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MR TURNBULL

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MID-DECEMBER OPEC MEETING AND THE STATE OF THE OIL MARKET

In case you should want to brief the Prime Minister, the background to the forthcoming OPEC meeting is broadly as follows:

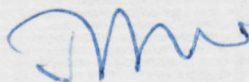
- 1) The mild northern November has reduced oil demand by roughly 0.5 million b/d.
- 2) Following their October meeting, OPEC members have achieved a surprising degree of discipline in curbing total production to some 16.3 million b/d.
- 3) On the other hand, some OPEC members, eg Iran and the United Arab Emirates, have not had the nerve to stop giving price discounts in order to sell their full production entitlement. This has frustrated a hardening of prices. Anticipating the possibility of lower oil prices in the immediate future, oil companies have been induced to dip deeper into their already low stocks, thus reinforcing the weakness of the market.
- 4) It is widely assumed that BNOG and the Norwegians will keep out of the limelight until after the OPEC meeting so as to avoid unsettling a nervous market. Even so, OPEC will have little room for manoeuvre in tackling the principal aim of the meeting - the re-alignment of

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outdated price differentials. At most, there could be some token tinkering. For the rest, they will reinforce discipline over production allocations.

- 5) Barring the unforeseen, this implies little change in the state of the oil market through the remainder of the Winter.
  
- 6) However, there may be some brighter news. The International Energy Agency is now estimating that commercial oil stocks in the industrialised countries will have fallen to the equivalent of only 71 days forward consumption by the start of 1985. This would be the lowest level since the supply crisis in 1979. It suggests that by the Spring of next year, when the official OPEC price structure would normally be under the greatest downward pressure, the industry will have exhausted all possibility of drawing down stock in anticipation of falling oil prices. That will make OPEC's balancing act easier.

You could say that the oil market is suffering from a prolonged cold now, but should be spared a dangerous fever in the Spring.



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