CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
May 30, 2006

OPEC SHOULD END PRODUCTION CEILINGS

Press Release #109-79
Contact: Christopher Frenze
Executive Director
(202) 225-3923

WASHINGTON, D.C. **–** The international oil cartel should end its system of production restrictions and plan to expand investments in production capacity when it meets June 1, Chairman Jim Saxton said today. Although the restrictive practices of the OPEC cartel are not the only reason for high oil prices, they remain important. A recent report by the nonpartisan Congressional Research Service (CRS) noted that among the events "leading up to the crisis," were "Decisions by the Organization of Petroleum Exporting Countries (OPEC) cartel, after having reduced production quotas in 2002, to raise them only slowly and reluctantly."

"The OPEC cartel is ripping off consumers for hundreds of billions of dollars," Saxton said. "OPEC controls more than two-thirds of proven oil reserves but chooses to produce only about 40 percent of world oil output. OPEC claims that it is not restricting oil production, but that is precisely the purpose of its oil production quotas. Quotas are a device used by cartels to limit the output of individual members. If OPEC is serious about not manipulating the oil market, then the quotas have no purpose and should be discontinued or at least suspended.

"Of course, OPEC's bias against expanded oil production has led to inadequate investment in oil production and refining capacity. The result is a tight market supply aggravated in recent years by unexpected increases in demand for oil, natural disasters, political turmoil in several oil producing nations, and the potential for terrorists to disrupt oil production.

"A recent JEC study examined the role of the OPEC cartel's production ceilings and its failures to invest adequately in production facilities. This study also identified the lack of transparency in OPEC oil reserves and production as another serious problem. The low scores of most OPEC members in Transparency International's corruption index do not inspire much confidence in the cartel's forthrightness. The bottom line is that a cartel of secretive governments conspiring to manipulate oil production is unlikely to make decisions consistent with the efficient operation of market forces.

"It should not be forgotten that only a few years ago, OPEC attempted to cut production despite the increasing scarcity of oil in the market. The basic fact is that although its oil reserves have doubled compared to 30 years ago, its oil output has remained about the same," Saxton concluded.

For a copy of the JEC study, *OPEC and the High Price of Oil*, please visit our website at www.house.gov/jec

###