

ENERGY

IEA: Crude supply risks
being 'stretched to limit'

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PARIS: Rising global oil supply, driven by crude giants Saudi Arabia and Russia, may come under pressure as key producers face disruptions, according to the International Energy Agency.

The IEA yesterday welcomed in its July report last month's agreement between the Organization of the Petroleum Exporting Countries (Opec) and Russia to open the taps in order to bring prices down from multi-year highs.

But the agency pointed to supply disruptions in Libya after a string of attacks on infrastructure. It also highlighted continuing unrest in Venezuela and a drop in Iranian exports after President Donald Trump announced he was pulling the United States out of the landmark nuclear deal reached in 2015.

"The large number of disruptions reminds us of the pressure on global oil supply," the IEA said.

"This will become an even bigger issue as rising production from Middle East Gulf countries and Russia, welcome though it is, comes at the expense of the world's spare capacity cushion, which might be stretched to the limit."

The IEA report was published a day after both main oil contracts were sent into free-fall by worries over a stronger dollar and the impact of the global trade war on demand.

The selling was also fanned by Libya's resumption on Wednesday of oil exports from its eastern production heartland after a showdown between the war-torn country's rival authorities.

Even though Libyan exports have resumed, the IEA remains worried for the future.

"At the time of writing, the situation seemed to be improving, but we cannot know if stability will return," it said. "The fact that so much production is vulnerable is clearly a cause for concern."

Also worrisome was the unabating unrest in Venezuela, which has sent output from the Latin American oil giant crashing in recent weeks.

And while Iran has yet to feel the full impact of renewed US sanctions, the IEA fears there could be "an even steeper reduction than the 1.2 million barrels per day seen during the previous round of sanctions".

Iraq, which is also chronically restive, does not have spare capacity either, leaving most of the job of hiking Opec production to Saudi Arabia, the United Arab Emirates and Kuwait.

"We see no sign of higher production from elsewhere that might ease fears of market tightness," the IEA said.

Saudi Arabia and Russia opened their taps ahead of a key Vienna meeting in June where Opec and Moscow agreed to up output in order to bring prices down.

"Already in June the two key producers lifted output by more than 500,000 barrels per day between them," the IEA said.

"Saudi Arabia's sharp increase allowed it to overtake the US and reclaim its position as the world's second-largest crude producer, and if it carries out its intention to produce at a record rate near 11 million barrels per day this month, it will challenge Russia," it added.

But they alone cannot carry the burden of keeping the oil market stable.

"Despite higher output in June, Opec oil supply was down 700,000 barrels per day compared to a year ago, with Venezuela lower by nearly 800,000 barrels per day, Angola by 210,000 barrels per day and Libya by 130,000 barrels per day," the IEA said.

"Even so, global oil output was 1.25 million barrels per day higher than a year ago as rampant US output underpinned healthy non-Opec growth." AFP