### The OPEC oil deal

# The future of the oil industry

The oil slump（萧条） is a glimpse（一瞥，一看） of what is to come

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OIL, IT HAS been said（据说）, is the blood coursing（奔流；快速的流动） through the veins（血管） of the world economy. In 2020 the economy is bleeding red（红流）. As covid-19 keeps workers at home and planes （飞机）on the ground, demand（需求） for oil has fallen faster and further than at any point in its history. Amplifying the shock, a furious row（激烈的争执） between Saudi Arabia and Russia set off（激起） a price war in early March. Last month oil prices fell by more than half, leaving a giant（巨大的） industry（产业） reeling（震惊）.

On April 12th the world’s energy superpowers （能源超级大国）broke bread（打破僵局） and reached a new deal to try to prop up（支撑） prices. The Organisation of the Petroleum（石油） Exporting Countries (OPEC) and its allies（同盟国）, including Russia, said they would slash(大量消减) production（产量） by 9.7m barrels a day from May to the end of June, a record, and restrain(限制) output for two years. In the 20th century Uncle Sam（山姆大叔） was keen（热心的，热衷的） to undermine（暗中破坏; 逐渐削弱） OPEC, but in 2018 America became the biggest oil producer, ahead of Saudi Arabia and Russia. President Donald Trump’s re-election（连任） depends on the shale（页岩） states（州） of Texas, Pennsylvania and Ohio. He argued for（赞成；支持；） the pact（协定；公约；条约；契约） and said the industry would recover “far faster” than expected.

In fact private oil firms, state-controlled companies and countries that rely on energy exports should brace（做好准备） themselves for a long period of pain, and use the crisis to begin the restructuring（重组） that will have to take place if the planet （行星）is to deal with climate（气候） change.

This week’s grand bargain（大的交易） is unlikely to work. For a start the sums don’t add up（说的通）. Global demand may fall by 29m barrels a day this month, three times the OPEC deal’s promised cuts. Private firms outside the alliance（同盟） may reduce output, too, but by how much is uncertain. And no one knows when demand will pick up（拾起，好转）. Oil stockpiles（大量储备） are rising and storage capacity could be exhausted（耗尽的） within weeks.

The alliance（联盟） is shaky（不可靠的；不坚定的）. Russia, the world’s second-biggest producer, has worked with OPEC since 2016 but routinely（惯常的） ignored the terms（条款） of deals. It is unlikely that America will permanently（永久的） join OPEC in creating a new energy order. The new pact（协定） involves assurances that output will fall in America but Texan frackers respond to price signals and the profit motive（动机）, not government quotas（配额）. The deal almost fell apart （破裂）when Mexico refused Saudi Arabia’s terms, illustrating how one country can prompt（促进） an unravelling（解体）. And Saudi Arabia continues to offer deep discounts on crude （原油）bound for Asia, a sign of its eagerness（热心的，渴望的） to defend（保护） its powerful position in oil’s most important market.

A last reason for scepticism（怀疑） is that the covid-19 crisis could further dampen（抑制） long-term（长期的） oil demand. Hundreds of millions of（数以亿计的） people are living through an experiment with home-working, fewer （较少的）flights and less urban pollution. This could help change public opinion about the desirability of a faster shift from an economy built on fossil fuels.

Rather than stability, then, oil producers face volatile demand and production. Iran and Venezuela, already squeezed by American sanctions, will see more unrest. Countries with high costs and poor governance, such as Nigeria and Angola, face capital flight and balance-of-payments crises. Last year bankruptcies among American oil producers jumped by 50%. In 2020 that figure will soar.

Beyond this year a deeper adjustment awaits. Volatility will dampen investors’ appetite for new projects. Oil companies have already slashed capital spending by about 25% this year. Some pricey oil will be left underground for good. Shale’s frenetic growth will abate. Big oil exporters, including Saudi Arabia, will have to cut public spending and diversify.

For years the oil industry has faced the possibility that demand might fall, as governments moved to limit climate change. That threatened to heap chaos on oil producers, as capital dried up and companies battled for their share of a dwindling market. A peak in demand may still be years away. But oil producers should see covid-19’s turmoil for what it is: not an aberration, but a sign of what is to come.