THE DAILY CALLER NEWS FOUNDATION

OPEC's Deal To Boost Oil Prices Already Falling Apart

Andrew Follett

January 4, 2017

Iraq's central government is accusing the autonomous Kurdish region of not cutting oil production as part of OPEC's recent plan to increase global prices.

Iraq, however, also appears to be planning to cheat on its OPEC commitments by boosting crude-oil exports, according to leaked government documents.

"My sense is that this sort of cheating occurs with some regularity but is getting worse," Dr. Christopher Preble, vice president for foreign policy at the libertarian Cato Institute, told The Daily Caller News Foundation. "The pressure to cheat only increases as more and more oil producers come onto the global market…there's been quite a diversification of global energy supplies over the last five years."

This sort of fudging on commitments by Iraq and other members could doom OPEC's plan to cut oil production to increase global prices. Rising prices will only stick if all of OPEC's member countries follow the policy. The increasing number of new oil producers has made it much harder for OPEC to manipulate the price of oil.

In any situation, when you have a relatively small number of producers, it is easier to enforce compliance on production," Preble told TheDCNF. "As more and more producers come online, enforcing limits on production only becomes more complicated. This helps explain the new inability of OPEC to dictate the price of oil on the global market."

Three other OPEC member states have already declined to comply with the organization's deal to reduce oil production. Angola is ignoring OPEC's plans to slash production, while Nigeria and Libya aren't even bound by the cuts, according to a Bloomberg News survey of analysts, oil companies and ship-tracking data.

OPEC's attempt to boost global oil rices follows the organization's 2014 attempt to depress the global price of oils to counter new competition, largely from U.S.-based hydraulic fracturing, or fracking.

"Fracking and all the various technologies around the world have changed the cost-benefit equation for countries and producers to extract more energy from the ground," Preble continued. "OPEC prefers the appearance of compliance with their production quotas, so it is in their interest to ignore a certain amount of cheating. If the evidence of cheating continues to be this rampant, I can envision the deal falling apart."

Fracking has substantially reduced U.S. oil imports by causing domestic production to soar. In 2007, America imported about 60 percent of its oil, but by 2014, the U.S. only imported 27 percent of its oil — that's the lowest level since 1985, according to government data.

U.S. production has already begun increasing in response to rising price. American oil production rose by 51,000 barrels per day in August relative to July, leading to the first significant increase in American oil production since April of last year.

Fracking, combined with horizontal drilling, caused an unprecedented surge in U.S. oil production which has greatly harmed OPEC's ability to dictate prices. American oil production in 2015 was 80 percent higher than it was in 2008. The U.S. produced an average of about 9.3 million barrels of crude oil per day in June. The process helped America surpass Russia as the world's largest and fastest-growing producer of oil last year.

Ironically, OPEC's attempt to flood the market with cheap oil to kill off its new competition ended up hurting its members more than U.S. fracking companies. Venezuela, for example, is facing economic collapse largely due to cheap oil, which has forced the country to import oil from America.

Saudi Arabia, OPEC's de-facto leader, was far more capable of handling cheap oil, but even it had a budget deficit of $140 billion in 2015— roughly 20 percent of the Saudi economy. When compared to 2013's surplus of $48 billion, the fiscal outlook looks so dire, the International Monetary Fund warned the country it could go through its fiscal reserves within five years. Saudi oil export revenues dropped 46 percent in just last year and the country is selling bonds for the first time since 2007.