Opec: the prisoner of Vienna
The oil producers’ club is a cartel – a really terribly run cartel

Arthur C Clarke liked to say that any sufficiently advanced technology is indistinguishable from magic. Well, any sufficiently disorganised cartel is indistinguishable from a prisoner’s dilemma. Consider Opec.

An organised cartel fixes prices. It also throttles the competition. Opec, which controls four-tenths of the world’s oil production, has done its part for high prices recently. After 2010, Opec’s largest producer, Saudi Arabia, had a production cost under $10 a barrel, while Brent crude traded over $100 a barrel, on average. They could have pumped more, driven prices down and made more money in the short term. They chose not to.

But Opec left prices so high and for so long that the competition flourished. Oil at $100-a-barrel rendered higher-cost projects such as US shale viable. And it encouraged fiscal reliance on high prices among Opec and non-Opec state producers, making it painful for any of them to cut production.

So demand for Opec’s oil has slowed. Its forecasts imply 29m barrels-per-day of demand for its product next year versus its 30m-barrels production ceiling, Deutsche Bank notes. So this week’s 166th Opec conference in Vienna would normally be nailed on to announce a production cut of 1m barrels or so. In reality, production cuts risk more defections than a Soviet-era ballet. Saudi Arabia is producing 1m more barrels today than it did before Opec adopted the production ceiling. The kingdom reduced output by 6m barrels a day over five years in the 1980s, but fellow Opec countries did not follow. The Saudi response by late 1985 was to raise output, sending oil prices below $10.

Already Russia, a non-Opec member, has signalled it will maintain output levels next year even though it would, naturally, prefer less global production overall. State-owned Rosneft must maintain production. It needs the cash. And Saudi now seems content to protect its market share and let prices fall. How un-cartel like.

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