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PRIME MINISTER

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THE OIL MARKET AFTER THE GENEVA MEETING

OPEC are still muddling through. True to form, Saudi Arabia was not moved to unilateral shock treatment so as to persuade the other members to shoulder more of the burden of reducing production. The minor adjustments of price differentials achieve nothing. Only tighter control of OPEC production can prevent a continued slide of oil prices.

North Sea oil prices are currently around $27 per barrel. For the next month or two, oil prices will probably remain firm as buyers catch up after holding back prior to the OPEC meeting. At least that is satisfactory news for the Britoil flotation.

It is probably wishful thinking for OPEC to believe that thereafter they will benefit from the approach of the northern winter and the pick up of oil demand. Oil demand remains weak, especially since the US economy is slowing down. The recent drop of gasoline prices in the US is a significant pointer. Other negative factors are the build-up of North Sea production after summer maintenance, and Mexico's intention to produce more. Having failed to win formal accommodation from the other OPEC members, the Saudis are likely to increase their oil exports using back door arrangements such as their trading organisation NORBEC.

This portends a fall of oil prices in the autumn. The sharper it is, the more hope the Saudis have of persuading the others to face up to the need for an effective, equitable method of production control.

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