



Agreement to Cut Oil Production Fades, Along With Crude Prices

Following a brief meeting of oil ministers from Russia, Saudi Arabia, Qatar, and Venezuela on Tuesday morning, the Russian Ministry of Energy [issued this statement](#): “The four countries ... are ready to freeze oil production at January levels if other producers join this initiative.”

Issued before the market opened on Tuesday following the long weekend, the announcement caused stocks and the prices of crude oil to jump for joy. Dow futures were up 250 points and NYMEX crude jumped two dollars a barrel.

Reality set in shortly thereafter. If prices of crude are to see any sort of permanent rise, what the market needs is a cut in production, not a continuation of production at record levels. Second, any agreement is contingent upon getting all the other OPEC cartel’s members to get in line. Neither Iraq nor Iran is likely to go along. Iraq has been merrily pumping for all it’s worth, ignoring any agreement it might have made in the past to stay loyal to the cartel. And Iran has pointedly said that it will have no part of any agreement until its own production is back to pre-sanction levels.

To prove the point, Iran on Monday sent its first shipments of its crude to European ports on Monday, with its deputy oil minister, Rokneddin Javadi, telling Press TV the day before that the country has already increased its production by 400,000 barrels a day, close to its initial post-sanctions target of 500,000 barrels. Iran’s goal is to bring back 1.5 million barrels per day into production by the end of the year, if not sooner. Only then, stressed Iranian officials, will they be willing to consider any sort of freeze in production.

Iraq is highly motivated to produce at record levels to generate funds to pay for its war against ISIS, while Iran is trying to recover from U.S.-inflicted sanctions over the last five years.

With the recognition that the agreement to freeze was just more jawboning rather than substance, the stock and oil markets turned south in later trading on Tuesday.

Saudi’s oil minister, Ali al-Naimi, said the proposed agreement was just to quiet the market: “Freezing now at the January level is adequate for the market. We don’t want significant gyrations in prices. We want to meet demand. We want a stable oil price.”

But that talk is just for show. The market is already being oversupplied by an estimated two million barrels every day, according to the International Energy Agency (IEA), and with new production coming to market from Iran, the glut will become a flood. Edward Bell, a commodity analyst at Emirates NBD (the merger of Emirates Bank and the National Bank of Dubai in 2007), said the proposed agreement “does [no]thing to combat the overriding issue of oversupply.” Energy Aspects analyst Dominic Haywood agreed:





Written by [Bob Adelman](#) on February 16, 2016

I don't think [the agreement] will have a huge impact on supply/demand balances, simply because we were oversupplied in January anyway. We're just even more oversupplied now.

CMC Markets analyst Jasper Lawler agreed: "The output freeze is disappointing because it's not an outright cut, and with Iran not part of the meeting it's still a bit far-fetched to think this is a precursor to a future cut. Iran's absence from the meeting means that overall OPEC output should still rise."

If the proposed agreement means anything, it means that low crude prices are taking an enormous financial toll on the Middle East producers, as well as Venezuela. They have been forced to cut welfare-state spending, increase their deficits (to be funded either by borrowing, as in Saudi Arabia, or by printing money, as in Venezuela), and institute highly unpopular austerity measures.

The economic anguish is making strange bedfellows. Riyadh cut off diplomatic ties with Iran in January after its embassy was set on fire following Saudi Arabia's execution of a prominent Shiite cleric, Nimr Baqr al-Nimr. And Russia and the Saudis are supporting opposite sides in the Syrian civil war.

Perhaps that is the big news: Low crude prices are causing such pain as to force opponents temporarily to give up their animus and attempt to work together to stave off their economic extinction.

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