COMMODITIES

OPEC Members’ Discord Adds to Slide in Oil Prices

Fissures Widen as Crude Producers Vie for Customers, Loosening Cartel’s Grip on Markets

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Discord at OPEC is turning into a price war, loosening the cartel’s grip on the oil market and exacerbating a recent steep selloff.

Fissures have widened as Mideast turmoil frays political alliances and producers vie for customers amid a flood of oil from the U.S. and slowing growth in Asia.

“No one is telling anyone what they are up to,” one Gulf oil official said.

Saudi Arabia this week unilaterally lowered the price it charges for crude scheduled for delivery next month—without the typical consultation with other members of the Organization of the Petroleum Exporting Countries, according to OPEC officials. The decision surprised many market watchers, who
were expecting the Saudis to cut output to help boost prices, and sent prices hurtling lower.

Brent, the global oil benchmark, slid 1.2% Friday to $92.31, the lowest price since June 2012. Prices have tumbled 20% from their mid-June high.

The U.S. benchmark, West Texas Intermediate, settled down 1.4% Friday at $89.74, the lowest settlement since April 2013. U.S. prices have fallen 16% from their mid-June high.

The Saudi decision followed a similar move by the kingdom and Kuwait to lower prices for delivery this month, without informing other OPEC members, according to OPEC officials, effectively undercutting fellow members.

“If members don’t cooperate, which is likely, everyone is in trouble and prices will drop even further,” said another OPEC official from a Persian Gulf state.

Since its founding in 1960, OPEC has been rife with infighting among member states, which decide behind closed doors when to cut or boost their collective output to try to influence prices. But in recent months, divisions have deepened significantly, according to OPEC officials and analysts. That has weakened the group’s influence at a time when it is confronting some of the biggest challenges it has ever faced.

Recent turmoil across the Middle East has scrambled long-held political alliances among some of the group’s most important members. The U.S. shale-oil boom is robbing OPEC of one of its best customers and contributing to a glut of non-OPEC oil sloshing into world markets. And breakneck economic growth in Asia—which buoyed oil prices amid downturns in the U.S. and Europe—is slowing.

All of this has helped drive global prices sharply lower since the summer. In the past, OPEC has typically moved collectively in such situations to boost prices, either slashing output or threatening to do so. Many inside and outside the organization doubt whether the group can do much amid its current disarray.

The drop in prices is particularly worrying for OPEC producers in Latin America and Africa that depend on oil revenue to support high spending, as well as Iran, where trade is cramped by international sanctions.

Lower prices may not worry many Western nations. Industrialized oil-consuming countries have long criticized OPEC as acting to keep crude prices high to line OPEC governments’ coffers.

But the OPEC disunity also threatens a global safety net. OPEC members—which pump more than a third of the world’s daily supply—have acted in the past to keep a lid on prices amid big supply disruptions, as they did ahead of the U.S.-led invasion of Iraq in 2003.

OPEC members are sitting on unused pumping capacity of some 3.8 million barrels a day, equivalent to 4% of global oil supplies, according to the International Energy Agency—spare capacity that could generally be called upon quickly in a pinch.

“If there is a supply crisis, OPEC is the only group that can stand up and respond,” said John Hall, chairman of British consultancy Alfa Energy.
As the boom in U.S. oil production has curbed American fuel imports, OPEC members have relied more on customers in Asia. But with growth in Asia’s economies and oil demand leveling off, OPEC members have started competing against each other for market share, often leading to price competition.

Last month, Saudi Arabia and Kuwait both cut their October prices for Asian buyers, according to Gulf oil officials and traders, effectively undercutting the U.A.E., a Persian Gulf neighbor and fellow OPEC member. In the past, such cuts would have been taken collectively among Arab Gulf OPEC members.

“There is a price war within OPEC,” said Amy Myers Jaffe, executive director of energy and sustainability at the Graduate School of Management at the University of California, Davis. “It is the most fractured I have ever seen OPEC.”

OPEC’s recent woes have their roots in an unusually public row in 2011. Faced with tight supplies and rising prices amid the political turmoil of the Arab Spring, Saudi Arabia’s longtime oil minister Ali al-Naimi pushed at one meeting to boost production. Delegates failed to agree, and Mr. Naimi stormed out, telling reporters it was “one of the worst meetings we ever had.”

Riyadh boosted production on its own. Since then, the Arab Spring has deepened fault lines between some member governments and created new fissures. Arab Gulf OPEC membersSaudi Arabia, Kuwait, Qatar and the U.A.E. have long been aligned politically, largely in opposition to neighbor and OPEC colleague Iran. That rivalry has intensified as proxy wars have raged in Iraq and Syria.

At the same time, the Gulf Arab alliance has frayed. Saudi Arabia, Qatar and the U.A.E., for instance, have all backed different factions in the various uprisings that have raged across the Middle East.

Mr. Naimi, who for years was the most influential voice at the group’s meetings, has taken an unusually low profile at recent gatherings.

Traditionally, OPEC delegations would fly into Vienna ahead of the group’s semiannual meetings, set up camp at the city’s best hotels, then mingle with counterparts and oil executives over dinners or private meetings.

Mr. Naimi used to arrive early to build consensus with other members, while signaling Saudi thinking to reporters. He would often invite journalists to jog around Vienna with him and appeared to revel in the meetings’ give-and-take.

At OPEC’s latest meeting this summer, Mr. Naimi turned up at the last minute, jetting in for just a few hours midway through a family vacation in the German-Austrian Alps, according to OPEC officials. He
surprised other delegates at the one session he attended by calling for OPEC to reduce its gatherings to just one a year, these officials said.

Members would instead be able to “consult remotely,” Mr. Naimi said, according to a delegate familiar with the minutes of the meeting. Mr. Naimi’s underlying message, this delegate said, was “we don’t need a meeting. People come and make nice when at the end of the day, Saudi Arabia carries the burden of balancing the oil market.”

“He feels there is no point in talking,” this delegate said, “as everyone does as they please.”

—Sarah Kent and Nicole Friedman contributed to this article.

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Corrections & Amplifications

OPEC’s meetings are held twice a year. An earlier version of this article incorrectly said the meetings were biannual.