



THE BLOGS

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Will OPEC Collapse?

The UAE's exit from OPEC on May 1 was not a tantrum. It was a strategic calculation years in the making. Abu Dhabi had invested \$150 billion expanding production capacity to 4.85 million barrels per day while OPEC's quota framework capped its output at 3.2 million. The gap between capacity and permission had become an opportunity cost no rational actor could tolerate indefinitely. The Iran war simply accelerated the timeline.

The question now is whether the UAE's departure marks the beginning of OPEC's terminal decline, or merely another defection that the cartel will absorb, as it absorbed Qatar's exit in 2019 and Angola's in 2024. The answer lies in the structure of the game OPEC's members are playing — and that structure has changed fundamentally.

OPEC has always operated as a repeated prisoner's dilemma. Each member faces a choice between cooperating (restricting output to support prices) and defecting (pumping freely to maximise revenue). In a stable, repeated game, cooperation can be sustained because the future benefits of coordination outweigh the short-term gains of cheating. The discount rate matters enormously. When members believe the cartel will persist and enforce discipline, they cooperate. When confidence in the cartel's future erodes, the shadow of the future shortens, and defection becomes the dominant strategy.

The UAE's departure has shortened that shadow for every remaining member. As Vandana Hari of Vanda Insights put it, in an increasingly fractured world where nationalistic imperatives override collective coordination, the logic of self-sacrifice for group benefit weakens. The political cost of exit has been visibly lowered. Kazakhstan, which has persistently overproduced and struggled with Western-operated fields that prioritise shareholder returns over quota compliance, was immediately flagged as a flight risk — though Astana has, for now, reaffirmed its commitment to OPEC+, likely under pressure from Moscow, which needs coordinated supply management to sustain the windfall revenues financing its war economy.

But staying in the game and playing by the rules are different things. Iraq and Kazakhstan have been chronic quota violators. Nigeria, whose Dangote refinery is pivoting the country's strategy toward domestic refining and value-added fuel margins, has diminishing incentive to constrain crude volumes for the sake of export price stability. The incentive structure is fragmenting from within even without formal exits.

Consider the forces now converging. The Iran war has dramatically increased oil market volatility. The UAE's exit has demonstrated that departure carries limited consequences. And for several members — Kazakhstan, Nigeria, even Iraq — the spread between production capacity and quota allocation is widening. Every incentive points toward defection.

The logic of membership is straightforward: each producer sacrifices sovereign flexibility over its own output in exchange for the collective benefit of higher, more stable prices. That bargain holds only as long as the benefits of coordination outweigh the costs of restraint. When compliance is uneven, when US shale has structurally capped OPEC's pricing power, and when the energy transition is compressing the time horizon over which oil revenues can be captured, the cost of surrendering production freedom becomes intolerable. The UAE reached that tipping point. Others are approaching it.

Will OPEC collapse? Not immediately, and perhaps not formally. Institutions rarely die; they fade into irrelevance. OPEC will continue to hold meetings in Vienna. Saudi Arabia, which needs prices somewhere between \$85 and \$96 per barrel to balance its budget and fund Vision 2030 — and possibly above \$110 when sovereign wealth fund spending is included — will continue to manage supply semi-unilaterally, as it increasingly does already. But the cartel's ability to function as a genuine price-setting mechanism — its *raison d'être* — is eroding with each defection, each overproduction scandal, each member that concludes the costs of restraint now outweigh the benefits of coordination.

OPEC is not collapsing. It is repricing — and the market is marking down its franchise value in real time.

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