confirmed by Saudi officials.



**June 12th**

Bahrain and Saudi Arabia have agreed to develop the Abu Saafa oil field over the next 18 months to two years at a cost of \$1.2 billion (BD453 million), said Finance and National Economy Minister Abdulla Saif yesterday.

He told our sister paper Akhbar Al Khaleej that the project would raise output to 300,000 barrels-per-day. He said Bahrain and Saudi have signed an agreement under which the increased output will be shared.

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