Crude Oil Prices Hike Out of OPEC Control; OPEC Comes Under Consumers' Attack

The world has witnessed the unprecedented growth in the crude oil prices during the recent days. The OPEC's crude oil price soared to 66.34 dollars per barrel in the closing week of last April.

Some part of the world public opinion believes that the OPEC is behind the prices hike. They argue that if the OPEC lifts its output ceiling, the oil prices will be reduced and kept at their previous levels. In fact, the consumers' propaganda during the past decades has fueled the belief that the OPEC is behind the oil shortage and high prices in the world. The Organization of Petroleum Exporting Countries is now supposed to be the main factor in the oil prices growth.

But the reasons should be uncovered somewhere outside the OPEC domain. Here below come those factors:

Geopolitical Factor

It is the most important factor in the current increase of crude oil prices in the international markets. In fact, political crises and instability in some oil producing states have caused concern in the global markets.

The crude oil production in Iraq has dropped to 1.8 million barrels per day (mbpd) from 2.5 mbpd in March of 2003 – before the U.S. invasion.

According to the CNN, Iraq suffered 3,500 terrorist acts in 2005, i.e. 9.6 events a day.

At present, the war-torn Iraq's future is gloomy mainly because of the lack of investment in its worn-out oil infra-structures,.

On the other hand, the saboteurs have caused great problems for the country's export sector in particular in the northern areas.

Political unrest in Nigeria and the insurgents' rebellion in the oil-rich Nigerian delta have cut the African state's crude oil production by some 500 thousand barrels per day since three months ago.

As summer is approaching the market is experiencing the increase in gasoline consumption, the impact of Nigeria's crude output cut becomes clearer because its crude oil is of light type, whose contents are very rich.

The market, thanks to limitation of refining and conversion capacities, is in dire need of this type of crude oil in order to meet gasoline consumers' needs.

The opposition groups in Nigeria want to hold their national asset by themselves.

On the other hand, Bolivian President Evo Morales has nationalized his country's gas industry -- a move the world expects to be followed by other Latin American states.

Still, the verbal conflict between Venezuela's President Hugo Chavez and his U.S. counterpart George W. Bush has prompted Chavez to renew his threat that the country's oil exports to the United States would be cut off.

Venezuelan oil workers' strike in late 2002 has caused a permanent daily decrease of 500 thousand barrels in its oil output.

Officials of Venezuela have all the time accused the United States of involvement in their country's unrests.

Russia also stopped exporting gas to Europe via Ukraine for one day in the beginning of the year 2006. Moscow justified the fourfold increase in gas price was the main reason behind the decision and the reduction of gas exports.

Some analysts, however, believe the establishment of a pro-U.S. government in Ukraine has instigated Russia to make such a decision.

On the other hand, Europe that imports one-fourth of its required gas volume from Russia is gravely concerned.

Furthermore, the activities of terrorist groups in the oil-rich Middle Eastern states in particular the Persian Gulf countries have worried the oil circles.

A wave of concern swept over the world oil market in lat February of 2006 when a car explosion occurred near a processing plant in Saudi Arabia. Some six million barrels on crude oil are processed in the plant daily and exported to foreign countries.

The experts know very well that the OPEC member states are now pumping to their maximum capacities and only Saudi Arabia claims to have an excess capacity of 1.5 million bpd.

It means any incident in Saudi Arabia causes the Arab state to run out of its excess capacity needed to make up for probable shortcomings.

In other words, any problem in Saudi Arabia's oil production and supply system would make useless the safety valve of the oil market.

Strategic stockpiles have also limited capacities and cannot meet the needs during the supply crisis.

Last May, Saudi Arabian Oil Minister Ali al-Naimi announced although Riyadh has spent billions of dollars for security measures, there will be a real possibility for the terrorist attacks on his country's oil installations.

In addition to the aforementioned reasons, the opposition of some Western states to Iran's peaceful nuclear activities has caused major concern in the oil market. The United Nations Security Council's threat to impose sanctions against Iran and to boycott its crude oil exports or to use oil as a tool against the Security Council's measures have created tension in the market.

To analysts, even if the Council imposes economic sanctions on Iran, it will gradually affect the country's oil exports capacity.

Natural Disasters and Production Capacities

A hurricane in the Gulf of Mexico in early September of 2005 led to a production cutoff of nearly 130 million barrels of crude oil by the end of April.

Still, different incidents such as infernos in oil fields and refineries in different parts of the United States and the world during the second half of the previous and early months of the current year also inflamed the market.

Only bad weather conditions in February and March of 2006 accounted for a 10 million barrel decrease in southern Iraq's crude oil exports.

Such disasters took place at a time when the excess capacity of international crude oil production had sharply decreased. Even some experts say it has touched zero. They harbored doubts about Saudi Arabia's potential to boost its daily production by 1.5 million barrels. According to them, Saudi Arabia's production has reached its peak.

It is worth mentioning that no new refinery has been built in the United States since the 1970s while the country is consuming one-fourth of the world's oil. Under such circumstances, any incident in the world's refineries affects the oil prices.

Oil officials of Saudi Arabia and Kuwait have recently called for establishment of refineries on the U.S. soil in association with the American companies in a bid to remove some pat of downstream problems.

Lack of oil processing facilities looms large on the verge of summer because the market demands lighter products. The shortcoming forces the refiners to purchase lighter crudes that allow them to produce more light products in their refineries. The issue causes a rise in light crude oil prices that also leads to the increase in the heavy crude oil prices.

Growing Demand

The rising demand for oil since 2000 and in particular as of 2004 is a fundamental change the market has witnessed during the recent years.

The strong economic growth in the world in the recent years has caused the prices hike to have little impact on the growth of demand. The growth rate of demand for oil is predicted to touch 1.4 million barrels per day in the current year. The figure indicates a daily increase of 400 thousand barrels when compared to the similar amount in 2005.

The depressed oil market has prompted the stockbrokers to buy futures contracts, making the prices shoot up.

According to the report, stockbrokers' net purchase during a week ended on April 25, 2006 hit 74,023 papers barrels, each equal to one thousand barrels. It is an unprecedented record.

U.S. Political Pressure

Under such conditions that the growth of prices is completely out of OPEC control, the U.S. senators passed a bill in late last April that authorizes the U.S. Administration to sue the Organization of Petroleum Exporting Countries for the rise in oil prices. The bill must be also ratified by the U.S. president Congress. for enforcement.

Even Mike Dewine, a senator from the State of Ohio, has claimed that the OPEC's decision for controlling the pumped oil volume by its members is a disgraceful violation of "anti-trust" rules and regulations. He has warned if the U.S.-based companies do the same, they will be brought before the court.

Frank Lautenberg, a Democratic senator from the State of New Jersey, writing a letter to the U.S. ministry of Energy Samuel Budman has urged him to stop treating the OPEC mildly and deal with the OPEC member states before the World Trade Organization (WTO) steps in.

The letter added that American people are suffering from the high gasoline prices, urging the George W. Bush's government to break up the OPEC cartel.

The remarks seem to serve domestic US politics U.S. politicians plan to take advantage of the opportunity for their political propaganda and election campaigns.

According to the recent polls, the popularity of President Bush has declined by 32 percent. Some 60 percent of American people believe Bush is not doing his job appropriately.

To many political analysts, the rise in the oil price particularly the gasoline price hike will affect the U.S. Congress elections in November of 2006, encouraging the people to stop supporting the Republicans.

However, the U.S. energy minister, who hosted the Saudi Arabian oil minister in early May, ruled out the Senate's bill and expressed his strong opposition to it.

He said the U.S. Administration was also against the bill.

For his part, the Saudi Arabian Oil Minister Ali al-Naimi underlined that he would not intervene in domestic policies of other countries specially the United States, which have amicable ties with his country.

At this juncture, the OPEC is duty-bound to publicize the main factors behind the rise in prices. The heavyweight body is also expected to brief the world on destructive factors affecting geopolitical affairs worldwide.