Former OPEC member Gabon wants to rejoin oil group

Gabon had joined OPEC in 1975, left in 1995

DUBAI/LONDON: The African nation of Gabon wants to rejoin OPEC after more than two decades, two OPEC sources said, becoming the second former member in a year to seek a return to the oil exporters' group just as it is taking the first steps in years to prop up prices. If it returned, Gabon would be the smallest producer in the Organization of the Petroleum Exporting Countries and bring its ranks to 14 countries following last year's return of Indonesia, which had quit in 2008.

"They sent the request to OPEC officially," said one of the sources, an OPEC delegate.

An oil official in Gabon declined to comment. Gabon joined OPEC in 1975 and left in 1995 over the exporter group's refusal to grant its request for reduced annual contributions in line with the country's small production, news reports said at the time.

The move to rejoin comes as key OPEC members and outside producers such as Russia are attempting to support prices through a deal to freeze output which will be discussed this weekend in Doha. The initiative has helped oil prices to start recovering from a 12-year low reached in January.

OPEC in 2014 had abandoned its traditional role of cutting supply to support the market, accelerating a drop in prices which were falling due to oversupply and prompting critics to question its relevance. Gabon produces 200,000 barrels of oil per day (bpd) according to the International Energy Agency, and output is in decline. Last year, the government launched an offshore licensing round in a bid to boost exploration.

Ecuador, which pumps 530,000 bpd, is currently the smallest OPEC producer. The next step, the sources said, would be for OPEC oil ministers to discuss Gabon's request. They hold their next meeting in June. OPEC rules state that a country needs to have "a substantial net export of crude" in order to become a full member. Still, the ministers waived this requirement with the decision to welcome back Indonesia, now a net oil importer.

Whether Gabon's return would be as straightforward is not clear. Indonesia was deemed by OPEC to have "suspended" its membership, while it calls Gabon's departure a "termination" - implying a more formal severing of ties. — Reuters

Tunisia to go to market with 1bn euro bond issue

TUNIS: Tunisia will got to the international markets with a 1 billion euro bond issue next week to raise funds to help cover a budget deficit, a government official said yesterday. The North African state's economy is struggling with a drop in tourism revenues after four major militant attacks over the past year, and an outbreak of social unrest over jobs and development at the start of this year.

"Tunisia will start a roadshow in European capitals next Wednesday for the one billion euro bond issue," said the government official who asked not to be named because he was not authorised to speak to the media. Tunisia last went to the international market a year ago, with a $1 billion bond.

The International Monetary Fund team has been in talks with Tunisia over a new credit program, tied to measures to strengthen its economy and finances and worth at least $1.7 billion over four years. Tunisia's parliament this week passed one of those reforms, a law to strengthen the independence of the central bank to protect it from political meddling.

Tunisia's economic progress has fallen behind since the 2011 uprising against autocrat Zine El-Abidine Ben Ali that bought the country to full democracy and triggered "Arab Spring" revolutions across North Africa and the Middle East. — Reuters

TUNIS: Trucks arrive in the Tunisian island of Kerkennah escorted by police as they try to reach UK based oil company Petrofac's natural gas facility on Thursday. Petrofac facility on Kerkennah has halted production since sit-in protests by contract workers demanding public sector employment began in January 2016. —AFP

Doha meeting might not matter much for prices

LONDON: Given the hype which has accompanied the run-up to an oil ministers' meeting in Doha tomorrow, there is a risk prices will fall afterwards it fails to reach an agreement or produces only a weak one. But expectations for the meeting are already pretty low.

"We cannot know the outcome but if there is to be a production freeze, rather than a cut, the impact on physical oil supplies will be limited," according to the International Energy Agency ("Oil Market Report", IEA, Apr 14). Given that almost no one expects ministers to agree on a cut, and a freeze would not remove any actual barrels from the market, the scope for disappointment is perhaps limited.

Some analysts argue prices could fall sharply if the meeting fails to produce a significant agreement because it will puncture the sentiment-driven positive momentum that has been driving prices higher.

In this view, ministers must deliver something significant or risk an abrupt deterioration in market sentiment and prices. But it is also arguable that what has been driving prices higher over the last two months is not just sentiment or expectations about Doha but the prospect of real price-driven rebalancing in the oil market.

The IEA and Goldman Sachs have published commentaries this week entitled respectively "market balance draws near" and "rebalancing gathers pace". If hedge funds and other market participants are focused on the price-driven reduction in supply and increase in demand, the lack of a substantial outcome from Doha might produce only a short-lived decline in prices. At this point, no one really knows how the market will react to a weak deal.

THE PROBLEM OF OIL

"The problem of oil is that there is always too much or too little", Myron Watkins, professor of economics at New York University, wrote almost 80 years ago ("Oil: Stabilization or Conservation?" Watkins, 1939). Extreme volatility is the defining characteristic of all commodity markets but none are more spectacular or have as much impact on the fate of economies and nations as swings in the price of oil.

"The basic feature of the petroleum industry ... is that it is not self-adjusting," according to economist Paul Frankel ("Essentials of Petroleum", Frankel, 1946). The risk associated with finding oil underground; the high cost of exploration and drilling coupled with the low cost of production; high fixed costs in refining, transport and marketing; and a lack of responsiveness in both supply and demand to small changes in price in the short term combine to produce continuous crises, according to Frankel.

Not much has changed in the intervening decades. Watkins and Frankel would recognise the recent panic about peak oil, shale revolution and the subsequent slump in oil prices as another of the extreme cycles that have plagued the modern oil industry since its beginning in 1859.

PRODUCTION PLANNING

Frankel argued the recurrent crises made some sort of "planning" by major oil companies, governments, or both, necessary and inevitable. The only way to tame violent price swings was to employ "eveners" or "adjusters", what would now be called "swing producers", willing and able to balance supply and demand by altering their own production.

"As there is always either too much or too little oil, the industry, not being self-adjusting, has an inherent tendency to extreme crises; this fact has called forth the ingenuity of planners within the trade. As no individual unit can evolve a rational production policy on its own, some sort of communal organization is almost inevitable," Frankel concluded. The history of the oil industry is largely a history of attempts to stabilise production and prices each of which has ended in failure sooner or later.

Efforts have ranged from the Oil Creek Association founded in 1861, the Petroleum Producers Association of Pennsylvania (1869), Standard Oil (1870s-1910s), and the U.S. oil conservation movement (1910s-1930s), to the Achnacarry Agreement (1928), the Texas Railroad Commission (late 1940s-early 1970s) and OPEC (since 1982). There is no reason to believe an agreement between OPEC and non-OPEC producers in Doha would have any more enduring success.

PRICES OR STABILISATION

While Frankel was correct that the oil industry is not self-adjusting in the short term, in the longer term, the price mechanism, rather that stabilization arrangements, has brought supply and demand back to balance. It was high prices which solved the "problem" of peak oil in the mid-2000s, and it is low prices, not OPEC, which are now starting to cure the "problem" of excess oil production in the mid-2010s.

High prices did not lead to the creation of hydraulic fracturing technology but they did enable and finance its rapid scaling up across the oil industry after 2005. High prices also encouraged much more efficient use of refined fuels in all forms of transport, such that oil consumption in the advanced economies fell almost continuously between 2005 and 2014. — Reuters