



The OPEC meeting - How much will production really increase?

Posted by [Rembrandt](#) on June 8, 2011 - 11:25am

The Organization of the Petroleum Exporting Countries (OPEC) will [meet today, June 8](#) in Vienna to talk about increasing oil production. Preliminary news reports [are hinting at Kuwait and Saudi Arabia](#) pushing for a 1.5 million barrels per day increase in production to cool off oil prices. West Texas Intermediate oil is currently a little below \$100 a barrel, but most other blends are above \$100 per barrel. Iran, Venezuela, and Iraq oppose the increase.

The increase appears to be based on an attempt by OPEC to re-balance supply with demand for OPEC crude. The [latest OPEC Monthly Oil Market Report \(May 2011\) \(PDF\)](#) indicates that demand for OPEC crude oil will average 29.9 million b/d in 2011. An increase in production by 1.5 million b/d would raise production from April's 28.8 to 30.3 million barrels per day, assuming that the statements made by OPEC are about production increases, and not about rising the quota level - something that is not at all clear.

***Update:** OPEC has been unable to reach an agreement due to which production quota will not change. Saudi Arabia [has announced that it will likely raise production](#) regardless of the decision. "It was one of the worst meetings we've ever had..We were unable to reach an agreement" Saudi Arabian Oil Minister Ali al-Naimi said as representatives of the 12-member group left the meeting in Vienna after five hours of talks. ([Bloomberg](#))

As usual with preliminary news statements from OPEC, the only certainty comes from Saudi Arabia. The country has announced a minimum 500,000 b/d increase in production, and probably hopes that the other countries will fill the remainder.

"The Gulf official said Saudi production was likely to average 9.5-9.7 million bpd in June. A Reuters estimate put output at 8.95 million bpd in May.

Saudi output was last as high in the middle of 2008 after oil prices set a record \$147 a barrel, shortly before recession sent prices crashing ([Reuters](#))."

If Saudi Arabia raises its production by only 500,000 barrels a day, it is not clear where the remainder of the 1.5 million barrels would come from, because other OPEC countries seem to have little spare capacity. According to recent IEA estimates, spare capacity outside of Saudi Arabia amounts to only a small portion of the total, shown in figure 1.

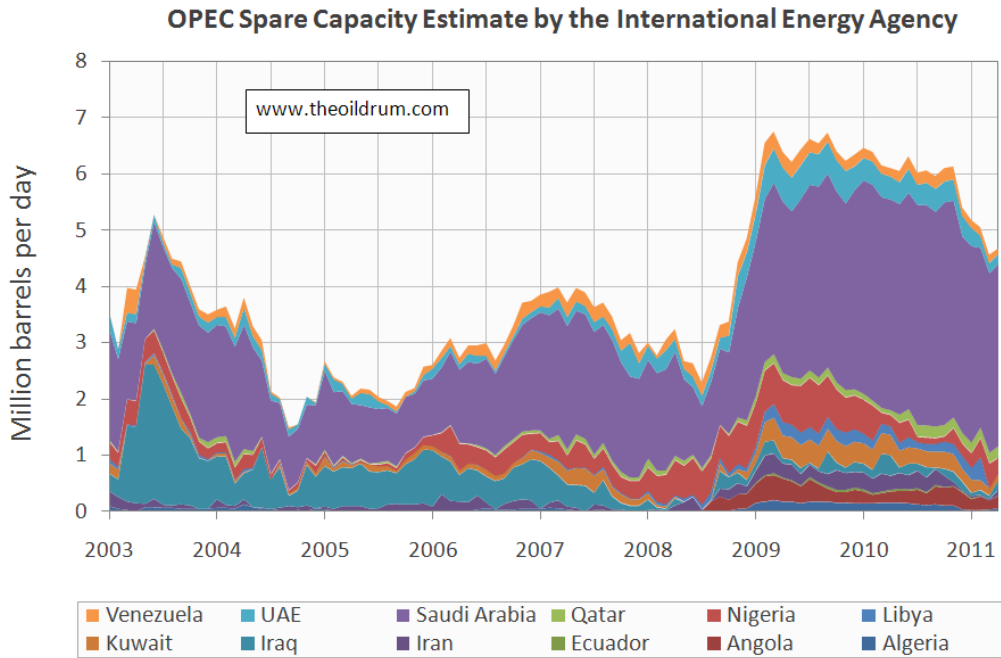


Figure 1 - OPEC Spare Capacity as Estimated by the International Energy Agency in million barrels per day, from January 2003 to April 2011. [\(Click for Large Version\)](#)

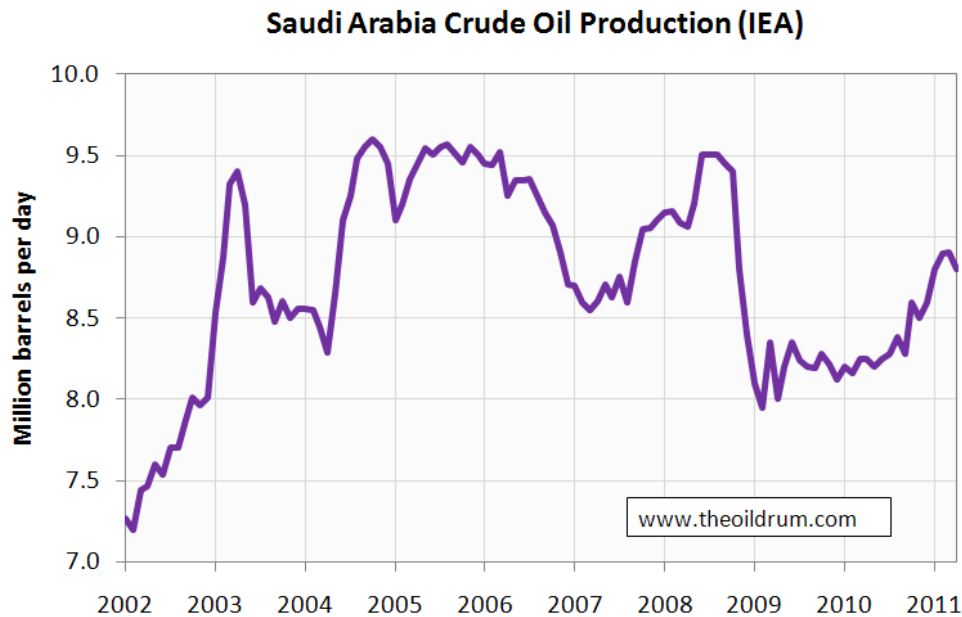


Figure 2 - Saudi Arabia Crude Oil Production in million barrels per day from January 2002 to April 2011. Source of data: International Energy Agency [\(Click for Large Version\)](#)

According to Reuters, only half of the 500,000 b/d mentioned in the news may go to production as the other part is needed for diesel power plants in Saudi Arabia now the summer air conditioning season has started. In addition, production is needed for internal refining to fill a drop in oil product stocks.

"The extra Saudi supply won't all go for export. Direct crude burn at power plants to fuel summer air conditioning and higher refinery throughput for the return to service

after maintenance of the Red Sea Rabigh refinery will soak up at least half the increment, Middle East analysts estimate [\(Reuters\)](#)."

In recent months the turmoil in Libya caused oil production there to almost grind to a halt, decreasing from 1.6 million b/d in January 2011 to 200,000 b/d in April according to the International Energy Agency. This decline wasn't offset by any other producer. As a result, world oil production declined from 87.6 to 85.9 between January and April of this year, a decline of 1.7 million b/d. Of this amount, 82% was due to Libya's decline. So far OPEC has failed to fill this gap, which raises questions as to how much capacity of the types of crude oil that the market requires does OPEC really have. The type of oil that Libya produces is high quality sweet crude with very little sulfur, while Saudi Arabia's extra capacity is known to be more heavy and sulfurous.

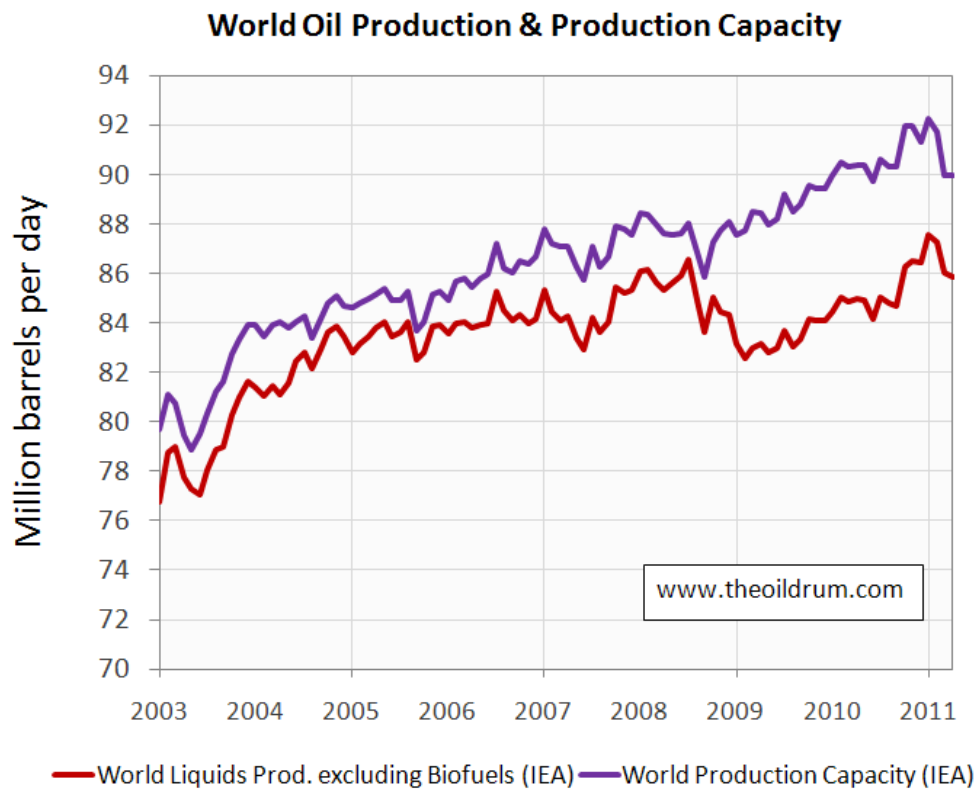


Figure 3 - World crude Oil Production and estimated Production Capacity, from January 2003 to April 2011. Data includes all liquids except biofuels. Source of data: International Energy Agency [\(Click for Large Version\)](#)

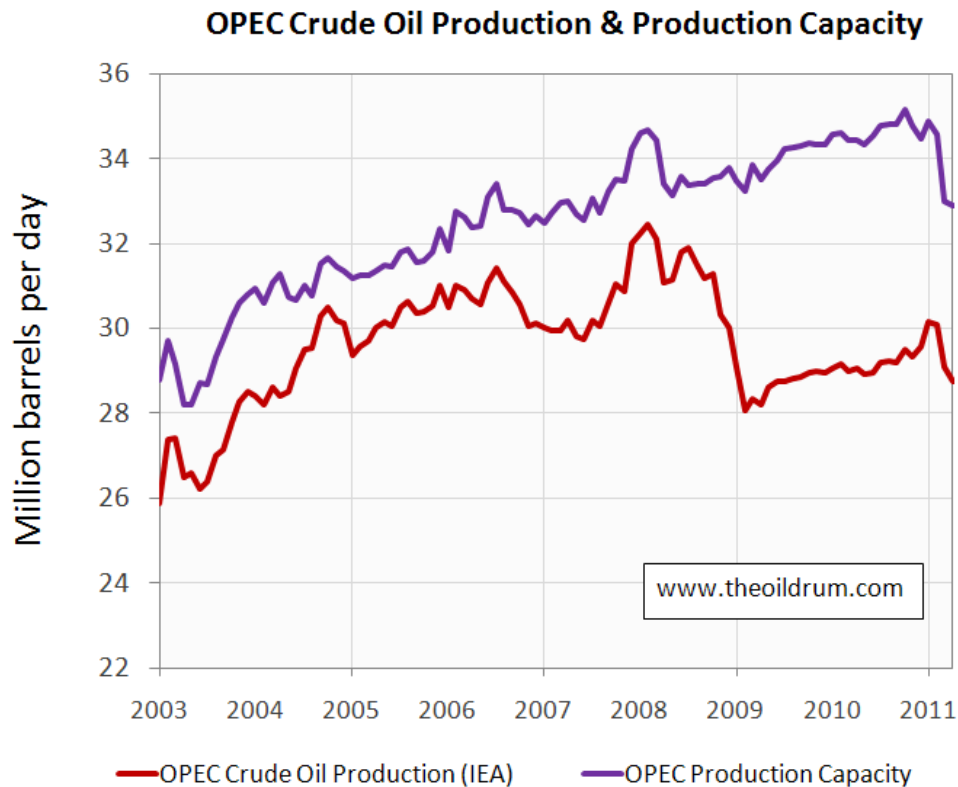


Figure 4 - OPEC Crude Oil Production and estimated Production Capacity, from January 2003 to April 2011. Data does not include Natural Gas Liquids. Source of data: International Energy Agency ([Click for Large Version](#))

There is also a question as to whether the 1.5 million barrel a day increase under discussion is really an increase in production, or if it mostly reflects a desire to bring quotas (referred to as targets previously in this post) into line with actual production. It may be that the planned increase will have little real production impact, and will mostly remove part of this gap.

If OPEC does indeed increase production by 1.5 million b/d, it would significantly decrease estimated spare capacity to around 2.5 million b/d, a level last seen before September 2008 when the global financial crisis fully unfolded. If such a decrease in spare capacity should occur, the capacity tightness by itself might prevent a decrease in oil price of the desired amount.



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