

## OPEC Agrees To Decrease Crude Oil Production

OPEC agreed to cut oil production 1.2 million barrels per day (4.5 percent to ceiling of 32.5 million barrels per day) during its meeting in Vienna on Nov. 30 in an effort to decrease the oversupply of oil worldwide.

Prices rose about 8 percent on the New York Mercantile Exchange closing at \$49.44 on Nov. 30.

The agreement by OPEC oil ministers signals a change for its pump-at-will policy introduced in 2014 in an attempt to run the “high cost sale production” out of the crude oil markets. Oil prices dropped from \$100 per barrel in November 2014 to \$26 in February of this year.

OPEC production policy worked somewhat as U.S. oil production declined 1 million barrels per day (10.9 percent) from a high of 9.6 million barrels per day to 8.6. Crude oil inventories in the U.S. dropped again last week to 488.1 million barrels compared to 489.1 the previous week. Inventories peaked on May 13 at 509.8 million barrels, according to the Energy Information Administration.

In Texas, oil production averaged about 3 million barrels per day in October, a decline of 9 percent from October 2015. The Texas rig count averaged 250 down from a high of 932 in June 2012. Employment also declined 101,420 from 306,020 in December 2014 to 204,600 in October.

Economist Karr Ingham, author of the Texas Petro Index, said oil production in Texas and the U.S. “has not fallen as far or as fast as was expected, and the anticipated increase in drilling activity will potentially slow the rate of decline even more.”

OPEC stated in a news release that current market conditions are “counterproductive and damaging to both producers and consumers.” The news release stated that the oversupply “threatens the economies of producing nations, hinders critical industry investments, jeopardizes energy security to meet growing world energy demand, and challenges oil market stability as a whole.”

The agreement sets production levels for 10 countries at 4.6 percent less than the reference production level. Iran was able to negotiate only a 2.3 percent reduction from 3.975 million barrels per day to 3.797. Saudi Arabia is the largest producer at 10.544 million barrels per day, now reduced to 10.058.

OPEC ministers said they had met with the Russian Federation and it has agreed to reduce production 600,000 barrels per day.

The agreement will last six months, extendable for another six months to take into account prevailing market conditions and prospects.

Additionally, OPEC established a Ministerial Monitoring Committee composed of a representative from Algeria, Kuwait, Venezuela, and two participating non-OPEC countries “to closely monitor the implementation of and compliance with this agreement and report to the conference.”