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OPEC ought to rethink policy amid global glut

The organisation can still play a role in ensuring that member nations receive 'a fair return on capital'

THE Organisation of the Petroleum Exporting Countries' (OPEC) role in the oil industry will need to be seriously reevaluated following the failure to establish production caps for its members. This failure effectively allows all of the organisation's members to produce unlimited amounts of crude for the foreseeable future.

This decision has resulted in oil prices losing almost 10 per cent of their value, with further losses expected. The decision to abandon production caps, even if temporarily, is being driven by an economical decision that market shares can be easily defended, while prices cannot. While this strategy has allowed the UAE, Saudi Arabia and other member

nations to maintain revenues in the face of a global oil glut, it has been economically challenging for countries with higher per-barrel production prices.

This strategy, while viable, renders OPEC obsolete. The stated purpose of the organisation has always been to "coordinate and unify the petroleum policies" and "ensure the stabilisation of oil markets" so members receive "a fair return on capital".

If the days of production caps are truly over, then OPEC's members should at least reinvent the organisation to see that its members still see "a fair return on capital".

The Gulf News/UAE