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Precious Metals, Commodities, Global Macro & Geopolitics

Veritas Filia Temporis



CARTEL MYTH, INSTITUTIONAL DECAY

This briefing covers a central theme of AION's ongoing analysis: how the accelerating decay of institutions in an increasingly fragmented world is shaping future investment outcomes. The impending departure of the United Arab Emirates ('UAE') from OPEC on May 1st is the latest evidence of this shift, and it carries direct implications for the architecture of global oil markets. The central argument of this piece is that the outlook has become more, and not less, complicated and that the future distribution of oil price outcomes is now far wider than it was before this week's UAE announcement.

Since its foundation in 1960, OPEC has been dubbed a “cartel”, but this has always been a deeply problematic label that obscured more than it revealed. Has the group done *some* of what cartels usually do? Have members explicitly colluded to restrict supply and influence price? Yes, and yes. But the group has never managed to achieve the hallmarks of a cartel in terms of quota compliance, approximate symmetry between members, and the goal of joint profit maximization.

So, what has the label of “cartel” obscured?

First, the combination of asymmetries in marginal costs and dependence on fiscal revenues of oil production have created a dominant firm—the residual claimant on price stabilization—in Saudi Arabia. Except for UAE, which also has spare capacity, all other members have produced at close to their ceiling capacity, for most of the time, with an unspoken expectation that cheating on quotas is a feature and not a bug of OPEC's organizational structure.

Second, punishment for overproduction or the decision to conduct a price war against non-aligned interests (US shale in 2014-16 and Russia in 2020) has always been administered unilaterally by Saudi Arabia—the dominant firm—rather than through the coordinated retaliation of all members.

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Third, OPEC's stated aims are: *"...to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry."*¹ Crucially, Iran's long-standing belligerence towards other members runs counter to the stated aims of OPEC. And yet it has remained a member of the organization despite at least three recent examples of acts of economic warfare:

- In September 2019, Iranian-backed Houthis attacked Saudi Arabia's Abqaiq and Khurais facilities using Iranian-made drones. This immediately cut Saudi production by 50% and temporarily interrupted approximately 5% of global petroleum supply.
- In January and February 2022, Houthis launched a series of lethal drone attacks on the UAE, killing three people, in response to UAE's involvement in Yemen.
- Beginning on February 28th, Iran and its allied proxy militias deployed thousands of aerial systems and attacked four OPEC members and five other Arab states in the region: Saudi Arabia, Bahrain, Kuwait, Qatar, the United Arab Emirates, Jordan, Syria, Iraq, and Oman. UAE is estimated to have been attacked more than 2,800 times, while Saudi Arabia, Iraq, and Kuwait have weathered, approximately, another 2,000 attacks.²

The departure of UAE from OPEC has weakened the institution for three reasons. First, geopolitical and economic fractures within the Gulf region that could previously be obscured by the cartel label are now writ large. On balance, it is logical to assume that UAE's departure from OPEC is likely to increase tensions with Saudi Arabia, Iran, and other OPEC members, rather than lessen them. Outside OPEC, UAE will now operate under a different set of incentives unfettered by internal OPEC dynamics. These may include closer economic or security ties with the United States and an accelerated timetable for energy infrastructure development, especially in the realm of production capacity.

Second, Saudi Arabia will now be forced to grapple with more complexity on several fronts. It must manage the contagion risk of other members leaving OPEC and OPEC+, which will be a 21-member group from May 1st. In the UAE, it must account for an additional actor, with spare capacity, in the event it wishes to start another price war. And the free-rider incentive for UAE has improved with a concomitant decline for other producers—with one less member to bear a quota inside OPEC, the remaining members will have to restrain production more than would otherwise have been the case.

Third, while it may seem logical to assume that oil prices might fall because of rising supply from UAE, the reality is not so simple. If relations between states in the region deteriorate, it is possible to contemplate UAE becoming a target for increased kinetic warfare from Iran and its proxies.

¹ Organization of the Petroleum Exporting Countries (2026) 'Our Mission.' [Link](#). Accessed: April 29th, 2026.

² Sharwari, A. (2026) 'Iran's war against regional states: UAE bore the brunt, Iraqi Kurdistan still under fire'. April 18. FDD's Long War Journal. [Link](#). Accessed: April 29th.

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While OPEC's capacity to institutionally dampen the oil market has varied over time, the clear erosion of cohesion has now increased the likelihood of non-linear outcomes, where volatility may cluster. This in turn will almost certainly reorient the volatility structure of oil markets based on shifting the distribution of spare capacity and the elasticity of non-OPEC supply.

Four years ago, Russia used its near monopolistic position as Europe's supplier of natural gas to choke off supply, thereby creating scarcity and energy price inflation as an economic lever against Ukraine and its allies. Crucially, Russian warfare was confined within Ukrainian borders. Today, Iran is using a variation on the Russian playbook. The regime's geopolitical aims—uranium enrichment and the furtherance of the theocracy—are being pursued using the vector of an energy supply shock caused by kinetic warfare.

The central parallel is that both regimes are using energy markets as the transmission mechanism for geopolitical coercion of the West against the background of institutional decay. In Russia's case, vulnerability and decay are to be found in the European Union and NATO, and in Iran's, OPEC and the Gulf Co-Operation Council ('GCC'). In both cases, the calculus is that Western policymakers will blink first for fear of another inflationary shock within five years, coupled with a possible recession. Such prospects will, they believe, fracture any resolve on their opponent's core interests both domestically and internationally.

CONCLUSION

A central tenet of AION's perspective on the outlook for the next several years, and one that will be explored at length in future publications, is that investors are nowhere close to being hedged against the kind of volatility in financial markets, or in inflation and inflation expectations, that the current acceleration of geopolitical events will bring.

I've argued for the last several years that the widespread abandonment of commodities by institutions, as well as the entrenched opposition to gold and precious metals, will likely prove a costly mistake between now and the early 2030s as financial markets struggle to generate the returns needed to navigate the concurrent shift in geopolitical alliances and the global monetary systems. Furthermore, it is challenging in the extreme to find examples of assets in financial markets where the underlying fundamentals have not been priced to perfection.

The departure of UAE from OPEC is yet another indication that institutions that have historically provided containment of economic rivalry, based on a shared interest for collective profit and security, are rapidly failing. That fact alone should be enough to incentivize investors to meaningfully reorient their portfolios towards energy, precious metals, and commodities, without delay.

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