THE DAILY CALLER NEWS FOUNDATION

This OPEC Country Isn’t Complying With The Saudi Plan To Boost Oil Prices

Andrew Follett

June 3, 2017

Libya isn’t going along with the rest of the Organization of Petroleum Exporting Countries (OPEC) to cut oil production to boost global prices, according to analysis from Bloomberg published Wednesday.

The Middle Eastern country has instead chosen to boost oil production and pump crude oil at near record highs while the rest of OPEC cuts production to prop up global prices. OPEC and other major exporting countries like Russia agreed last week to continue cutting oil production to boost the global price.

Libya was producing about 700,000 barrels per day as recently as April. Less than two months later, it is now pumping 850,000 barrels per day, according to data compiled by Bloomberg.

“Libya is exempt from the OPEC cuts, so they’re not technically violating the agreement,” Emma Ashford, Cato Institute Research Fellow and expert on the politics of petrostates, told The Daily Caller News Foundation. “But cheating isn’t the main issue. The central problem is that it doesn’t seem likely that the continued OPEC cuts will be successful in raising the price of oil.”

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

“Even with Russia’s unprecedented involvement in this deal, there is simply too much production capacity outside of the OPEC + Russia group,” Ashford said. “A much larger cut might do the trick, but would be politically and technically difficult: oil exporters like Venezuela are still hurting from the last few years of cuts, and fracking is now cost effective at increasingly low prices.”

In 2016, OPEC lost an estimated $76 billion due to low oil prices. OPEC wants the price of oil to be between $50 and $60 per barrel, but current prices are hovering around $48 a barrel. As recently as June 2014, the price of a barrel was almost $109.

Saudi Arabia is increasingly unable to control the global oil supply due to rising energy production in the U.S. and Iran. As the world’s biggest crude exporter, the Kingdom is conceding ground to its rivals to enact a steep oil production cut to prop up the low global price of oil. This has caused the Saudis to rapidly lose market share and influence over other OPEC members.

Although Saudi Arabia can likely handle cheap oil better than other OPEC countries, it is expecting a budget deficit of $140 billion — roughly 20 percent of the country's economy. When compared to 2013's surplus of $48 billion, the fiscal outlook for the country looks bleak, causing the International Monetary Fund to warn it could go through its fiscal reserves within five years. Saudi oil export revenues dropped 46 percent in just a year and the country is selling bonds for the first time since 2007.

Meanwhile, U.S. oil production is continuing to increase, which edges the Saudis out of the lucrative U.S. oil market. 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. This rising oil production has reduced demand for Saudi oil abroad too, keeping prices low.

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.