The NATIONAL INTEREST FOUNDATION

Oil Prices Rise After Saudi Arabia and OPEC+ Cut Production as Biden's Visit to the Kingdom Produced No Real Results

Just last month, OPEC+, a coalition consisting of the Organization of the Petroleum Exporting Countries (OPEC) members in addition to other important oil-producing states, agreed to increase production of oil by 100,000 barrels a day in the month of September, creating the highest level of oil output by the organization since the onset of the pandemic. Earlier this week, however, OPEC+ essentially reversed their decision, cutting production by 100,000 barrels a day for the month of October. Although it is not completely inconsequential to the oil market, the 100,000-barrel cut is more of an indicator than it is a blow. With this decision, OPEC+ is making it clear that they intend to stabilize prices, as they have steadily dropped from the $116/barrel price that they were in June, for example. Furthermore, the group is signaling to other major buyers, including the United States, that they intend to keep prices high even as evidence of recession becomes increasingly more apparent, especially in Europe. U.S. President Biden has pleaded with OPEC+ for some time to increase production in order to keep gas prices lower for consumers, even going as far as to meet with Saudi Arabian leaders, as Saudi Arabia is the chair of OPEC+. Still, it seems that the president's actions were in vain, being that Saudi Arabia spearheaded the production decrease. Part of President Biden's determination to keep prices low may stem from fear that consumers will blame American sanctions against Russia in the war in Ukraine for higher prices.

In addition to the general lowering of prices that has taken place over the course of the summer, OPEC+ is also putting their foot down about pricing due to foresight into other aspects of the world scene. China has instituted strict COVID-19 polices once again, which have and will continue to greatly reduce demand from OPEC+'s largest importer. On top of that, the resumption of nuclear talks between Iran and the West has opened the door for increased oil supply and thus lower prices.

In response to the decrease in production – and more specifically, in response to what it may mean for the future – the price of Brent crude oil increased by slightly over 3% on Monday, but steadied and even fell on Tuesday. That being said, there are other risk factors at play that make high oil prices yet more likely going forward, one of those factors being Russia. Recently, the G7 countries put forward a plan to impose an oil price cap on Russia in an effort to cut off some of the funds they need to fight the war against Ukraine and simultaneously force Russia to sell oil at discounted prices to their countries' consumers. However, many experts fear that China and India will not participate, allowing Russia to only sell to China and India (albeit at a lower price) and rendering the oil cap not only useless, but harmful to Western consumers as prices rise even higher. Sanctions placed on Russia by many of these same countries will also begin to have an impact at the end of this year, which may cause a similar problem.

What is to come is ultimately undecided, as there are factors at play that support the notion of both higher and lower prices in the future. But between seemingly inevitable economic decline and OPEC+'s firm stance on high prices, it seems very likely that consumers will be paying a pretty penny for the foreseeable future.