Prosecuting OPEC: an idea that should be seriously considered

For the last months - and really since the 1970's – we have get used to witness meetings after meetings among oil exporters to coordinate their production efforts – meaning jointly reduce, retrench or expand supply less than demand growth - and publicly invite other non-members of this close knit club to follow such an "inspiring" example. No effective and exemplary sanctions have ever been imposed on them.

Sure, OPEC members are countries, which might be unfairly difficult to be made accountable when concerning free competition violations, as compared to companies when prosecuted under the same questionable practices. Or they have been operating in a too geopolitically sensitive sector that no one dared to challenge on these apparently secondary efficiency and redistributive issues. Or the resulting higher prices have been too convenient to the environmental cause and its promotion of renewable technologies. Whatever its various reasons, the sad truth is that the damage this cartel behavior has imposed on the world economy since its inception far surpasses any other one we could think about.

Some figures might be useful to take into consideration. In 2015, world GDP amounted to US$ 73.5 trillion – in current US$ -[1] and world merchandise and service exports were US$ 16.2 trillion and US$ 4.7 trillion, respectively, jointly representing 28% of world economy[2]. In the primary energy sector, the US explained 17.3% and China 23.1% of world consumption. In terms of primary energy resources, oil represented 33%; natural gas, 24%; coal, 29%; hydroelectricity, 7%; nuclear, 4% and renewables, 3%[3]. In other words, fossil fuels represented 86% of world primary energy consumption.

As for world oil production and consumption, it amounted to 91.6 and 95 million barrels per day, respectively, and 64% of them were internationally traded – US consumed 19.3 mbpd and China, 12.3 mbpd -. As for world natural gas production and consumption, it reached 9.693 and 9.501 million cubic meters per day, respectively, of which 20% were internationally traded via pipelines and 10% via LNG – US consumed 2.131 mcmpd and China, 547 mcmpd -. As for the 7.800 million tons of worldwide coal production and consumption, China consumed 50% and the US 10% of them, being coal relatively less traded internationally due to a more extensive capacity production across the world[4].

[1] World Development Indicators Database, World Bank.
[2] World Trade Statistical Review 2016, World Trade Organization.
[3] BP Statistical Review of World Energy, June 2016.
[4] BP Statistical Review of World Energy, June 2016.

At US$ 50 per barrel, the oil market amounted to US$ 1.7 trillion; at US$ 7 per million BTU, or US$ 245 per thousand cubic meter, the natural gas market amounted to US$ 0.85 trillion; at US$ 60 per ton of steam coal, the coal market amounted to US$ 0.47 trillion. In other words, the energy market for fossil fuels added up to US$ 3.02 trillion in 2015 and consequently the whole primary energy market was close to US$ 3.5 trillion.

It then beckons to ask how high the surcharge over competitive prices has been and over which OPEC could be made responsible for. OPEC members daily produced in 2015 38 million barrels of oil, or almost 42% of world consumption, and they clearly represented the most powerful producer group in the whole primary energy market, with no coordinated consumer groups facing it. They have held an undisputable market power position for decades. It is, however, the magnitude of that market power exertion that could be disputed, not its upward pressure on prices. Based on other cartel experiences, it should be of no surprise if the resulting excess price over primary energy efficient conditions were around 10%. If so, primary energy consumers would be annually overpaying US$ 350 billion to an organized group and its net primary energy producing beneficiaries, whether being members of OPEC or not. The impact is over a whole market.

This is the real scandal, inefficient to its core, that unfairly redistributes income on a worldwide basis under no penalties so far and which encompasses absolute dollar figures that none other market will ever be minimally close to replicate. Peak oil projections will decrease this market power? Not much if same actors recreate a natural gas cartel.

The decade long *fracking* technology has given the world a tremendous opportunity to discipline this energy market, and more so when its biggest consumer – China - is a net importer and its second one – US - is on its way to become self sufficient, with the same aligning interests. Furthermore, the geopolitical weakening impact over an unreliable Middle Eastern Iran or a complex Russia could not be easily overseen.

Would US President elect Trump take on this issue? As far as he has shown, he is not fond of present *status quo*. OPEC is certainly one of its most influential parts and located on the negative side of the scale, though conveniently blurred in the world opinion scene. What if China´s President Xi Jinping were to embark constructively with the US on OPEC´s demise? US Foreign Secretary nominee, Exxon Mobil CEO, could remember some of its traits - and perhaps redeem himself too -. Publicly confronting OPEC could be an encouraging policy step that might bring back to the world stage an efficient economic Rule of Law.

What it does not make sense is watching high profile antitrust cases in most economic sectors while at the same time the world overlooks this huge and daily reminding one.

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