Testimony of Phillip Brown,
Specialist in Energy Policy for the Congressional Research Service, Before the House of Representatives Judiciary Committee, Subcommittee on Regulatory Reform, Commercial and Antitrust Law, Hearing on Accountability for OPEC: H.R. ___, the "No Oil Producing and Exporting Cartels Act"
May 18, 2018.

Chairman Marino, Ranking Member Cicilline, Members of the Committee, good morning. My name is Phillip Brown. I am a Specialist in Energy Policy at the Congressional Research Service. CRS appreciates the opportunity to testify about the proposed "No Oil Producing and Exporting Cartels Act". The focus of my testimony today is the oil production agreement between the Organization of the Petroleum Exporting Countries (OPEC) and 11 non-OPEC countries that came into effect in January 2017. Issues related to international law are beyond the scope of my testimony. Additionally, in accordance with our enabling statutes, CRS takes no position on this or other legislation.

Background

Created in 1960 by Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela, OPEC currently consists of 14 member countries. From January through March of 2018, OPEC as a group supplied 39% of the nearly 100 million barrels per day of crude oil and petroleum liquids consumed globally.

Benchmark oil prices are a function of fundamental factors such as demand, supply, and inventories. However, prices can also be affected by geopolitical risks, unplanned outages, and spare production capacity. Today, OPEC influences the oil market through its role as a supply manager. Ordinarily, the organization holds two meetings a year to discuss oil market conditions and make decisions about member-country production levels. Historically, Saudi Arabia has played the primary swing producer role. Through their impact on the supply/demand balance, decisions that affect oil production can have a direct impact on oil and petroleum product prices.

Recent OPEC Market Interventions

In 2014, following three years of relatively stable prices in the range of $100 to $125 per barrel, supply/demand balances indicated that the market was becoming oversupplied. Much of the oversupply at that time was due to rapid growth in U.S. oil production.

By the November 2014 OPEC meeting, prices had fallen below $80 per barrel. There was some expectation that OPEC would reduce production in order to address the oversupply situation. However, the organization decided to maintain its production levels and oil prices declined rapidly following the meeting.

OPEC meetings in 2015 had similar outcomes and prices continued to fall, reaching as low as $26 per barrel in January 2016.

OPEC's non-intervention approach was perceived by some as a targeted effort to disadvantage U.S. oil producers. From April 2015 to July 2016, U.S. oil production declined by 1 million barrels per day.

Subsequently, H.R. 4559 – The United States Commission on the Organization of Petroleum Exporting Countries Act of 2016 – was introduced in the 114th Congress. The bill sought to create a Commission to investigate OPEC practices deemed to be anticompetitive, including those that disadvantaged U.S. oil producers. An identical bill, H.R. 545, has been introduced in the 115th Congress.

Oil prices started to recover in 2016, and OPEC began laying the foundation for a market intervention that would address global oversupply and inventories that had reached record levels.

In November 2016, OPEC announced that 11 of the 13 then-active member countries (Libya and Nigeria were exempt) had reached an agreement to reduce production by approximately 1.2 million barrels per day. In December 2016, OPEC announced that 11 non-OPEC countries, led by Russia, had agreed to join the agreement and these countries collectively committed to reduce oil production by an additional 560,000 barrels per day.

This 22-country agreement, known as the “Declaration of Cooperation” went in to effect in January 2017 and is currently scheduled to expire at the end of December 2018. The duration of the agreement has been extended twice.

Compliance at the group level has exceeded the commitment and the group has collectively reduced crude oil production by approximately 1.9 million barrels per day since the agreement took effect.

As a result, OECD crude oil and product storage levels have declined and the International Energy Agency reports that inventories could return to the 5-year average as early as this month.

Benchmark crude oil prices have subsequently increased and are up nearly $20 per barrel since the agreement went into effect, with the spot price of Brent crude oil, an international benchmark, reaching $75 per barrel in early May 2018.

However, demand growth and geopolitical risks have also contributed to the observed price escalation.

The NOPEC Proposed Legislation

First introduced in 2000, a version of the NOPEC bill was introduced during each Congress from the 106th to the 112th. The house passed one such bill in 2007. These bills would have modified the Sherman Act by making it illegal for any foreign state to engage in collective activity to limit oil production and trade and therefore influence prices.

Academic research suggests that the existence of a supply manager in the oil market can support stable prices. Historically, one of the longest periods of low and stable oil prices was from 1935 to 1970 when the Texas Railroad Commission, and other state agencies, tightly regulated domestic U.S. oil production, and international oil companies had control over production outside of the United States. The relatively long investment and development cycle for the majority of global oil production assets and the need for stable price signals have been central justifications for the existence of a global oil supply manager, hence the continued existence of OPEC. Without a supply manager, it has been suggested that the oil market may enter a period of extreme price volatility.

Others suggest that the functioning of a robust oil futures market, along with the growth of price-responsive U.S. tight oil could provide a degree of price stability and moderation without the existence of a supply manager.

Thank you for the opportunity to testify today. I look forward to answering any questions from Members of the Committee.