



POTEN TANKER OPINION



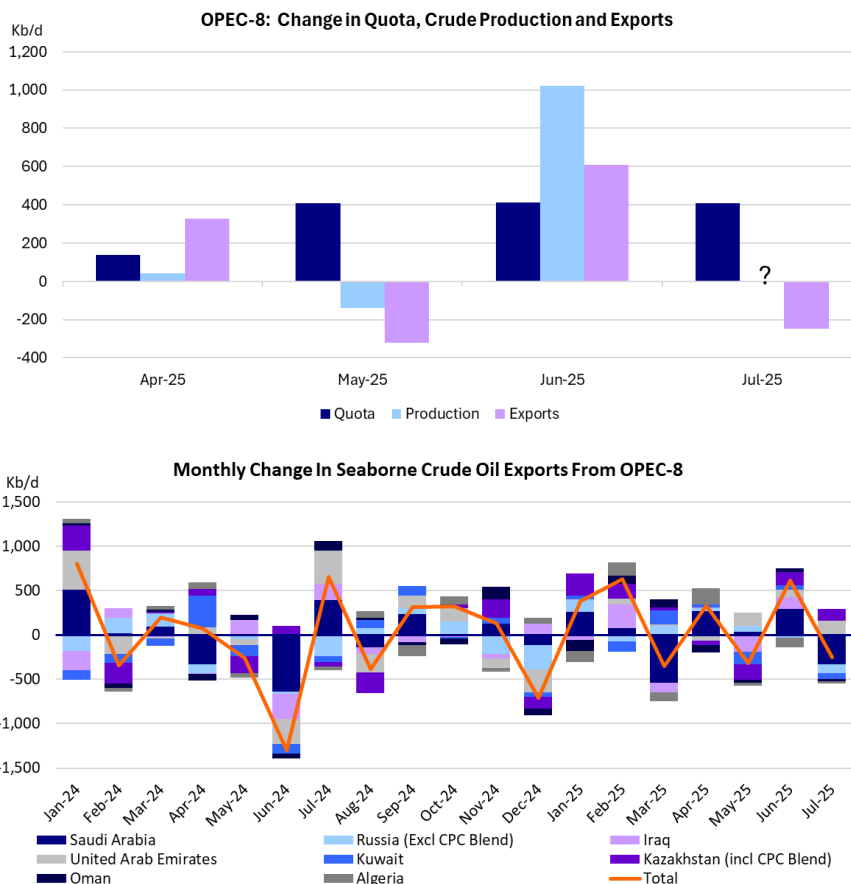
OPEC Remains Opaque

Quotas are up, but actual production and exports are lagging

OPEC crude oil production and, in particular the cartel's exports, are an important driver for the crude oil tanker market. The production of most independent oil companies in the world is based on market signals such as price, profitability, as well as economic conditions. This is not how OPEC countries typically operate. OPEC is a cartel of major oil exporting countries that coordinate their production to maintain a stable oil market and secure a steady income stream for their members. While OPEC was formed in September 1960, formal, audited production quotas were only introduced in the early 1980. This was a response to growing non-OPEC supply, weakening global oil demand and internal conflicts, such as the Iran-Iraq War. Since then, quotas (which are periodically renegotiated) have been central to OPEC's production policy, despite frequent disputes over quota violations and overproduction by members. However, over the last 10-15 years, several factors have made it very difficult to track developments within OPEC. The Arab Spring, which spread across the Middle East and North Africa in 2011 disrupted oil production in several member countries. U.S. sanctions impacted production in Iran and Venezuela over the last decade. At the same time, the expansion to OPEC+ made the group significantly larger. This made it more difficult to coordinate production. This became apparent when OPEC tried to respond to the collapse in oil demand during the Covid-19 pandemic. In April 2020, OPEC+ agreed to the largest production cut in history, lowering production by 9.7 Mb/d. These were unwound starting in July 2020. In today's Tanker Opinion, we will discuss the 2.2 Mb/d voluntary cuts that eight OPEC producers agreed to on November 30, 2023. What is the impact on the oil and tanker markets now that these cuts are being unwound?

The 2.2 Mb/d production cuts were agreed by Saudi Arabia, Russia, Iraq, UAE, Kuwait, Kazakhstan, Algeria and Oman. These cuts, which were initially meant to end by March 2024, were extended several times. The eight members of OPEC decided to finally unwind these cuts earlier this year. They officially started increasing their quotas in April 2025 by 137,000 b/d, followed by three monthly increases of 411,000 b/d (May, June, July) and two monthly increases of 548,000 b/d. On the surface, this rollback looks like great news for the tanker market (in particular for VLCCs who dominate the oil trade out of the Middle East).

However, there is a big difference between quotas, production and exports. Chart 1 illustrates that perfectly. It shows the quota increases for the period April – July 2025, as per the schedule outlined in the previous paragraph. However, the changes in production over this period were very different. Minimal in April, a decline(!) in May and then a huge increase in



June. These monthly production changes seem to have no correlation whatsoever with the quotas. There are explanations for many of these variations. Some countries are producing below their quota because they overproduced in the past, others don't have any capacity to boost production (i.e. they cannot reach their quota). Some countries are producing well above their quota. Kazakhstan claims that they have no control over their production, which is largely managed by international oil companies. The Saudi's boosted production in June during the Israel – Iran conflict to relocate supplies outside of the region. It appears that they cut back again in July to compensate.

So, what does this mean for exports and the tanker market? Nobody knows, really. Vortexa data shows that the exports from the OPEC-8 countries that were part of the voluntary cuts declined in two of the four months since the unwinding of the cuts started. No surprise that the tanker market has not moved much since OPEC started to roll back voluntary cuts. Looking back a little further (Chart 2), does not show a clear trend either. Month-to-month changes have been up and down since January 2024.

It is difficult to project what will happen for the remainder of 2025. Normal seasonal patterns typically show a pickup in seaborne exports in the fourth quarter. OPEC quotas will increase, but, as we explained above, this does not automatically translate into higher production and exports. If it does, however, the VLCC market could get a boost, especially since fleet growth is very limited.