Our View: Crude Oil Markets Now Most Competitive in 30 Years

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Competition in the global oil market is the greatest in thirty years.

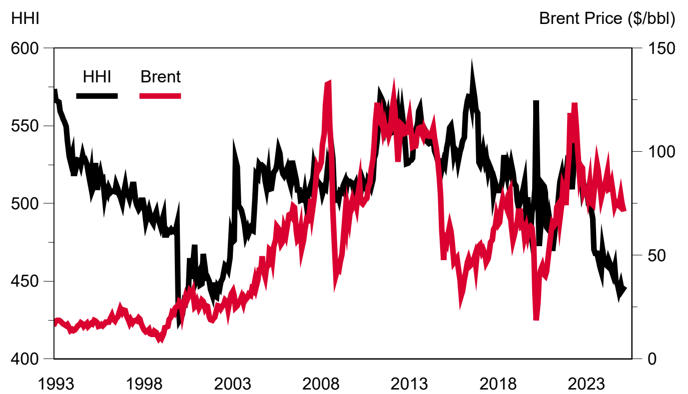
As fracking boomed, the increase in US crude oil production and output hikes in Guyana and Brazil have changed the global oil market dynamics.

Figure 1 displays the global production HHI[1] and Brent prices from 1993 to 2025.

In introducing these data, we note that our calculations treat all nations except the US and Canada as firms. For example, in computing the global HHI for oil, we measured Saudi Arabian output as if the country were a single company because a single entity produces its volumes. Such is the case for many nations.

The situation is different in the United States and Canada because the many firms operating there make individual decisions regarding output. In the US, the largest producer, Chevron, produces fewer than one million barrels per day. All but four companies produce fewer than five hundred thousand barrels per day. Using the limited data available, we concluded that the United States oil sector comprises at least twenty firms (our "countries") and modified the HHI to reflect this assumption. For Canada, we assumed the nation's oil sector comprises four firms.

Figure 1
Global Oil Market HHI vs. Brent Prices, 1993 to 2025



Source: PKVerleger LLC.

Figure 1 presents the HHI we computed under these assumptions. These HHIs are well below the concentration thresholds used in merger analyses. While these are important, the change in our computed world HHI matters far more than the absolute HHI value for our purposes.

One can observe from Figure 1 that the oil market is more competitive now than at any time in the prior thirty years. We draw this conclusion because the computed HHI is at the lowest point in the history displayed in the figure. This suggests that prices are as susceptible to downward pressure today as at any time since 1993.

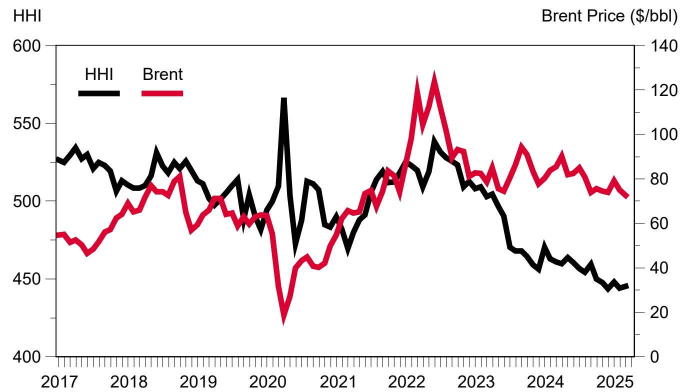
[1] Regulators here and in many other countries use the Herfindahl-Hirschman Index (HHI) to measure market competitiveness: "A market with an HHI of less than 1,500 is considered a competitive marketplace, an HHI of 1,500 to 2,500 is moderately concentrated, and an HHI of 2,500 or greater is highly concentrated." See Michael Bromberg, "Herfindahl-Hirschman Index (HHI): Definition, Formula, and Example," Investopedia, June 12, 2024 [https://tinyurl.com/3868er5d].

From Figure 1, one can also see that the price rise after 2000 closely followed the increase in concentration until prices peaked in 2008. One can also see that the price rise from 2009 to 2014 again followed the increase in concentration.

The relationship broke down after 2014. In this case, the surging US production from frackers and the passage of legislation permitting US crude oil exports broke the linkage. Prices began to rise along with the HHI after Prince Abdulaziz became Saudi oil minister and OPEC joined forces with Russia to create OPEC+.

Figure 2 shows that the OPEC+ alliance has successfully sustained high prices since January 2023. This graph shows oil prices and the world HHI from January 2017 to March 2025. Note how closely they seem linked until January 2023. Also note how market concentration has declined since January 2023 while prices remained high. Increased output from the United States and Canada was the primary driver of the HHI decline.

Figure 2
Global Oil Market HHI vs. Brent Prices, 2017 to 2025



Source: PKVerleger LLC.

The change in the global HHI suggests prices should have decreased to around $40 per barrel by early 2025. That did not happen. However, the current discussions within OPEC and OPEC+ indicate a decline may be forthcoming.