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OPEC Asks U.S. Oil Industry to Join Its Cartel

At a speech in New Delhi on Sunday, OPEC's Secretary General Mohammed Barkindo offered an olive branch to the American oil industry: Come join our cartel and together we'll keep prices up and everyone profitable. These are his exact words:

> We urge our friends [we're all friends, now] in the shale basins of North America to take this shared responsibility with all [the] seriousness it deserves, as one of the key lessons learned from the current unique supply-driven cycle.

Translation: You people using fracking technology in America's shale fields have been beating us to death. You've derailed every attempt we've made to bring prices back to profitability for us. We've created agreements to cut production, but you've outproduced us. While we've been cutting, you've been producing and taking away much of our market share, reducing our influence in the world oil markets. We give in. We're desperate. Please, now, great "friends," join us in our quest to drive oil prices ever higher so we can pay for our welfare states and military adventures. We can't do it without you.

Barkindo then had the audacity to proclaim that American shale oil producers have already signed onto the deal: "At the moment we (OPEC and independent U.S. producers) both agreed that we have a shared responsibility in maintaining stability because they are also not insulated from the impact of this downturn."

In other words the U.S. shale oil industry has been going its own way, causing unwanted and unnecessary "instability" in the oil markets and the best solution is cooperation, according to Barkindo.

The cartel's mission has been clear from its very beginning:

> To coordinate and unify the petroleum policies of its member countries and ensure the stabilization of oil markets, in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry.

This is of course the "siren song" of every cartel: Let's be friends, not enemies. Let's work together to keep prices and profits high, ensuring a "steady income" for everyone and a "fair return" on the capital we have invested. After all, we are providing a product much in demand and we deserve to get paid a fair profit for our efforts as a result. Let's quit all this infighting and bickering and free market competition and let's work together for our mutual benefit.

Free market economists have viewed the OPEC cartel as a textbook example of a classic cartel, reducing market competition in order to keep prices and profits high. But American frackers, operating under the notion that the consumer, not the producer, deserves the best deal he can get, has threatened the OPEC cartel and its collectivist mentality.

For example, when prices were high (over $125 a barrel in 2012), the cartel was living large. With crude oil lifting costs in the single digits among many of the cartel's members, profits were enormous and complacency set in. But American frackers were busy continually improving technology to wring significant production out of old fields and develop new ones. Their efforts and production forced the price of crude on world markets to drop below $30 a barrel by January 2016.

Efforts by the cartel to cut its production to drive prices back up failed. When OPEC changed its strategy and ramped up production in an effort to drive out marginal shale producers in the United States with lower prices, it failed. When OPEC changed strategy once again and cut production again, it continued to fail. Its goal has been clear from the beginning: the cartel, made up of 14 oil-producing members, mostly in the Middle East, needs $60 a barrel at a minimum to limit the bleeding they are doing because of their costly welfare and warfare states.

Saudi Arabia just announced that it has unilaterally decided to cut another seven percent of its own production (560,000 barrels a day) to keep prices above $50. The goal of $60 oil never came close to being achieved. Even today, with increasing worldwide demand for energy and the temporary cut in American production thanks to those hurricanes over the summer, the price of Brent (set in London and considered to be the world's benchmark) barely hit $56 while West Texas Intermediate (WTI) prices set in Oklahoma barely touched $50 before falling back.

Free market forces are reducing, slightly, the world's massive supplies of excess crude, with some companies beginning to draw down reserves pumped into caves and stored in floating tanker ships. But the overhang (still way above its five-year average) continues to cap crude oil prices. And estimates are that American producers —who have nearly doubled their oil production over the past 10 years — will continue to set records. Best estimates are that U.S. crude oil production will climb to nearly 10 million barrels a day next year, an increase of more than 11 percent just since 2016. Meanwhile OPEC is working to reduce its own production in accordance with a strategy that hasn't worked. Now comes news that OPEC is considering extending its production cut agreement beyond March 2018 to the end of the year.

The kind offer by Barkindo to his new-found "friends" in the U.S. oil patch to join his cartel is likely to be laughed out of the room. American producers know who their customers are and they know that they are profitable even with oil at $20 a barrel in the most productive fields. Barkindo's offer doesn't spell capitulation by OPEC to American producers by any means. But it does have the distinctive odor of desperation.

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