OPEC Background

Everyone following O&G should have a basic understanding of OPEC today. Here is a brief summary:
The Organization of the Petroleum Exporting Countries (OPEC) was founded in Baghdad, Iraq, with the signing of an agreement in September 1960 by five countries namely Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. They were to become the Founder Members of the Organization.

These countries were later joined by Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), Gabon (1975) and Angola (2007). From December 1992 until October 2007, Ecuador suspended its membership. Gabon terminated its membership in 1995. Indonesia suspended its membership effective January 2009. Currently, the Organization has a total of 12 Member Countries.

According to current estimates, more than 80% of the world's proven oil reserves are located in OPEC Member Countries, with the bulk of OPEC oil reserves in the Middle East, amounting to around 66% of the OPEC total. Click on the link below to see reserves by OPEC member:

http://www.opec.org/opec_web/static_files_project/images/content/data_graphs/Graph-OPEC-share-world-crude-oil-reserves-2014.png

OPEC Member Countries have made significant additions to their oil reserves in recent years, for example, by adopting best practices in the industry, realizing intensive explorations and enhanced recoveries. As a result, OPEC's proven oil reserves currently stand at 1,206.00 billion barrels. However, most OPEC members do not have shale oil reserves.

As of mid-year 2015, total world production of oil is approximately 83 million barrels per day, of which OPEC supplies approximately 33 percent.

OPEC publishes a monthly "OPEC Monthly Oil Market Report" which you can find at www.opec.org. It is nearly 100 pages long and covers economic conditions as well as oil supply/demand considerations. Please take a look at it so you can decide if you would like to read it monthly.

OPEC used to set a production target for its members in order to maintain "pricing discipline". Historically, Saudi Arabia was the "swing supplier", meaning it would adjust its production if others "cheated on their production quota. This worked well to make OPEC a powerful cartel for controlling oil prices. However there are chinks in OPEC caused by the "Great Recession", Russian oil and the U.S. fracking boom. It appears that the "oil price collapse" second half of 2014 may have been orchestrated by Saudi Arabia protecting its market share instead of protecting high market price. Does this mark the end of $100/bbl oil and the OPEC cartel? No one

knows because of Middle East political uncertainty. Keep in mind, however that Saudi Arabia's oil industry is managed by well educated engineers and economists who will try to get as much money as possible from their oil.