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OPEC Achieves Cuts in Output, Halting Price Slide

By [JAD MOUAWAD](#)

After months of gradually closing the oil spigot, members of the [OPEC](#) cartel have managed to stop the slide in oil prices — at least for now.

Showing an unusual degree of discipline, members of the Organization of the Petroleum Exporting Countries have slashed their output by more than three million barrels a day in recent months as they sought to put a floor under oil prices, which have fallen by \$100 a barrel since last summer. That is about 75 percent of the production cuts pledged by members of the cartel since September.

The cuts have been led by Saudi Arabia, the world's top exporter, which has trimmed its production to eight million barrels a day this month, down from nearly 10 million barrels over the summer.

In September, OPEC producers vowed to reduce their output by 4.2 million barrels a day, or about 5 percent of global production.

"Compliance has been extremely high," said Kevin Norrish, an oil analyst with [Barclays](#) Capital in London. "Most OPEC countries have done most of what they'd pledged to do."

Oil lost 70 percent of its value in recent months as the global economy fizzled and oil consumption fell. In the United States, the world's biggest consumer, demand has dropped nearly 8 percent, or 1.6 million barrels a day, from a year ago. Most experts believe global oil consumption will decline in 2009 for the second straight year.

But OPEC's policy seems to be catching up with the economic downturn. After hitting a peak above \$145 a barrel in July, and falling to \$32 a barrel by December, their lowest level since the end of 2003, oil prices have stabilized in recent weeks. As the latest OPEC cuts have influenced the markets, prices have been trading in a range from \$35 to \$45 a barrel.

OPEC's success has created the prospect of a rebound in prices — most oil-producing countries want prices well above \$70 a barrel. But such a rebound could hobble the world economy further, making an eventual recovery more difficult.

Already, retail gasoline in the United States has bottomed out and begun to rise. It is still far below the high of \$4.11 a gallon in July, but is up about 20 cents over the last month, to a national average of \$1.86 a gallon.

On Friday, oil prices rose \$2.80 a barrel, or 6.41 percent, to settle at \$46.47. While that is well below last summer's level, it remains relatively high by historical standards.

The precipitous slide in recent months had alarmed many producers, as well as some Western oil companies, which warned of lower investments for new energy supplies.

[ConocoPhillips](#), for example, last week trimmed its investment program by 18 percent, or \$2.8 billion, for this year. [Suncor Energy](#), which produces oil from Canadian tar sands, slashed its investments for the second time in a few months. After posting a loss in the fourth quarter, Suncor cut its spending plans to \$3 billion this year, down from \$10 billion.

“Politically, it is better to say we need the lowest possible oil prices, but there are economic implications to low prices, and not just for OPEC producers,” said Olivier Jakob, the managing director of Petromatrix, an independent research firm in Zug, Switzerland. “Lower prices defer investments in the energy sector that could hurt Western economies in the longer term.”

The steep drop means that oil prices have returned to levels last seen before 2004. But given a rise in production costs, and vast government spending programs initiated by most oil-producing states, many oil exporters today need significantly higher prices to balance their budgets.

Saudi Arabia, for example, once seen as favoring low prices, recently said that it considered \$75 a barrel to be a fair price.

Oil companies also say they need higher prices to develop complex and costly resources, like deepwater fields or tar sands, that have higher break-even costs.

“If economies recover, we will quickly face the same challenges on the supplies,” Helge Lund, the chief executive of [StatoilHydro](#), a Norwegian oil company, said in a recent interview. “We won’t be able to meet the increase in demand.”

The drop in prices, if sustained, may lead to a realignment of policies even for the most nationalistic producers, analysts said. Kazakhstan and Venezuela, for example, recently indicated they might relax investment terms or seek new deals with foreign companies in a bid to bolster their production and increase revenues.

The OPEC cartel’s discipline reflects a more forceful stance taken by Saudi Arabia, the group’s most powerful producer, which has taken the lead in aggressively cutting production in recent weeks.

The country’s oil minister, [Ali al-Naimi](#), said the kingdom would go even beyond its OPEC pledges with a unilateral cut that would bring its output next month below its official target. Analysts expect the kingdom to reduce its output by an additional 300,000 barrels a day below its OPEC quota.

“We are working hard to bring the market in balance,” Mr. Naimi said a few days ago in New Delhi.

Saudi Arabia’s economy is expected to shrink this year, and the country is planning to run a budget deficit because of the slump in oil prices.

OPEC has received some involuntary help from other producers. These include Mexico, where output from the country’s biggest oil field is declining sharply; Russia; and Canada, where producers of tar sands have shut down some operations that are becoming uneconomical at today’s lower oil prices.

The last time the cartel met, in December, its members pledged to reduce production by 2.2 million barrels a day. It was the group's third agreement in four months to cut its output, after pledges of 500,000 barrels a day in September and 1.5 million barrels a day in October.

But not everyone believes that OPEC's actions can keep prices from falling further, especially if the global economy continues to worsen.

OPEC has announced 12 quota reductions since 1993, and 80 percent of the time the cartel succeeded in defending a floor for oil prices, according to an analysis by [Deutsche Bank](#). The times when the cartel failed was when global economic growth was falling sharply, as in 1998 and 2001.

OPEC's president, José Maria Botelho de Vasconcelos, has said he expected oil prices to eventually recover to around \$75 a barrel this year as a result of OPEC's actions. The cartel is expected to meet again in March. At least one producer, Iran, has said the group might slash production even further to push up prices.

"If all the cuts are carried out within the established time frame, there will be an impact in the market that will lead to a positive trend in terms of oil prices," Mr. de Vasconcelos told Reuters.

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