



Written by [Bob Adelman](#) on August 25, 2017

OPEC Leaving Its Options “Open” as Production Cuts Fail to Raise Oil Prices

[Even the subtitle was misleading](#): “JMMC Reports Positive Indications of Oil Market Rebalancing in Progress.” That is the subtitle of the report issued on Thursday by OPEC’s Joint Ministerial Monitoring Committee, the toothless enforcement arm of OPEC.

OPEC is down to its last option: verbiage. The JMMC reported that everything is rosy:

Efforts by OPEC and participating Non-OPEC [oil] producing countries have continued to show positive results towards the goal of rebalancing the oil market.



The committee reported that compliance in July “achieved an impressive conformity level of 94 percent” exclaiming that “this is a demonstration of the commitment of [the cartel’s members and non-members] to continue their cooperation towards the rebalancing of the market.” The report added:

The JMMC expressed great satisfaction with the results and steady progress made towards full conformity of the production adjustments, and encouraged all participating countries to achieve full conformity, for the benefit of producers and consumers alike.

Nearly all of this is refuted by reports from the Energy Information Administration (EIA). First, compliance is no longer at 94 percent, if it ever was. In July compliance among the cartel members was 75 percent (one out of four were out of compliance), while among non-cartel members compliance was just 67 percent (one out of three were out of compliance).

Second, the goal of \$60 a barrel for crude remains even farther out of reach than when the agreement was implemented on January 1. On that date Nymex crude was at \$57 a barrel. On Friday Nymex crude is trading at less than \$48 a barrel, a 19 percent decline.

Third, “rebalancing” — defined as a return of global supplies of crude oil to its five-year average of 2.7 billion barrels — remains as elusive as ever. World supplies are over three billion and climbing.

Fourth, the reason those reserves are climbing is due to that non-compliance. The agreement’s goal was to remove 1.8 million barrels of oil from the world market every day. At the time the agreement was initiated, OPEC (members and non-members combined) was producing 32.8 million barrels per day (mbd). OPEC itself admitted that, in the month of July, it produced 32.8 mbd. So much for production cuts.

It gets worse: most of that non-compliance (“overproduction”) came from three hard-core members of OPEC: Libya, Nigeria, and — wait for it — Saudi Arabia! As Tsvetana Paraskova, writing at OilPrice.com, noted: these three “were the main drivers behind the OPEC production increase.” According to the IEA (International Energy Administration) “the 22 producers that have pledged to cut



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production are *overproducing* a total of 470,000 bpd.” (Emphasis added.)

Nevertheless the JMMC “expressed confidence that the oil market is moving in the right direction toward the objectives of the Declaration of Cooperation [the production cut agreement put in place in January].” And the committee expects things to get even better: “Global demand growth for 2017 is now better than expected, while for 2018, world oil demand is anticipated to rise further.”

And, if things don’t work out quite as expected, continues the report, “all options, including the possible [third] extension of the Declaration of Cooperation beyond [the first quarter of 2018] are left open.”

Just what options would they be? 1) Maintain the status quo, which isn’t working; 2) extend the present agreement, which isn’t working; 3) call for deeper cuts during that extension, which would further reduce compliance; and, finally 4) verbiage.

Since the cartel cannot control demand, in order to force the price of crude higher it must curtail supply. But cartel members such as Angola are already suffering from low oil prices. It has seen its revenues from oil cut in half, resulting in the termination of state-funded construction projects. And inflation, following the printing of money to cover the government’s deficits, is now at 40 percent officially, with black market prices likely showing much higher debauchery of its kwanza paper money.

The suffering by other cartel members is similar to Angola’s, with the net result being that existential pressures will continue to force more noncompliance in order to generate higher revenues.

When a cartel has to issue lies all dressed up to look like success, one can safely conclude that its end is imminent.

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