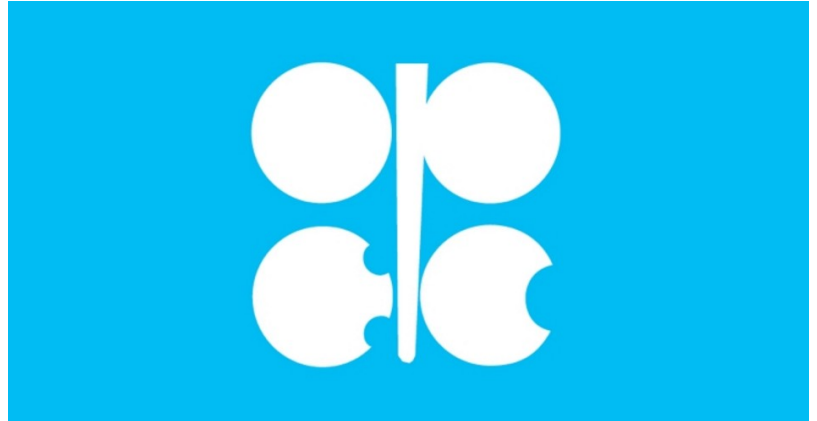




Written by [Bob Adelman](#) on October 31, 2016

OPEC Fails to Agree as U.S. Energy Industry Ramps Up

After 12 hours of effort to hash out an agreement to cut oil production that can be presented formally to the Organization of Petroleum Exporting Countries (flag shown) in November, 14 oil ministers meeting in Vienna over the weekend gave birth to — a goose egg. Without an agreement, the November 30 gathering is likely to be irrelevant, just as the cartel itself is becoming.



Every cartel eventually blows up due to members unwilling to abide by agreements, cheating, creating side agreements, and in general seeking their own self interests. So it is with OPEC. At the Vienna meeting, Iran complained that it is really producing more than reported, while Iraq wanted a dispensation similar to Iran's (which has allowed the country to expand its production back to pre-sanction levels), claiming that it has a war to fight and needs the revenues.

Venezuela, the UAE (United Arab Emirates), and Kuwait are each facing their own special problems — Venezuela in particular. President Nicolás Maduro made a personal trip to Vienna (some said in order to get away from the increasing unrest back home) to press the point: He needs more money to cover the increasing deficits his socialist policies are costing his government.

At the end of the day, several things were clear: First, there was no agreement, nor is one likely. If OPEC countries can't agree, how could any non-OPEC oil producers (such as Russia) be persuaded to go along with any agreement to cut production to raise prices?

Second, any production cut (if there is one) would likely be borne primarily by OPEC's largest producer, Saudi Arabia, which just completed its first (and perhaps last?) global bond offering for \$18 billion initiated to slow the liquidation of its foreign reserves. Last year it liquidated nearly \$100 billion of those reserves while playing the increasingly unsuccessful and costly game of chicken with U.S. producers.

In addition, U.S. energy producers are already announcing new capital expenditures while bringing on rigs that were temporarily idled during the downturn. Nick Cunningham, writing for OilPrice.com, noted another problem facing OPEC: In January there were 5,576 DUCs — drilled but uncompleted wells — just waiting for the right conditions for them to be completed. Since then more than 500 of them have been brought online, profitably, with most of the rest, according to observers, likely to be completed by the second quarter of 2017 — barely five months from now. What OPEC ultimately is facing is the vast and increasing disparity between what it costs them to bring a barrel of oil to the surface, and what it costs for American producers to complete a DUC. Since most of the up-front costs have already been expended, the marginal cost to bring a DUC well online is way below the current price of \$50 a barrel. The math is persuasive, and U.S. oil producers are reacting accordingly.

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In other words, OPEC is engaged in a game that it initiated and which it is now discovering that it cannot win and cannot quit. In the process, OPEC is becoming increasingly irrelevant while U.S.



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producers are pushing ahead, continuing to turn America into a country that is not only self-sufficient for its own energy needs but is also increasingly supplying the world.

The OPEC bickering is likely to intensify as the reality sinks in that the cartel has painted itself into a corner. Venezuela is facing existential questions, while most of the others are on an unsustainable path of decreasing revenues to fund socialist welfare programs that were never affordable and are now strangling the governments.

It's likely that those revenues will continue to fall despite what OPEC may do (or more likely, not do) in November. Investors and producers are expecting oil prices to fall sharply, as measured by their "short" positions in the futures markets. According to the Energy Information Administration (EIA), there were more than 540,000 short positions (taken by those expecting oil prices to fall) as of October 11 — the most in nearly 10 years.

Image: OPEC flag

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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