OPEC: An agreement is finally reached

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The OPEC member countries met in Algeria from September 26 to 28. The goal was to lay the foundations for an agreement to reduce oversupply on the market and raise oil prices. The negotiations ended with a consensus to withdraw 750,000 barrels of crude a day from the market, which would place the cartel's total output at 32.5 million barrels a day, a figure similar to that registered at the beginning of the year. The details on the extent of the cut that will correspond to each country will be announced in November during the plenary meeting to be held in Vienna. The decision took the markets by surprise, as they expected a repeat of the failure to reach en agreement during the first half of the year.

Under pressure by the strong deterioration in their public finances and the need to implement increasingly drastic and unpopular adjustments, Saudi Arabia relaxed its stance toward Iran, Libya and Nigeria to the point that these countries will likely not be forced to cut their output, which has been reduced by violence in the case of Libya and Nigeria and, in the case of Iran, by the application of economic sanctions prior to the nuclear agreement between this country and the international powers.

Meanwhile, Iran's relative position in the negotiations improved. Its output has increased significantly and stands at around 3.6 barrels a day, just 400,000 barrels below the level prior to the application of economic sanctions. The country enjoys a comfortable fiscal situation thanks to the reforms implemented in 2012 and 2013 to address those sanctions and its economy could grow by 4% this year according to the International Monetary Fund. This enabled it to secure concessions from Saudi Arabia, a powerful opponent, but more in need of reaching an agreement. Meanwhile, Russia, which acted as an intermediary between the two rivals, has expressed its willingness to adjust its output once the OPEC's agreement is implemented.

Will the OPEC's cut in itself be enough to reverse the current environment of low oil prices and give some breathing space to producer countries inside and outside the organization? Probably not. The withdrawal off 750,000 a day from the market could not be enough in a context where the output of the main OPEC members, in addition to Russia, is at all-time highs. Large-scale projects such as Kashagan in Kazakhstan are about to resume operations, while U.S. production could recover quickly, as suggested by the recent increase in the number of drilling platforms.

Moreover, the expect trend in demand represents an added problem for producer countries. The main agencies in charge of analyzing the oil market agree on the likeliness of a slowdown in the growth of demand in the short term. This reduction comes mainly from Asia, where lower economic growth and weather phenomena will have a negative impact on the demand for fossil fuel.

From a long-term perspective, the challenges are even greater. Some analysts have raised the possibility that the demand for oil would be about to reach a peak level as a result of the increasingly more efficient use of energy, the rebalancing of the Chinese economy and the resulting deceleration of its industrial base, the efforts to decarbonize the global economy and the development of electric vehicles. In this context there could be a decline in the demand for crude, to the benefit of other sources of energy such as natural gas and renewable energy.

Oil producer countries, inside and outside the OPEC, will celebrate the agreement reached on September

28. However, the sensation of victory will be short-lived. The energy market is changing quickly and heading for greater diversification. The years of oil as the leading fuel and the OPEC as a price stabilizer are coming to an end. And its members know this.