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OPEC Divided on the Right Price for Oil

Iran wants to see $60 a barrel to rein in shale producers, while Saudi Arabia's budget needs $70

Iran's Oil Minister Bijan Zangeneh speaking at a news conference last month in Tehran. Mr. Zangeneh says Iran would prefer to see oil prices around $60 a barrel.

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OPEC is breaking down into two camps after more than a year of unity. On one side is Saudi Arabia, which wants oil prices at $70 a barrel or higher, and on the other is Iran, which wants them around $60.

The split is driven by differing views over whether $70 a barrel sends U.S. shale companies into a production frenzy that could cause prices to crash. At stake is the Organization of the Petroleum Exporting Countries' production limits, which are among factors helping the oil market's months long recovery.

Iran wants OPEC to work to keep oil prices around $60 a barrel to contain shale producers, Oil Minister Bijan Zanganeh told The Wall Street Journal in a rare interview. That is a little below Friday's prices of $65.49 a barrel for Brent crude, the international benchmark, and $62.04 in the U.S.

"If the price jumps [to] around $70…it will motivate more production in shale oil in the United States," Mr. Zanganeh said. Shale producers are more nimble than big OPEC producers, using techniques that allow them to increase or decrease production depending on the oil price.

Saudi Arabia has played down shale's ability to upset the market and has touted OPEC's alliance with the world's largest crude producer, Russia, as a bulwark against U.S. output. Russia and nine other producers have joined OPEC's production limits, cumulatively withholding about 2% of the world's crude output.

"I don't lose sleep that shale is going to come and overwhelm us," Saudi Energy Minister Khalid al-Falih said in January at the World Economic Forum in Davos, Switzerland. The following month, Mr. Falih said OPEC would stick with its production limits this year, even if it meant oil supplies fell below demand—remarks that caused oil prices to rise.

Mr. Falih has never publicly called for $70 a barrel. Privately, Saudi officials say they want that level to provide revenue for Crown Prince Mohammed bin Salman's ambitious economic and military spending plans and to support the initial public offering of Saudi Arabian Oil Co., the state-owned energy giant known as Aramco.

The reaction of U.S. shale producers to $70 a barrel was a focal point in January, when Brent crude briefly breached that level. Shale producers have generally ramped up output since OPEC's production deal in 2016 sent oil prices into recovery mode, with U.S. daily output rising to over 10 million barrels in just over a year from less than 9 million barrels. If oil prices averaged $70 a barrel next year, it would result in an additional 600,000 barrels a day of U.S. production compared with $60, said Artem Abramov, vice president for analysis at Norwegian consultancy Rystad Energy.

The International Energy Agency said this week that shale production had already risen so much that demand for OPEC crude would remain below the cartel's current production through 2020. That could pressure the group to limit output for longer than most members anticipated.

Concerns about shale output will likely dominate OPEC's next meeting in June in Vienna, OPEC officials say. Iran will press for carefully bringing back some of its own production, Mr. Zanganeh said, potentially putting downward pressure on oil prices. The country pumps about 3.8 million barrels a day and could produce about 100,000 barrels a day more. Mr. Zanganeh said OPEC could agree in June to begin easing current production limits in 2019. The Saudis have expressed openness to that idea.

The debate over prices reflects a shift in OPEC's internal dynamics. Previously, Iran had long advocated for higher prices, while Saudi Arabia had been a voice of restraint.
The change partly reflects new dynamics in both countries' politics and economics. No longer crippled by Western sanctions, Iran needs an oil price of only $57.20 a barrel to balance its national budget, according to the International Monetary Fund. Saudi Arabia needs about $70 a barrel to cover record national spending this year.

Saudi Arabia and Iran are also at odds politically. They have backed different sides in the Syrian civil war, the Saudis have lobbied for tighter sanctions on Tehran, and Riyadh accuses Iran of funding and arming Yemeni rebels.

Mr. Zanganeh insisted Iran wants to have a good relationship with the kingdom.
Russia is likely to be an important factor in any OPEC oil-price debate. Though it isn't a member of the group, Russia's production cuts have given it special influence with the cartel. Russian Energy Minister Alexander Novak told state TV last month that prices around $64 a barrel were "satisfactory." A spokeswoman for the ministry couldn't be reached for comment.

The division also marks an opportunity for Mr. Zanganeh, OPEC's longest-serving oil minister, to again assert his power. He negotiated a special carve-out for Iran to cap, but not cut, its production so the country could attempt an oil-industry comeback following the end of nuclear-related sanctions.

Mr. Zanganeh expressed skepticism over OPEC's previous efforts to contend with shale production. He told The Journal that a meeting last Monday in Houston between top OPEC officials and shale-company executives was unnecessary because U.S. producers can't reach comprehensive agreement on output.

"It's 1,000 entities. They don't have a union" of shale producers, he said. A production "cut is the only thing that OPEC has to manage the market."

END

INSTRUCTIONS: What strategy are the OPEC members following? Is this strategy easy to maintain, why or why not? What are the OPEC members trying to establish by pursuing this strategy (hint: set oil prices is correct, but what is this also known as)?