How Does OPEC Plan to Boost Oil Prices?

The Organisation of the Petroleum Exporting Countries (OPEC) is hoping to stabilise oil prices and safeguard them against a predicted supply glut by enforcing further production cuts among its members and other oil-producing nations. In December, OPEC announced it would be paring back oil production by an additional 500,000 barrels per day in an attempt to avoid a surplus of supplies on the market.

While the move may be effective in curtailing supplies from OPEC countries (such as the UAE) and their partners, it remains to be seen whether it will be enough to have the desired effect on the oil market as a whole. That's due to oil production continuing apace in non-OPEC nations, especially the US, where the runaway shale gas industry may offset OPEC cuts, at least in the short term.

A surplus on the horizon?

The booming shale industry was predicted to contribute to a glut in oil supplies throughout 2019. While output from the US was ultimately lower than many had predicted, that did not stop OPEC from taking measures to protect prices. From January 1st 2019, the 14-strong conglomerate and its allies vowed to slash production by 1.2 million barrels a day.

However, the surging shale sector may mean that those cuts are not enough. Oil production in the United States has increased by over 100% in the last 10 years, while last September saw the country become a net exporter of the substance for the first time in decades. That has prompted OPEC, led primarily by Saudi Arabia, to take action.

More cuts in the pipeline

After a meeting of OPEC nations (including the UAE) and other oil-producing countries (such as Russia) in Vienna in December 2019, a spokesperson for the group announced that there would be an additional 500,000 of barrels per day cut from production from the first quarter of 2020. Those measures may be extended further throughout the year, depending on their effect at the outset.

It's understood that OPEC members will shoulder the lion's share of the new production cuts, responsible for 340,000 fewer barrels per day. Meanwhile, non-OPEC countries will commit to producing the remaining 160,000 fewer barrels of crude oil per day.

Saudi Arabia leading the charge

Sources close to the organisation have intimated that Saudi Arabia had been pushing for more extreme measures, petitioning for deeper production cuts that would last for longer. The chief non-OPEC country participating in the project, Russia, was the main opposition to that stance, resulting in the compromise of 500,000 barrels per day.

Saudi Arabia's position is likely influenced by the fact that they have just floated shares of the state-owned oil company Saudi Aramco on the public stock market for the first time. Three billion shares were sold late last year, garnering a total of $25.6 billion in investment, but Saudi leaders are still relying on higher oil prices to support its budget.