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OPEC Plus's Accelerated Oil Production Pales in Comparison to Lost Output from US Sanctions

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The global economy has suffered several shocks since the beginning of the coronavirus pandemic. These include lingering supply constraints from fallout of the pandemic as well as those from Russia's invasion of Ukraine, both of which added pressure to prices around the world. On top of this, speculation in commodity markets has led to significantly higher oil prices, and thus higher prices at the pump and for many goods and services.

Higher energy prices are a significant political problem for US president Joe Biden and many other world leaders, who face strikes and protests. One way world leaders might seek to lower prices is work to increase the global supply of oil. Biden especially has a significant opportunity in his hands to boost global production by breaking with Trump's failed "maximum pressure" campaigns, and ending unilateral — and likely illegal — sanctions against Iran and Venezuela. These potential increases in oil production amount to about 2.6 million extra barrels per day, which dwarfs increases Biden is likely to get directly from the Organization of the Petroleum Exporting Countries (OPEC), the cartel that coordinates oil production in many countries.

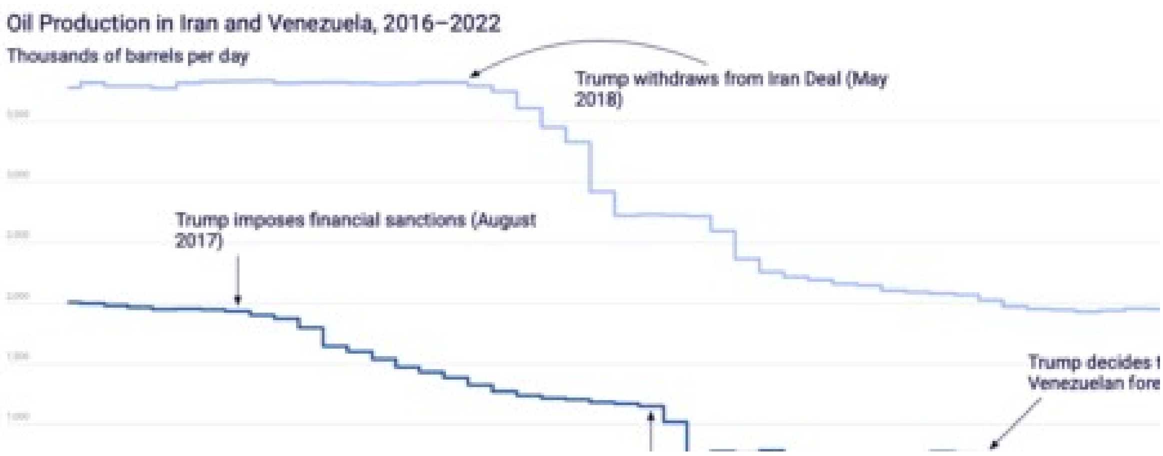
To show the potential benefits of abandoning the Trump administration's failed policies toward Venezuela and Iran, it is useful to compare their potential oil production to that from OPEC Plus, an expanded and loosely organized group of oil-producing countries. Biden, along with other world leaders, have been extensively lobbying OPEC Plus to increase production. A recent announcement from the group included an agreement to accelerate planned increases in oil production for July and August. For these months, the total production increase will now be 648,000 barrels per day — but this does not represent a new commitment to increase total supply. Rather, increases scheduled for over three months have been condensed into two months, meaning that production levels in July and August will be about 200,000 barrels above what they would have been. The increase represents 0.4 percent of global demand for these months.

While the Biden administration welcomed the announcement, it was careful to officially attribute the need for the increase to reasons that OPEC Plus itself cited — "reopening from lockdowns in major global economic centers" — and not to recent and extensive US diplomatic pressure on OPEC Plus to increase supply, including a planned visit to Saudi Arabia by President Biden. The United States nevertheless insisted that it "will continue to use all tools at [its] disposal" to increase production and lower gasoline prices. Reporting on the announcement, meanwhile, directly attributed the OPEC Plus decision to pressure from the Biden administration and other governments, although the discussion of the increase among OPEC Plus members took only 11 minutes, suggesting that the cartel did not view the change as significant.

If the Biden administration is indeed prioritizing lower gasoline prices, one "tool" it has at its disposal is its own policies toward Iran and Venezuela. To date, the Biden administration has not meaningfully broken with Trump's "maximum pressure" campaigns on either country. Like many other sanctions regimes, these campaigns did not achieve their stated political goals and are widely regarded as failures by experts. Trump's strategy also provoked a strong response from the international community. The sanctions on Venezuela are opposed by many other governments in Latin America and the Caribbean as well as by opposition movements in Venezuela itself; the withdrawal from the so-called "Iran Deal" by the Trump administration in May 2018 was regarded as catastrophic by many US allies in Europe.

What Trump's maximum pressure campaigns did achieve were precipitous declines in oil production in both countries, as can been seen in data from January 2017 to today. Throughout 2017, Iran's oil production was relatively stable, peaking at 3,835,000 barrels per day in September. It started falling significantly after the Trump administration's withdrawal from the Iran Deal, reaching a low of 1,930,000 barrels per day in July 2020, when oil prices fell sharply during the pandemic. Production has recovered somewhat, with the most recent data showing output of 2,544,000 barrels per day, or about 66 percent of the 2017 peak.

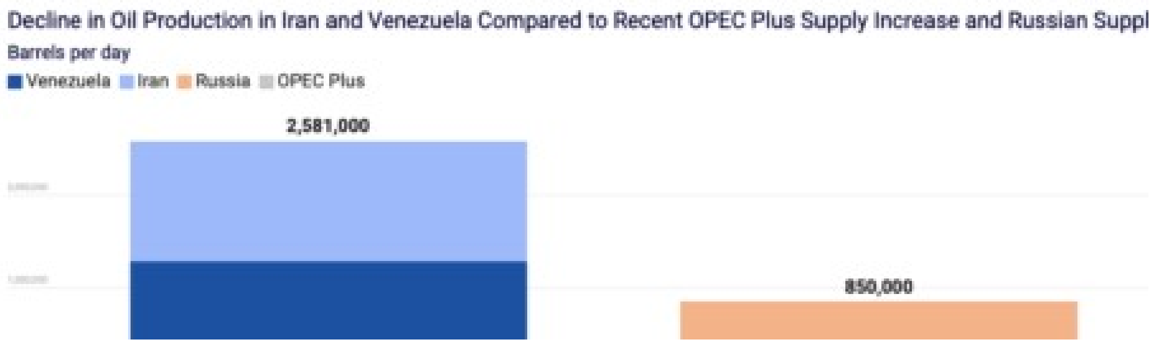
Venezuela's production fell gradually from a high of 2,007,000 barrels per day in January 2017 until 2019, mainly due to effects from US sanctions in August 2017 and lower oil prices. Trump's decision in late January 2019 to increase sanctions on Venezuela, and to no longer recognize the elected government of Nicolás Maduro, led to a sharp decline in production, which was further compounded with secondary sanctions in February 2020. Production reached a low of 337,000 barrels per day in June 2020, during the pandemic. Since then, levels have increased to 717,000 barrels per day — only about 36 percent of what they were in January 2017.



With both Iran and Venezuela producing far below their recent potential, a shift in US policy would likely garner significant increases in the world supply of oil. In the medium-term, this would probably result in a faster return to lower gasoline prices in the United

States, perhaps in a 12–24 month time frame. Venezuelan oil in particular has logistical advantages for the United States: geographically, it is relatively close to the US mainland, and some US refineries are designed to process Venezuela's heavy crude. Had President Biden abandoned Trump's failed maximum pressure strategy in May 2021, when average US gasoline prices breached $3.00 per gallon, it is possible that Americans would be seeing lower gas prices at the pump.

It is instructive to compare the acceleration of the OPEC Plus boost in supply to the increases that could have resulted from a return to pre-"maximum pressure" levels of production in Iran and Venezuela. Changes in US policies toward these countries could result in an increase double that announced by OPEC Plus for July and August — nearly 2,600,000 barrels per day, versus 1,300,000. Increased production from Venezuela and Iran also is significantly larger than the drop in Russian oil production since the invasion of Ukraine, which amounts to a loss of about 850,000 barrels per day.



This is admittedly a simple comparison. Venezuela and Iran would likely need to negotiate production increases with OPEC, which both countries are members of, after they reach a certain level of production (they are currently exempt from quotas). Two factors suggest that increased oil production from either country would be welcomed in the short- and medium-term: one, it is unclear if OPEC Plus will be able to achieve even the recent boost in production, with some analysts predicting only half of the increase in July and August being met; and two, governments, including the United States, seem to view increased production from Venezuela and Iran in this time frame as possible.

And while the US has had to extensively lobby OPEC members (especially Saudi Arabia) for the OPEC Plus supply increase, it is in control of its own policies toward Iran and Venezuela. (In addition, OPEC Plus includes Russia, which must agree to any increases. It is unlikely that Russia would share President Biden's concerns about high energy prices in the United States.) Although President Biden seems to have considered rapprochement with both Iran and Venezuela, these efforts have yet to result in significant deviations from the Trump playbook (although there have been some small, positive developments). A concerted effort to move away from Trump's "maximum pressure" strategy could bring significant political benefits for Biden in the form of lower prices for gas and for goods and services more broadly, and allow for more space to manage gas prices in a way consistent with an aggressive climate policy. These are the types of policy adjustments the Biden administration should embrace, especially if it is not willing to meaningfully address ongoing pandemic-related supply chain issues or to seek a diplomatic solution to the war in Ukraine — both major factors behind soaring food and energy prices.

More importantly, in addition to causing significant economic harm to Iran, Venezuela, and now the United States itself, the Trump policies that Biden is choosing to enforce have likely led to tens of thousands of civilian deaths — and to much untold misery. This is a catastrophe, and unilateral sanctions are illegal under international law, as they amount to collective punishment. It's time for a reset.

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