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OPEC and Non-OPEC Crude Oil Production Agreement: Compliance Status

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On November 30, 2016—in an effort to stabilize declining oil prices—the Organization of the Petroleum Exporting Countries (OPEC) announced an agreement whereby 11 of the then-active 13 members would reduce crude oil production by approximately 1.2 million barrels per day (bpd) for six months starting January 1, 2017. On December 10, 2016, OPEC announced that 11 non-OPEC countries, led by Russia, had joined the agreement by pledging to further reduce oil production by 558,000 bpd. This "Declaration of Cooperation" to collectively reduce oil production by approximately 1.8 million bpd was extended for nine additional months and is currently in effect through March 31, 2018.

Congressional interest in OPEC policy dates back to at least 1973 when Arab members of the cartel embargoed oil shipments to the United States. The embargo created perceived shortages and resulted in increased gasoline prices for U.S. consumers. Following a period of increasing oil prices in the early 2000s, the No Oil Producing and Exporting Cartels (NOPEC) Act was introduced in the 110th (H.R. 2264 was passed by the House, and S. 879) and 112th (H.R. 1346 and S. 394) Congresses. The NOPEC Act would have amended the Sherman Act (15 U.S.C. 1 et seq.) by making foreign country oil-producing and exporting cartels illegal. Alternatively, during a period of oversupply and price declines in 2014/2015, non-action by OPEC to increase oil prices was perceived as a targeted effort to harm U.S. oil producers. Subsequently, H.R. 545 was introduced in the 115th Congress to establish a commission to investigate anti-competitive actions taken by OPEC (the bill had been previously introduced as H.R. 4559 in the 114th Congress).

Overview of the Agreement

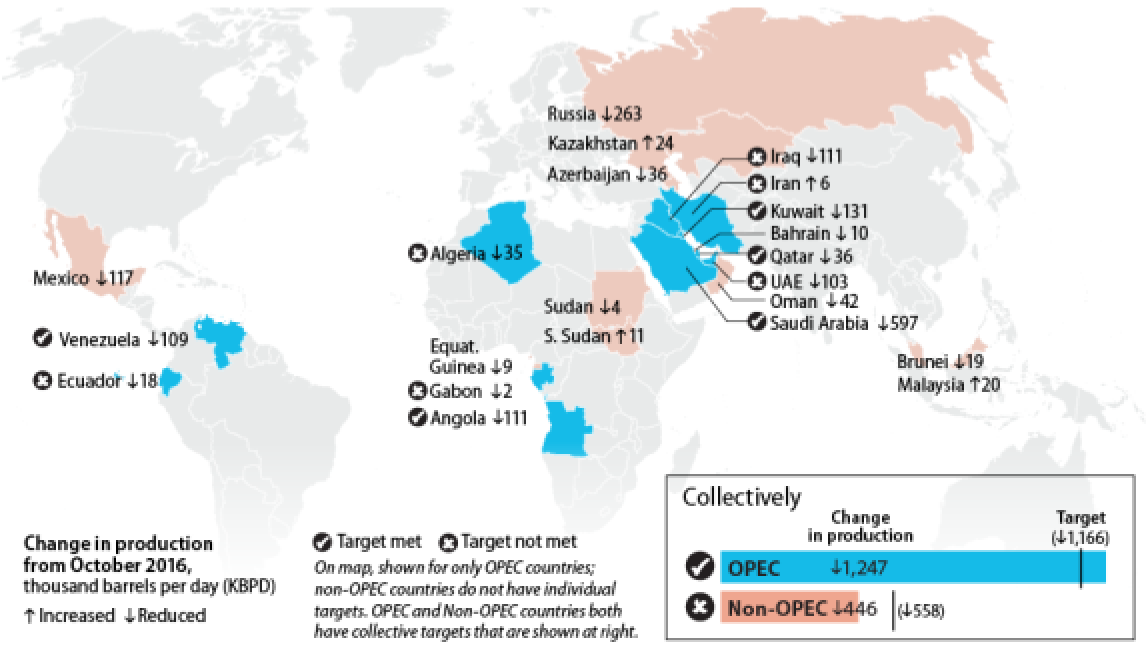
Two primary objectives of the OPEC/non-OPEC production agreement are (1) reduce global supply/demand imbalances that had reached surplus levels of 1.5 million bpd in 2015, and (2) reduce resulting global oil stocks that were at record levels. The OPEC portion of the agreement set country-level production quotas for 11 of 13 members that were active at the time of the agreement (Libya and Nigeria are both exempt) that would reduce crude oil production by nearly 1.2 million bpd compared to October 2016 levels. For the 11 non-OPEC countries that committed to reduce oil production, the agreement indicated a cumulative reduction target of 558,000 bpd for the group compared to October 2016 production. Country-specific reduction targets for non-OPEC countries were not indicated.

Agreement Compliance

For the period January 2017 through September 2017, OPEC and non-OPEC countries party to the production agreement were, as a group, 98% compliant with the production target. During this period the group collectively reduced crude oil production by approximately 1.7 million barrels per day (mbpd) compared to the October 2016 reference level. OPEC member countries subject to the agreement were 107% compliant during the period; five of eleven countries (Angola, Kuwait, Qatar, Saudi Arabia, and Venezuela) either met or exceeded their target reductions. Non-OPEC countries were not assigned individual reduction targets; however, the non-OPEC group was 80% compliant with the 558,000 bpd reduction target. With the exception of Kazakhstan, Malaysia, and South Sudan, each non-OPEC country reduced crude oil production during the period. **Figure 1** below summarizes crude oil production changes for OPEC and non-OPEC countries.

Figure 1. OPEC and Non-OPEC Production Agreement Compliance

Crude Oil Production Change from January 2017 through September 2017



Source: CRS. OPEC crude oil production from OPEC's Monthly Oil Market Report. Non-OPEC crude oil production from IEA's Monthly Oil Data Service.

Notes: Compliance calculations are derived by comparing total crude oil production over the period assuming daily production at the reference level, with actual production over the period from monthly reports. OPEC members Libya and Nigeria are not indicated on the map since both countries are exempt from the production agreement. Equatorial Guinea was not an OPEC member when the production agreement started and is therefore listed as a non-OPEC country for the purpose of this analysis. Iran was allowed a 90,000 bpd increase, which it exceeded by 6,000 bpd.

Market Impacts and Issues to Watch

Generally, compliance with the "Declaration of Cooperation" appears to have achieved the stated goals of normalizing the supply/demand balance as well as reducing global petroleum stocks. Crude oil and petroleum product storage levels in the United States and other Organization for Economic Co-operation and Development (OECD) countries—the benchmark for global petroleum stocks—declined by 69 million barrels during the period January 2017 to August 2017. While petroleum product stocks have declined to levels near the five-year average—a key metric used by OPEC to determine market balance—crude oil stocks remain well above the five-year average, according to IEA's November oil market report. Crude oil price benchmarks have increased since January 2017. The spot price for Brent crude—a global price benchmark—started 2017 at around \$55 per barrel. The Brent spot price was nearly \$63 per barrel on November 13th.

On November 30, 2017, OPEC is to hold its 173rd meeting in Vienna, Austria. One agenda item being closely monitored by oil market analysts is a potential OPEC/non-OPEC decision to extend, enhance, or unwind the production agreement that is currently set to expire on March 31, 2018. Monthly reports from the U.S. Energy Information Administration (EIA) and IEA project that the oil market will be oversupplied in 2018 even if OPEC maintains production levels set forth in the agreement. Should the agreement expire as scheduled and crude oil production increase, projected oversupply in 2018 could potentially be exacerbated and result in downward pressure on crude prices. However, unforeseen geopolitical and/or weather events could alter this calculus. Additionally, production growth of more than 700,000 bpd (October 2016 to September 2017) from exempt OPEC members Libya and Nigeria has offset more than 40% of production cuts.

U.S. crude oil production is projected to increase—mostly driven by tight oil—by 700,000 bpd in 2018 according to EIA. The price-responsive nature of U.S. tight oil further complicates a decision by OPEC/non-OPEC regarding the production agreement.