Press Release

Assessing Responses to the Collapsing Price of Oil

ANDREW EVANS | APRIL 21, 2020

Demand for oil collapsed because of the COVID-19 pandemic at the same time that Russia and Saudi Arabia were increasing production. The resulting glut of oil has caused the price to collapse, leading some policymakers to consider way to suppress domestic oil production and raise the price. AAF's Director of Energy Policy Ewelina Czapla assesses the range of potential responses and concludes that they will be ineffective and costly, at best, since producers are already responding to market signals.

An excerpt:

> Since its peak in mid-March, oil production in the United States has declined from 13.1 million barrels per day to 12.3 million barrels per day….And companies have announced reduced capital expenditures on new oil wells in the next year, a common response in a historically boom and bust industry. Nine major global producers announced cuts that amount to a 22 percent decrease in expected expenditures in 2020. These cuts indicate that bringing new wells online is not currently in producers' best interest. The point of intervention is to cut production, but companies are already cutting in response to the market, making intervention unnecessary. Overall, intervention by both federal and state authorities would fail to aid producers while harming consumers and, in the long term, potentially affect the market's ability to operate efficiently.

Read the Analysis