



Written by [Bob Adelman](#) on February 13, 2017

OPEC's Influence Wanes as Members Cheat on Production Cuts

OPEC's report on how its members are complying with the production-cut agreement hammered out last fall [came out on Monday](#). As expected, it reported cheating among its members.

Per the November 30 agreement, members allegedly agreed to cut production to 32.5 million bpd (barrels per day) of crude. Iraq, Venezuela, Angola, and Algeria cut their production modestly but less than they agreed, while Nigeria, Libya, and Iran produced more. Because Nigeria and Libya are exempt from the production cuts, Saudi Arabia, Kuwait, and UAE (United Arab Emirates) were forced to over-comply. The total produced by the cartel in January came in just below the target of 32.5 million bpd at 32.1 bpd.



Accompanying the report was a statement that crude oil price "gains were capped by increased drilling activity in the US."

Those crude oil prices are likely to continue to drop despite OPEC's best efforts to force them higher. The headwinds the cartel faces are monumental:

First, U.S. rig counts jumped to 591 last week, the highest since October 23, 2015 and an increase of 114 since the OPEC agreement.

Second, the Department of Energy announced it will be reducing the U.S. strategic oil reserve later this month through the sale of 10 million barrels.

Third, crude oil inventories jumped by nearly 14 million barrels last week, bringing the stockpile of private oil inventories close to an 80-year record level at 508 million barrels.

In addition, U.S. oil and gas companies are raising new money through Wall Street equity offerings at rates not seen since at least the year 2000. In January alone, 13 different offerings raised \$6.64 billion. And they are using that new money not only to develop existing oil fields, but to acquire additional reserves through mergers and acquisitions (M&A). Last year, M&A activity totaled \$24 billion. For 2017, oil and gas companies have already invested half that much and it's only February.

All of this illustrates the decreasing influence of OPEC in directing the price of crude oil on the world market. Aside from the cheaters, OPEC is also faced with other forces over which it has no control, mostly in the oil industry of the United States.

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