

ANALYSIS-Venezuela's OPEC role limited by output, politics

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By Matthew Robinson

CARACAS, Venezuela, May 26 (Reuters) - Limited production capacity and radical politics have put Venezuela, once a champion of OPEC unity, at odds with other members seeking to raise their oil output to quell high prices, analysts say. Facing pressure from consumer nations as oil prices sizzle near 21-year highs, OPEC kingpin Saudi Arabia -- the only major producer with substantial spare capacity -- has called on the cartel to raise supply by up to 11 percent when the group meets on June 3 in Beirut. But experts say Venezuela's failure to restore all of its oil wells following a crippling strike against leftist President Hugo Chavez last year means his government has almost no choice but to resist an output hike. "I don't think they have the capacity to reach their own current OPEC quota, so all that upside of higher production would be left on the table for Venezuela," said Deutsche Bank analyst Jay Saunders. According to secondary sources, the world's No. 5 oil exporter is only pumping about 2.5 million to 2.6 million barrels per day (bpd) compared to 3.1 million bpd before the December 2002-January 2003 strike and its official OPEC ceiling of 2.7 million bpd.

Venezuela has been primarily a bullish factor in the market following the work stoppage, mostly due to continuing operational problems in its oil industry and lingering political concerns over the rule of Chavez. The former army officer has clashed with domestic opponents and the United States over his Populist policies. He accuses Washington of trying to topple him and recently warned that U.S. meddling could affect his country's oil shipments to the United States. U.S. officials reject the charges. Adding to long-term worries has been a perceived lack of investment in new capacity by state oil firm PDVSA, which sacked 18,000 employees during the strike. Caracas insists output is back to pre-strike levels, and says the U.S.-led war in oil-rich Iraq, a lack of refining capacity in the United States, and booming global demand are fueling the price rise. Many OPEC members agree these factors have contributed to the oil price boom. But fears of a backlash from consumer economies as well as of lessening demand if high oil prices push economies into recession have spurred talk of raising quotas. Chavez said on Tuesday he thought \$30 a barrel was a "fair" price for Venezuela's crude, which has been averaging \$29.63 a barrel this year. He has lobbied for OPEC to revise its preferred price band from \$22-\$28 a barrel to \$25-\$30 a barrel. OPEC's basket price rose to \$37.36 a barrel on Tuesday, while U.S. oil futures held over \$41 a barrel as Saudi Arabia's pledge to raise output failed to quell supply worries.

PRICE HAWK FOREVER? Analysts contend Venezuela's eroded output capacity has trimmed its power within the cartel and turned Chavez's price hawk ideology into a policy of necessity rather than choice. The Populist president is widely credited with restoring Venezuela's position within OPEC when he took power in 1999 by reining in output in excess of official quotas and calling for producer restraint to help rescue sinking oil prices back then. Chavez's drive for higher prices now seems out of step with market conditions, and his radical anti-Western rhetoric has created a rift with other OPEC members, analysts said. "They are coming in there with these super out-there positions that are really rejected by the vast majority of OPEC members as being nonsensical," Amy Myers Jaffe of Rice University's Baker Institute for Public Policy said of Venezuela's recent statements on prices. "It takes away from the seriousness with which

their delegation is viewed," Jaffe added. Chavez has angered the United States, the top buyer of Venezuela's crude and the biggest consumer of oil, by increasing ties with anti-U.S. states such as Cuba and with his fierce criticism of the war in Iraq. He says the United States orchestrated a failed April 2002 coup against him, a charge denied by Washington. "I don't think it's high on Mr. Chavez's wish list to be a friend of the United States at this point," said Jan Stuart, an analyst for Fimat in New York. Copyright 2004, Reuters News Service