OPEC deal disappoints market

LONDON, June 12: Oil prices fell because an OPEC agreement to maintain the current production ceiling in the third quarter disappointed the market, analysts said here, reports AFP.

Members of the Organisation of Petroleum Exporting Countries (OPEC) agreed, with the exception of Kuwait, to retain the same overall limit of 23.582 million barrels per day at a meeting in Geneva late on Thursday.

They offered Kuwait a 10 per cent increase to 1.76 million barrels per day, but Kuwait rejected this saying that it would increase its output progressively to 2.0-2.16 million barrels per day at the end of the third quarter.

The price of North sea brent quality oil was being quoted here at 17.80 dollar per barrel at midday compared with 17.95 dollar at the opening and 17.97 at the close on Thursday.

The market had anticipated the outcome on Thursday when the price fell by 30 cent.

At Hoare Govett, analyst Nick Antill said that it was the "worst agreement possible" and that the "roll-over is meaningless, most countries already produce too much oil and do not respect their quotas."

He also said that "this agreement is an invitation to produce whatever they want. It will delay the increase in oil prices instead of dealing with the price recovery."

Fundamentals would be better in the third quarter and he hoped that too much damage would not be done the prices, but a price of 19 dollar per barrel for the year, "as expected earlier, is unlikely."

At Kleinwort Benson, analyst Medhi Varzi said that the market trend would depend on how OPEC members respected their quotas.

"But with Kuwait outside the agreement and Saudi Arabia producing, it is difficult to expect any recovery," he said.

However, Smith New Court analyst Nick Clayton said: "The agreement is not as bad as it looks. Kuwait is the negative point." It will depend on the feeling of OPEC members about Kuwait's free production."

He expected prices to remain at current levels until the end of the third quarter. They would then recover on a "strong recovery in prices expected in the fourth quarter."

He continued to expect prices to be "19 dollar a barrel for the year."

Another report adds from Geneva: OPEC heavyweight Saudi Arabia and partners appeared confident Friday that OPEC's hard-fought production pact, rejected by Kuwait, will firm oil prices over time despite an initial negative market reaction.

OPEC leaders, who simply rolled over for the third quarter the current OPEC production ceiling of 23.66 million barrels a day, were sanguine about the broader outlook for the period up to next September.

They expect demand for OPEC crudes to rise in any case from next August, to levels well above the group's total output, including any incremental barrels from Kuwait.

By refusing to make any significant concessions to Kuwait, which was pushing hard for a one-third increase in its production quota, OPEC ministers deprived Iran of "any pretext for not respecting its own quota" and expanding its real market share, a ministerial source told AFP.

Saudi Oil minister Hisham Nazer, in what appeared as a veiled warning to Iran and Nigeria, which have overshot their quotas in the recent past, said as he left Geneva, "We hope everybody will adhere" to the levels allocated to them.

Nazer's Iranian colleague, Gholamreza Aghazadeh, asserted late Thursday as the OPEC talks came to an abrupt end that Iran would stick to its 3.34 MDB quota —while oil industry sources say it was pumping 200,000 barrels a day above it in May.

Kuwait officials reported in private Friday that Iran, which held out against any upward adjustment of Kwuait's quota before the fourth quarter, had itself been "trapped" inside its official quota. It would have to take the blame for any weakening of prices if it did over-produce.

Kuwait "did not sign, so we cannot be held responsible," one official commented.

Russian Foreign Minister Andrei Kozyrev (R) and US Secretary of State Warren Christopher shake hands during a bilateral meeting after a day of talks between NATO foreign ministers and their counterparts from eastern Europe in Athens yesterday. — AFP/UNB photo

Singapore's brokers looking forward to demise of rubber pact

SINGAPORE, June 12: Singapore rubber brokers and dealers are looking forward to the demise of the International Natural Rubber Agreement (INRA), an event they say should help revitalise the rubber futures market, reports AFP.

"A collapse is good because the price of rubber will find its correct level and reflect supply and demand," said Brian Miller, a broker with Dexin Rubber, a local firm.

Reports from Malaysia yesterday quoted a primary industries ministry sources as saying that Malaysia, Thailand and Indonesia were planning a meeting soon to decide on scrapping INRA.

The three countries together account for 90 per cent of world output.

The producers say they are moving to scrap the pact because consumer nations have rejected their request to begin negotiating a new agreement.

The current INRA expires at the end of the year.

Consumers say INRA, a five-year pact which expires at the end of this year, has provision for a two-year extension that should be allowed to run its course.

But governments of producer countries are under pressure to negotiate a new pact because of depressed prices.

The pact, which provides for rubber prices to be stabilised within an agreed band through sales and purchases from a buffer stock, is administered by the International Natural Rubber Organisation (INRO).

At the lower end of the band, INRO's buffer stock manager buys rubber to prevent a further erosion of prices while at the higher end he is normally expected to sell rubber to keep rising prices in heck.

Producers say that INRO, which groups six rubber exporting countries and 20 importing nations, has kept rubber prices stable since 1979 but only at lower levels of the price stabilisation band.

Officials of producer nations argue that the price stabilisation band should be raised to reflect higher production costs, a move the consumer nations have rejected.

"Dealers and brokers will be quite happy to see INRO go. Without INRO, prices would be more volatile," another Singapore broker said, adding that "people will then have to buy insurance through the futures market."

An Asian dealer said the winding up of INRA would allow market forces to operate and result in a more effective local futures market.

India's gold bond scheme totals 27.3 tonnes

NEW DELHI, June 12: Gold subscriptions to a no-questions-asked government bond scheme totalled 27.3 tonnes by Thursday, an Indian Finance Ministry statement said, reports Reuter.

The three-month gold bond scheme, launched on March 15 in a bid to mop up private gold holdings and to boost the government's gold reserves, will close on Monday.

"No subscriptions will be accepted after June 14," the statement said on Friday. Under the scheme, no questions were asked about the source of gold or funds used for buying the metal for subscribing to bonds.

Analysts estimate the total private gold holdings in India at 7,500 tonnes, most of it family heirlooms and dowry items accumulated over years.

Three similar schemes in the past gathered in on average about 10 tonnes, officials said.

Revenue secretary Sivaraman earlier this week said gold brought into the country during the 13 months to March 31 by Indians living abroad amounted to 133 tonnes.

Sivaraman said the import duty on the precious metal yielded three billion rupee (about 100 million dollar).

Thai firm wins right to sell rough diamond in SE Asia

BANGKOK, June 12: A Thai diamond-cutting firm has won from the De Beers Diamond Group dealership rights to sell unpolished diamonds to publishers in southeast Asia, a news report said here Saturday, reports AFP.

General Diamond Cutting Works Co won the right from the Central Selling Organisation (CSO), controlled by the De Beers Diamond Group, the Bangkok Post reported quoting a General Diamond statement.

The company is one of CSO's authorised buyers of rough diamonds in Thailand, the report said.

Pak budget deficit to reach $ 3.3b

ISLAMABAD, June 12: Finance Minister Sartaj Aziz had said Pakistan's budget deficit would be almost one-third higher than expected as the country heads into a new fiscal year amid continuing political turmoil, reports AFP.

He told newspaper editors yesterday that the fiscal year ending June 30 would see a deficit of 85 billion rupee (about 3.3 billion dollar).

Aziz said the earlier deficit target had been 65 billion rupee (2.5 billion dollar), and that it has been inflated by last winter's disastrous flooding and the resultant loss of crops.

Aziz said the ongoing power struggle between President Ghulam Ishaq Khan and liberalising Prime Minister Nawaz Sharif had contributed to the deficit problem, although he was not specific.

"We have told the donor agencies, specially the World Bank and the International Monetary Fund, that Pakistan should not be expected to reduce its budget deficit quickly," he said, adding that the government had planned to cut it gradually by about one per cent every year.

Admitting that the overall fiscal situation was poor, Aziz said the huge budget deficit was hurting the economy and driving inflation up.

Aziz said about 3.15 billion dollar of the government's overall revenues of about 6.35 billion dollar were spent on defence.

However, the Finance Minister warned that the government had decided to increase direct taxes from the current 15 billion rupee to 36 billion rupee in the next budget, which will be introduced next week.

The caretaker government set up after the April 18 dismissal of Sharif by Ishaq khan had created an economic "mess," Aziz said.

Though Sharif was returned to power by the Supreme Court five weeks later, Aziz said the dismissal had shattered the confidence of foreign investors.

Analysts said the future of Sharif's government, committed to economic liberalisation, was still not clear.

Stressing that political stability was a must for economic progress, Aziz said that if efforts for political reconciliation succeeded Pakistan's economy could get back on track.

Trend of yen may delay Japan's economic recovery

TOKYO, June 12: Japanese business leaders, alarmed by the yen's latest advance, urged authorities yesterday to intervene more forcefully in foreign exchange markets to relieve upward pressure on the currency, reports AFP.

"I hope the authorities will carry out more powerful market intervention," said Gaishi Hiraiwa, Chairman of the influential Japan Federation of Economic Organisations, after the yen rose to an all-time high against the dollar.

The Bank of Japan was seen intervening in the Tokyo foreign exchange market buying dollar for yen amid rumours of intervention by the US federal reserve. But dealers said there was little impact on the market.

Hiraiwa, who is also Chairman of Tokyo Electric Power Co Inc. said in a statement that, he was "worried about the future of the economy"

Japan Federation of Employers Associations Chairman Takeshi Nagano warned that the country's low jobless rate would increase if the yen kept rising, criticising the lack of action to curb the currency's appreciation.

"The Government and Financial Authorities are not sufficiently aware of the growing crisis," he said.

A Manager at Toshiba Machine Co Ltd agreed "sales in May fell from April and our capital investment is still low," he said, echoing remarks made by other major manufacturers of electrical machinery.

Indeed, a government survey of major Japanese companies last month found that 63 per cent felt there was no change in the business climate from February.

The Japanese currency started to rise sharply in April after US president Bill Clinton indicated his support for a stronger yen to help narrow Japan's burgeoning trade surplus with the United States. The yen has since continued its upward trend, despite central bank intervention.

Japanese Government and private-sector analysts have warned that any further advance in the yen's value could delay Japan's fragile economic recovery.

The Nomura Research Institute estimated Thursday that if the dollar remained at 105 yen, it would trim the operating profits of Japanese manufacturers in the second half of the current fiscal year which began in April.

The research arm of Japan's biggest stockbroker said the Government would also need to implement another package of economic recovery measures worth at least three trillion yen (28 billion dollar).

In the past year, two packages totaling 24 trillion yen have been announced by the Government of Prime Minister Kiichi Miyazawa, including a record package of 13.2 trillion yen in April.

British models Helen (L) and Ruby present two hats for the upcoming Ascot races by designer Graham Smith in London Thursday. Helen wears a creation titled "Summer Petal" and Ruby models "Dragonflower", costing 450 dollar and 690 dollar respectively. — AFP/UNB photo

'Super giant' oil field found in Kazakhstan?

ALMA ATA, Kazakhstan, June 12: A newly discovered oil deposit in Kazakhstan's portion of the Caspian Sea could be a "super giant," a senior official of British Gas Plc, one of seven major western firms involved, said yesterday.

"All we are dealing with at the moment is prospectivity," Mike Alexander, Director of the CIS and Central Europe Division at British Gas Exploration Production Ltd told Reuters.

But he noted that there were very big fields on both sides of the offshore area that the western firms have agreed to survey — one to the west near Astrakhan in Russia and Kazakhstan's Tengiz field to the east.

"There is every prospect of finding deposits between the two (fields) and they could be very significant. They could be super giants," he said. "On the other hand, there could be nothing."

"Obviously we feel there is a very high probability that something significant is there, otherwise 38 companies would not have been interested in exploring there."

Seven top western firms formed a consortium with Kazakhstan on Wednesday to explore a 1,000 square km (386 sq mile) area in the north of the sea over the next three to four years.

The seven — British Gas, Mobil Corp, Total Sa, Agip Spa, British petroleum, statoil and Royal Dutch Shell — were selected from 38 applicants to form a consortium with the state-owned Kazakhstancaspishef (KCS).

Kazakh Fuel and Energy Minister Kadyr Baikenov said preliminary seismic data showed the reserves could be larger than the Tengiz fields — estimated to hold recoverable reserves of six to nine billion barrels.

It was not clear when this seismic data was taken, or how complete it was.

Alexander said British Gas's participation in the consortium was part of the company's plan to diversify from Britain. About 40 per cent of its profits would come from exploration by the turn of the century, compared with 25 per cent now.

British Gas, which with Italy's Agip has already won negotiating rights to develop Kazakhstan's onshore Karachaganak field, is interested in the whole Caspian Sea area.

Azerbaijan, on the Caspian's western shore, has proven oil reserves.

Officials in Turkmenistan, on the sea's eastern shore, said in March they believed the Turkmen portion of the shelf had abundant reserves. They were making preliminary predictions based on incomplete seismic survey.

Alexander said British Gas and Agip expected to sign a final deal to develop Karachaganak by the end of the year, with six billion dollar in investment expected there over the next decade.

Russia seeks rapid action on GATT application

MOSCOW, June 12: Russian President Boris Yeltsin made an official application for Russia to be admitted to the GATT on Friday and pressed for a decision to be taken before the end of the year, reports AFP.

Making the application to the visiting Director General of the General Agreement on Tariffs and Trade (GATT) Arthur Dunkel, Yeltsin said he hoped that the documents would not become buried in bureaucratic procedures, but Dunkel warned that difficulties were normal.

"Russia, while pushing ahead with reforms, now needs to have access to European and world markets," Yeltsin said, the ITAR-Tass news agency reported.

Russia was prepared to fulfil all of the commitments laid down in the GATT charter and agreements.

Dunkel told a press conference that the Russian application would be the first item on the agenda at the next GATT session on Tuesday, but he warned that the negotiations might take time.

The protocol which would be prepared by working groups "must be a source of harmonious relations and not dispute," Dunkel said.

"The main challenge is the question of the speed of change in adopting trade here."

Russia's External Economic Relations Minister Sergi Glaziev said that the longer the negotiations took, the more the Russian market would close.

Mahathir exhorts third world states to establish economic ties

KUALA LUMPUR, June 12: When not denouncing West, Malaysia's high-profile Prime Minister Mahathir Mohamad can be heard championing Third World causes and exhorts countries to forge closer economic relations to survive, reports IPS.

But unlike the anti-western rhetoric, which flies in the face of Kuala Lumpur's overwhelming dependence on trade with the Eurropean Community and the United States, Malaysia seems to be putting its money where its mouth is, when it comes to South-South cooperation.

In the past, Malaysian investment overseas tended to concentrate on Australia, Hong Kong, Singapore and the United Kingdom. These days, Malaysian companies are looking to East Asia and beyond to other developing countries for trade and investment.

Malaysian companies are now investing millions of dollars in Papua New Guinea, Fiji, Indochina, Africa and Latin America in energy, construction, hotel ad manufacturing. The Sime Darby Group, one of Malaysia's biggest conglomerates, has announced plans to set up a palm oil refinery in Latin America. Other local companies are involved in joint ventures in similar refineries in China, Pakistan and Egypt.

Two gaming companies have reported securing gambling licences in China. Sapura Telecommunication has landed a contract to supply telephone equipment and operate a payphone system in Vietnam.

Several local banks have set up branches in Indochina. A Malaysian company is building low-cost houses in Mauritius and has similar projects lined up in Madagascar, Réunion Island and Papua New Guinea.

This global search for non-traditional markets in the South is being led by the peripatetic Mahathir, who has forayed with trade and investment delegations in tow to Latin America, Africa, Indochina, South Asia and early this month, Central Asia.

Malaysia's leading role in such Third World fora as the G-15 group o developing countries has given Mahathir ample scope to expand his ideas about taking inequalities in the global economic order. Indeed, at the G-15 inaugural summit here in 1989, Malaysia proposed two schemes to encourage and facilitate trade and investment among countries of the South.

Trade officials here say the Bilateral Payments Arrangement (BPA) by which the central banks of respective trading countries in effect guarantee payment to exporters has resulted in boosting trade between Malaysia and its south trading partners.

Last year, 35 Malaysian companies made use of the BPA facility to export 40.7 million US dollar worth of goods to Mexico, Chile, Peru, Romania, Sudan and Venezuela.

The other project, the South Investment, Trade and Technology Data Exchange Centre (SITTDEC), is a Kuala Lumpur-based data centre providing information to small and medium-sized industries in south countries.

Mahathir Mohamad

In introducing the schemes, Mahathir said they would promote less dependence on financial institutions and mechanisms controlled by developed countries. "Malaysia does not pretend to have expertise in every field but I believe we can exchange information on economic planning, privatisation and other development programmes," he said on his return from the G-15 summit in Dhaka last year.

But aside from the desire to win friends in the developing world, Malaysia's strong export-driven economy also needs to venture beyond its traditional developed country partners to the economies of the south.

With the emerging single European market, the North American Free Trade Market (NAFTA) and the Asean Free Trade Area (AFTA) rising protectionism and trade and investment have become major concerns as has the continued pessimism about the Uruguay round of the General Agreement on Tariffs and Trade.

Combined with the recession in the industrialised world, developing countries like Malaysia that are dependent of export-led growth may find themselves in trouble. Mahathir told his Uzbek hosts when he visited in early April: "Our trading partners have always been with the rich countries such as Japan, Europe and the United States".

"But now we have discovered that they too can have economic problems which will affect Malaysia's trade with others. Therefore, it is necessary for us to develop new trading partners among the countries of the South," he said.

In mid-April, Trade and Industry Minister Rafidah Aziz identified the south countries and the newly emerging market economies as "good potential markets to nurture and develop" to ensure Malaysia's future economic prosperity.

Many of these countries — among them China, Cambodia, Vietnam in East Asia and Peru, Chile and Venezuela in Latin America — are in the process of restructuring their economies and opening their doors to foreign investments.

Rafidah said the government will continue to encourage so-called "reverse investments" by Malaysian companies in such countries where these will promote competitive market access and ensure sourcing of raw materials and other inputs from Malaysia.

In the last two years, Malaysia's trading patterns have changed as trade with south countries increased. Exports to south countries are now worth 6.3 billion dollar, making up 15.7 per cent of Malaysia's total exports, according to the Ministry of International Trade and Industry (MITI).

Recognising the emerging role of south countries in ensuring Malaysia's economic growth, the State Statistics Department has begun publishing trade with these countries in its monthly publication on external trade.

In 1980, Malaysia's trade with countries in the South amounted to just 7.26 billion dollar. By 1991, the figure had soared to 28.4 billion dollar