OPEC 'Side Meeting' Proof of State-Run Companies' Struggle

OPEC's 'side meeting' evidence state-run oil companies are having a difficult time coping, while US shale producers continue to improve well productivity.

HOUSTON, TX, USA, September 26, 2016 /EINPresswire.com/ -- Houston, TX, September 26, 2016 -- During the International Energy Forum, Sept. 26 – 28 in Algeria, members of the Organization of Petroleum Exporting Countries (OPEC) will convene informally to discuss how to stabilize slumping global oil prices. Crude is currently trading in the $43 range, less than half what it was in 2014 and about a quarter of the 2008 peak. The largest drop of all time.

Although the low-price environment has caused job losses and capital spending cutbacks in the U.S. crude oil sector, Dan K. Eberhart, CEO, Canary, LLC, says the unofficial OPEC meeting is evidence that state-run oil companies are having a much tougher time responding to the oil bust than their free market competitors are.

“Since 2014, world oil prices have been in a slump caused by multiple factors, including production growth outpacing oversupply and a stronger U.S. dollar,” Eberhart said. “While there’s no doubt that the U.S. oil market has been affected, the good news is that domestic shale producers have improved their drilling and production efficiencies. By successfully lowering their breakeven point continuing to pump makes economic sense.”

Although U.S. shale output contributed to the current market imbalance, Eberhart says the issue was exacerbated by higher production from Libya, Iraq, and Iran. And despite the slump, Saudi Arabia continues to increase production. Most analysts believe that’s an attempt by the Kingdom to drive higher-cost U.S. producers out of business, although it’s had a more significant economic effect on OPEC’s most vulnerable members, including Venezuela and Nigeria. With energy accounting for nearly all of Venezuela’s exports, and oil & gas taxes providing 75 percent of the Nigerian government’s revenues, the drop in crude has had a staggering effect on those countries’ fortunes.

“OPEC thought, by raising production rather than cutting it, they would create a graveyard of U.S. shale companies. Their strategy has largely failed. Two years after the paid for oil companies worls wide; the U.S. shale industry has only become slimmer, stronger,” said Eberhart.

But will the OPEC side meeting result in a reasonable solution to alleviate their suffering? Eberhart is doubtful.

Although several OPEC members want to revisit the idea of setting oil production limits, the Canary CEO thinks the possibility of a freeze remains under the control of OPEC’s de facto leader, Saudi Arabia. The Kingdom has been able to protect its market share and can weather a protracted period of low prices better than many of its OPEC peers can.

“The bigger problem for OPEC is that if they freeze their own production in an attempt to raise prices, it becomes an opportunity for American shale producers, the very companies they’ve been trying to shut down,” Eberhart said. “Because U.S. shale producers are agile, they can quickly ramp up production if OPEC freezes theirs. American companies like Continental Resources, which has been a strategic leader in unconventionals, will be able to move in and eat up OPEC's market share."

About Canary, LLC

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