



Written by [Bob Adelman](#) on June 21, 2017

Oil Expert Yardeni: OPEC Should Break Agreement, Produce All It Can

In Dr. Ed's Blog, Ed Yardeni, for 25 years one of the industry's leading energy strategists, proposed on Wednesday that [OPEC should consider going back to Plan A](#) to fund members' treasuries as Plan B clearly isn't working:



Rather than [attempting to prop] up the price [of crude oil], maybe OPEC should sell as much of their oil as they can at lower prices to slow down the pace of technological innovation that may eventually put them out of business.

Plan A, it will be remembered, was instituted back in November 2014 when the 13-member cartel of oil producers decided to flood the world market in an attempt to drive much of the U.S. energy industry into bankruptcy. To a small degree, it worked, shuttering more than 100 mostly small oil producers and cutting American crude oil production by about a million barrels of oil every day.

But that plan didn't work, as the vast majority of American energy producers continued to improve the fracking technology that brought down the breakeven point on lifting costs to stay in business. Meanwhile OPEC producers' hopes to see massive production cuts by U.S. frackers never materialized. So much for Plan A.

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Plan B was implemented in November last year with OPEC's agreement to cut production in hopes that by taking upwards of two million barrels of daily production off the world market, demand would push oil prices to \$60 a barrel and beyond. It will be remembered that most of the cartel's members are deficit financing their military adventures and welfare states, with many of them needing oil at close to \$100 a barrel to fund everything without borrowing or liquidating precious gold or foreign currency reserves.

Crude oil prices jumped briefly to \$56 a barrel in January but have since fallen to just above \$40, with many observers suggesting prices could fall into the \$30s and perhaps even as low as \$20 a barrel in the face of the relentless pressure from American frackers. Analysts with Seaport Global Securities said in Wednesday's research note that the "supply-demand imbalance" isn't going away anytime soon:

After refining our approach, we believe the industry's current trajectory ... will result in an oil market that [remains] oversupplied in 2018 and only getting worse through 2020.

Something has to give, and first and foremost, we think it's further downside [in] the price of crude — we envision oil revisiting the \$20s next year and averaging [just] \$35 in the first half of 2018.

Those technological improvements that are squeezing ever more oil out of existing wells in the United States have allowed production to bounce back, with the International Energy Agency (IEA) reporting that the world's daily production is above 96 million barrels and predicting that it will soon eclipse 100



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million. A large part of that increase is coming from non-OPEC members and from the cartel members' cheating. U.S. crude production has rebounded from the temporary effects of Plan A and is expected to produce more than 10 million barrels a day in 2018.

Wrote Yardeni:

Saudi Arabia, Russia, Iran, and other major oil producers, with large reserves of the stuff, should be awfully worried that they are sitting on a commodity that may become much less needed in the future. Elon Musk intends to harvest solar energy on the roofs of our homes, storing the electricity generated in large batteries while also charging up our electric cars. As long as the sun will come out tomorrow (as Little Orphan Annie predicted), solar energy is likely to get increasingly cheaper and fuel a growing fleet of electric passenger cars. Meanwhile, the frackers are using every trick in their book to reduce the cost of pumping more crude oil.

Yardeni's Plan B, if implemented, would mean breaking the production-cut agreement OPEC just decided to extend for another nine months, and allow each member to go his own way: every man for himself. This would cause the superstructure holding the cartel together to collapse, exposing it as one of the great frauds imposed on the world over the last 50 years.

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at [LightFromTheRight.com](#), primarily on economics and politics. He can be reached at badelman@thenewamerican.com.

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