Why the Crescent Point Energy Corp. CEO Is Wrong About OPEC

Description

While speaking to *The Globe and Mail* and *The Business News Network* last week, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) CEO Scott Saxberg said that OPEC could cut its production quota later this year. If this prediction comes true, it would be a big plus for energy producers such as Crescent Point.

But you shouldn't count on this happening anytime soon. Below are three reasons why.

1. History

OPEC has cut production to boost oil prices before, and some people think history will repeat itself.

But these decisions did not work out particularly well for the cartel. For example, OPEC cut production drastically in the 1970s, but this led to a rise in oil production elsewhere, such as the North Sea. Eventually, oil prices collapsed in 1986.

Or you could look at the late 1990s, when OPEC cut production in response to the East Asia crisis. Over time, this once again led to a rise in production in other geographies, including Canada's oil sands. And just like before, oil prices have collapsed.

OPEC is well aware of this, and seems to have learned from its past mistakes.

2. A lack of market power

OPEC's decisions are driven by Saudi Arabia, easily the cartel's largest producer. In the past, the kingdom has been able to move the market simply by cutting its own production. But those days are likely over for a couple of reasons.

First of all, OPEC's other members have a history of producing above their assigned quota, and some of these countries (such as Venezuela) are very cash strapped. So, even if Saudi Arabia cuts its own production, it cannot expect other OPEC members to follow suit. Some OPEC members may even increase production in the event of a cut in quota.

Secondly, the rise in oil production from non-OPEC members has been a game changer. Now, if the cartel cuts production, the void can be easily filled in countries like Russia and the United States.

3. Iran

The recent nuclear deal between Iran and the P5+1 countries has a few strong opponents. We all know, of course, about Binyamin Netanyahu, as well as Republicans in the United States. But another strong objector is Saudi Arabia.

The reason is simple: Saudi Arabia *hates* Iran. So, any deal that makes Iran stronger will always be opposed by the Saudis.

And Iran would benefit handsomely from a cut in OPEC production. The country is set to drastically increase its oil exports, and these efforts would get a big boost if OPEC wasn't fighting for market share.

So, Mr. Saxberg is likely to be disappointed if he is expecting a cut from OPEC. And you're likely to be disappointed if you invest in Crescent Point. A much better alternative is featured in the free report below.

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