

OPEC cuts actual output by 7 percent

By Bruce Stanley
THE ASSOCIATED PRESS

VIENNA, Austria — Hoping to stabilize weakening crude prices, OPEC members agreed Thursday to cut their current oil output by 2 million barrels a day, or 7 percent.

At the same time, the Organization of Petroleum Exporting Countries took the surprising step of temporarily raising its official output target to 25.4 million barrels, up 900,000 barrels a day from its existing ceiling.

The changes take effect June 1, OPEC President Abdullah bin Hamad Al-Attayah said.

The group, whose 11 members pump about a third of the world's oil, announced its decision at a chaotic news conference at its headquarters that left some energy analysts bewildered.

The announcement followed three hours of emergency talks that aimed at preventing a further decline in prices. Crude prices have tumbled from almost \$40 a barrel for U.S. crude before the Iraq war to about \$25 in recent weeks. OPEC feared more declines if it didn't rein in what it saw as an oversupply just as crude demand reached a seasonal low.

The group based its production cut largely on what it said was sluggish global demand during the second quarter. The slowdown has been exacerbated by the outbreak of Severe Acute Respiratory Syndrome, which Al-Attayah said has dampened crude demand by 300,000 barrels a day.

OPEC plans to review its decision when it meets again June 11 in Doha, Qatar.

"We feel we may need another cut in June," Al-Attayah said. "We will watch the market very carefully. We will see how the market reacts."

The market's initial reaction was to shave about a dollar off the price of a barrel of oil, as traders apparently concluded that OPEC was making more crude available than they had

expected. June contracts of U.S. light, sweet crude fell as low as \$25.61 a barrel in New York, but ended down 1 cent at \$26.64 a barrel. North Sea Brent crude for June delivery settled up 4 cents at \$24.30 a barrel in London.

Al-Attayah argued that OPEC could not begin cutting production in May because member countries had already committed fixed quantities of oil to their customers.

"We cannot pull out of the market," he said.

Several OPEC members had boosted their production before the war, hoping to head off a supply shortage. The rapid end of the conflict has left them facing what they see as a surplus of 2 million barrels a day.

"It is important to reduce oversupply," Venezuela's oil minister Rafael Ramirez told reporters before the hastily arranged talks began. "We have to have more discipline, and it is important to take measures and remove that amount from the market."

If not, OPEC wouldn't be able to maintain its price target of \$25 a barrel, he said.

Many energy analysts had expected OPEC to agree to curb production. In the end, the group took the unusual decision of slashing its actual production — which it calculated as 27.4 million barrels a day, including Iraq — while also raising the nominal ceiling for OPEC's 10 members excluding Iraq. OPEC's current target is 24.5 million barrels a day.

The decision means Saudi Arabia, OPEC's most powerful member, would reduce its production by 1 million barrels a day, Al-Attayah said.

OPEC representatives called Thursday's meeting to reassess the group's output levels as oil began flowing again in Iraq for the first time since the war.

OPEC is ready to welcome Iraq back as a participating member, Al-Attayah said. Iraq hasn't taken part in the group's production agreements since April 1991, after the first Gulf War.

NEWS IN BRIEF

Iceland opens first hydrogen filling station

REYKJAVIK, Iceland (AP) — Iceland opened what is believed to be the world's first filling station for hydrogen-powered vehicles on Thursday — the next step toward its dream of giving up fossil fuels completely. The first car in line was a Mercedes-Benz Sprinter van, a prototype provided under a European Union-backed program to use Iceland as a test for hydrogen power.

There weren't any other customers Thursday: None of Iceland's 280,000 people are known to drive cars powered by hydrogen. The new station will be used by three DaimlerChrysler hydrogen-powered buses being introduced into the Reykjavik fleet for two years, starting in August. Each bus can go about 125 miles before it needs refueling. "In time, what is happening in Iceland will show to the rest of the world that hydrogen fuel is a real, commercial possibility that will lead to a cleaner, pollution-free environment," Industry Minister Valgerdur Sverrisdottir said at an opening ceremony.

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