

Outlook

OPEC goal should be stability — not higher prices

By ROBERT E. ROSE

ON Monday, the oil ministers of the Organization of Petroleum Exporting Countries will meet in Vienna to discuss whether to increase oil production against a world backdrop of inflated prices and market volatility. Their decision should be simple: boost production to lower and stabilize prices.

Stability — not high and volatile prices — is good for the consumer and the petroleum industry.

An unusual stance, you might think, coming from an energy industry CEO. After all, higher oil prices should mean additional profits for a company like Global Marine, one of the industry's largest offshore drilling contractors. In the short term, that may be true. But let's look at the bigger picture.

Americans, as always, will continue to rely on their automobiles despite higher prices at the gas pump. Eventually, though, as pocketbooks are siphoned at the gas pump, consumers will spend fewer dollars at the grocery store and at the mall. As energy prices increase, our economy slows. Inflation may rise. While that hurts, the emerging nations, with more fragile economies, are affected even more. Overall, the economic effects can be substantial for us all.

From all indications, it appears OPEC ministers are worried about the recent price rise, too. And they should be. It would be unwise to insist on prices so high that it hurts demand for their products.

Many analysts now expect OPEC to ease some of the production cuts it made in 1998 and 1999 to boost low prices. That outlook was bolstered recently when Iran, the group's staunchest price advocate, indicated support for increased production.

Will it be enough? Probably not. Production cutbacks have resulted in substantial reductions in oil inventories in the United States, Europe and Japan, creating a shortfall in global petroleum supplies of about 2.5 million barrels per



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day. While OPEC members won't divulge the likely size of any increase, some analysts believe the oil ministers will be somewhat cautious, perhaps pumping an additional 1.5 million barrels per day at most.

Even if OPEC's production boost falls short of meeting demand and prices climb further before correcting, Americans can take some comfort in knowing that U.S. gas prices aren't that

high when adjusted for inflation. In fact, the price of gas is significantly less than the all-time high reached in June 1980, when a gallon of gas cost \$2.66 in today's dollars, according to the Lundberg survey, which monitors gas prices.

Another way to view the situation is through the eyes of the consumer — you. Think of it in terms of everyday items purchased at the supermarket. Milk, for instance, costs between \$2.50 and \$3 per gallon. Cola runs about \$2.40 per gallon. A well-known brand of iced tea goes for about \$9 per gallon. And some bottled waters can set you back about \$20 per gallon.

Still, not very comforting when the fuel gauge edges toward the empty mark.

So, what can we, as Americans, do about the situation? Are we simply at the mercy of OPEC?

Not entirely. Supporting the U.S. offshore drilling industry can help. It's important for people to learn the facts and the real issues about the industry. It's important that people not be bamboozled by emotional but inaccurate propaganda expressed by environmental extremists.

At present, the U.S. government prohibits drilling off the California coast, the East Coast and parts of the northern Alaska coast. Only the Gulf of Mexico exists as a major source for new offshore development activity. The United States is the only country with a coastline to ban offshore drilling. This forces oil companies to reinvest their profits in other countries.

As with any worthwhile endeavor, there are risks. But it has been shown time and again that spills from tankers bringing overseas oil to our shores pose far greater safety and environmental hazards than offshore drilling and development.

What about the major oil companies? Don't they need OPEC to keep prices high to make profits for their shareholders?

No. They don't need oil prices as high as \$30 to \$35 per barrel. The industry has become so efficient that prices between \$20 and \$25 per barrel are adequate to earn a fair rate of return and provide the incentive to search for more oil. Today, the petroleum industry can do its job and deliver a gallon of gasoline to its customers for less than the price of a cola or bottled water.

For its part, the offshore drilling industry has a responsibility to earn the support of the American people. We must continue to promote and practice safe and environmentally sound operations. We must educate the public about our role in meeting vital energy needs. Finally, we must manage our business for profitability with moderate and affordable oil prices.