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Oil Ministers Gathering in Vienna for “Contentious” OPEC Meeting

Oil ministers from OPEC and non-OPEC producers are already gathering in Vienna, Austria, in advance of what is touted to be [one of the most contentious meetings](#) in recent memory. On Friday they will discuss current output levels, compliance, and the impact its agreement to cut production by 1.8 million barrels a day has had on world oil prices. On Saturday, the discussion will focus on the future.



The primary issue will be whether to keep the production-cut agreement in place, which, according to OPEC spokesmen and confirmed by the International Energy Agency (IEA), has removed excess reserves to below their five-year average following its implementation in January of 2017. Russia, Saudi Arabia, and President Trump have each called for an increase in production — a de facto termination of the production-cut agreement — with Russia and the Saudis calling for an increase of 1.5 million barrels a day. This would essentially restore production to levels recorded before the agreement was put in place. In theory, this would return the world’s energy equation back to “normal,” with oil prices stabilizing at current levels of \$70 a barrel.

But it’s not that simple. Since the agreement was inked in late 2016, Venezuelan crude oil production has slumped thanks to destructive policies implemented by the country’s Marxist president. Once a key producer pumping out more than three million barrels per day (bpd), Venezuela’s production has been more than cut in half, with further declines expected as the state-owned oil company is being forced to cut production further thanks to incompetent management and lack of funding for maintenance.

Sanctions to be applied once again to Iran, effective at the end of the year, are expected to remove another million bpd from the market. And then there’s Libya, where terrorists have taken out half of that country’s oil production capacity, taking another 500,000 barrels per day off the world market.

Outside OPEC and its non-member supporters lies the United States oil-producing industry, which finds itself sitting in the catbird seat: setting production records almost monthly with forecasters suggesting daily production exceeding that of Russia and Saudi Arabia in less than a year.

The trouble with any cartel is enlisting support from members and then keeping them in line. This has worked surprisingly well since implementation of the production agreement. Members saw the advantage of taking crude off the market: Excess supplies were removed and prices increased.

But that friendly cooperation is about to come to an end. Four of OPEC’s members have announced they will not support any increase in production: Iran, Iraq, Venezuela, and Algeria. They see price declines bringing world oil prices back down significantly, cutting their profit margins and, in Venezuela’s case, virtually ending that unhappy country’s existence as more than 90 percent of the government’s revenue comes from its state-owned oil company.

Following Saturday’s meeting, oil industry observers are already concluding that the cartel will birth a



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mouse: 300,000 to perhaps 500,000 barrels of crude oil will gradually be added to world supplies as the present agreement won't be lifted but instead will be slowly abrogated over time.

Perhaps that's why, in anticipation of the new "mouse" agreement along with those monthly U.S. oil-production records, both world oil prices and those priced in the United States (Brent, and West Texas Intermediate, or WTI, respectively) continue their fall from recent highs.

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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 badelmann@thenewamerican.com.



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