



Written by [Bob Adelman](#) on December 1, 2016

## OPEC Agreement to Limit Production Boosts Crude Price 11 Percent

The global price of crude oil jumped more than 11 percent since OPEC [announced](#) on Wednesday its first agreement to limit production by the cartel since 2008. There are many moving parts to the agreement — perhaps too many.

First, the cartel's de facto leader, Saudi Arabia, has promised to bear most of the brunt by cutting its own production starting in January by nearly 500,000 barrels per day (bpd). Iraq unexpectedly agreed to cut its current production by 200,000 bpd while the UAE, Kuwait, and Qatar will cut theirs by another 300,000 bpd. The rest of the cuts will be borne by other members of the 14-nation cartel, with the exception of Libya and Nigeria, who were given exemptions.



The deal also depends upon non-OPEC members to ante up as well — particularly Russia, which is supposed to cut its daily production by 300,000 barrels. However, it issued this mealy-mouthed statement following the meeting on Wednesday: “Russia will *gradually* cut output in the first half of 2017 by *up to* 300,000 barrels per day, on a tight schedule *as technical capabilities allow*.” (Emphasis added.) One of the major “technical” problems Russia faces is that of cold winters — so cold that wells must continue to produce to avoid freezing up altogether.

{modulepos inner\_text\_ad}

Two other non-OPEC nations, Azerbaijan and Kazakhstan, issued similar statements to the same effect, that they “might” help cut worldwide production in order to bring crude oil's supply/demand ratio “into balance.” With cuts by other non-OPEC nations of another 300,000 bpd, world production could be down by as much as 1.8 million bpd, reducing global production by slightly over two percent. That's hardly enough to make a dent in the estimated 500 million barrels of crude oil supply “overhang” but enough for oil traders to drive the futures price of crude to nearly \$55 a barrel. A week ago crude was selling at \$46.

Another of the moving parts is enforcement. Wednesday's agreement apparently allows Saudi Arabia the authority to monitor the other members' production but without any discernable enforcement powers. Volumes have been written about OPEC's legendary abrogation of previous agreements. One historian has calculated that, in the past, those defections from solemnly agreed-to pacts have averaged 300,000 barrels per day. Assuming past history applies, and Russia finds that, due to “technical difficulties” it won't be able to abide by the agreement, that brings the proposed “cut” in global production to around one percent.

There's another moving part that could scuttle the agreement: the proxy wars being fought by two of



Written by [Bob Adelman](#) on December 1, 2016

---

the cartel's members. Saudi Arabia and Iran are supporting opposing forces in civil wars raging in Yemen and Syria, making it questionable that they will continue to agree on oil when they can't agree there.

Yet another moving part is the increasing production forecasts from other producers such as Canada, Brazil, and the United States. Goldman Sachs calls the coming increase a "wall of supply," while the president of the Dallas Fed, Robert Kaplan, told a forum meeting the day after the OPEC agreement: "Based on discussions with people in the [oil] industry, U.S. oil production could get to in excess of 11 million bpd or greater." That would represent an increase of 2.5 million bpd in the very near future.

That future is almost here. The Energy Information Agency just announced that U.S. production has jumped by 200,000 barrels a day over the last few months, while operational rig counts continue to increase.

With oil trading above \$50, the mathematics of falling breakeven points makes restarting idle rigs and completing many of the 5,000 partially completed wells sensible and profitable.

This makes the statement from so-called energy "experts" such as Gordon Gray, head of equity research at financial services giant HSBC, almost laughable:

Market forces have brought supply and demand back close to balance already. The cuts [by OPEC] are more intended to accelerate the rebalancing process and in particular the drawdown of the large inventory overhang.

Once again, math gets in the way of such dreaming. The "large inventory overhang" is estimated to approach 500 million barrels. If the OPEC agreement does in fact cut production so that the supply/demand equation goes negative by, say, one million barrels of production a day, it would take 500 days to absorb that overhang.

But Mr. Trump might have something to say about that assumption. Becoming known as a president who intends to keep his promises, his \$1 trillion program to rebuild the nation's infrastructure, if funded by a friendly House and Senate, would drive demand for crude and its attendant refined products higher.

In all, then, the combination of OPEC's history of cartel failure, improving technology in the nation's oil industry (driving breakeven points ever lower), the discovery of vast new reserves in Texas, and the belief that Trump's administration will open federal lands to private energy development plus its hoped-for intention to allow oil pipeline construction projects to be completed, all work together to negate the efforts of OPEC to drive oil prices higher. The International Energy Agency put it well: "This means that 2017 could be another year of relentless global supply growth similar to that seen in 2016."

What *that* means, of course, is that OPEC continues down its path to irrelevancy, despite solemn agreements likely to be as binding as tissue paper.

*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](mailto:badelman@thenewamerican.com).*



## Subscribe to the New American

Get exclusive digital access to the most informative, non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



### What's Included?

- 24 Issues Per Year
- Optional Print Edition
- Digital Edition Access
- Exclusive Subscriber Content
- Audio provided for all articles
- Unlimited access to past issues
- Coming Soon! Ad FREE
- 60-Day money back guarantee!
- Cancel anytime.

**Subscribe**