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The OPEC+ agreed on production cuts and Saudi Arabia

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OPEC+ has been carrying out agreed oil production cuts since 2017. Currently, OPEC+ overall has a reduction of 3.66 million barrels per day in place (2 million barrels per day agreed in October 2022 and 1.66 million barrels per day agreed in April 2023). This is in addition to the voluntary cuts of 2.2 million barrels per day by eight members of OPEC+ including Saudi Arabia and Russia (agreed in November 2023). When OPEC+ first agreed to production cuts in January 2017, its total oil output amounted to around 46.2 million barrels per day[1] but as of September 2024, this is down to 41.46 million barrels per day. Compared to previous production cuts where compliance rates were often low, the agreed reductions since 2017 have been comparatively well adhered to by OPEC+ as a whole.

However, in retrospect, the past seven years of production cuts have not been uneventful. In particular, the breakdown of negotiations over a production cut agreement in March 2020 was the biggest crisis for OPEC+ and its production cut framework. With oil prices weakening as COVID-19 spread in early 2020, Saudi Arabia and Russia were unable to agree on the extent of the production cuts at the OPEC+ meeting on March 6, and the production cut framework temporarily broke down. As the oil price fell precipitously, OPEC+ agreed to restore the production cuts at meetings on April 9 and April 12. However, as countries moved into lockdown and oil demand plummeted, the crude oil market experienced a historic collapse, with WTI prices becoming negative on April 20.

While there have been cases of poor compliance by some countries and withdrawals of member countries, no major crises have affected the production cut framework since 2020 and to date, OPEC+ has managed to avoid a price collapse. Yet the OPEC+ production cut framework has not been conflict-free, with opposition to production quotas by UAE (2021) and Nigeria (2023), the withdrawal of Ecuador (January 2024), and overproduction by Iraq, Kazakhstan, and others. Nevertheless, the production cut framework has been maintained because Saudi Arabia and Russia, two of the biggest producers, remain committed to cutting production. In particular, the policies of OPEC leader Saudi

[1] For comparison with the current production volumes, the production of Qatar, which pulled out of OPEC in January 2019, Ecuador, which withdrew in January 2020, and Angola, which withdrew in January 2024, have been excluded.

Arabia are of great importance not only for the production cut framework, but also for global oil supply, demand, and prices. To date, Saudi Arabia has vacillated between an emphasis on price (production cuts) and market share (production increases), and many oil price collapses across the decades (e.g., 1986, 1998, 2016, 2020) have been strongly influenced by Saudi Arabia increasing production (or at least a refusing to cut production) to focus on market share.

The IMF estimates the breakeven oil price to balance the government books in Saudi Arabia as $96/barrel, but Brent crude has not recovered to $96 since 2022. According to the IEA, oil supply and demand were mostly in balance for 2024, but in 2025 we will move into an oversupply of 1.1 million barrels per day. OPEC+ has already agreed to continue its 3.66 million barrels a day of production cuts to the end of 2025 and on November 3, it was decided that the gradual unwinding of the voluntary 2.2 million barrel per day cut by eight member countries would be postponed to the end of 2024 (in other words, the current production cuts would be maintained until the end of 2024 before a gradual increase from the start of 2025). Were Saudi Arabia to switch its focus to market share amid easing supply and demand (essentially, by implementing a major production boost), a serious drop in oil price would be inevitable, causing tremendous damage to Saudi Arabia and OPEC+. While Saudi Arabia may not be satisfied with the current oil prices (and oil revenue), it is reasonable to assume that a shift in focus toward market share is still further down the road.

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