

# OPEC and oil price cut

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**Source:** *The Hindu*

**Manifest pedagogy:** The OPEC group faced its biggest crisis in years when Russia refused to participate in production cuts earlier. However, with a new deal between its members mediated by the USA, the group negotiated its biggest cut in history.

**In news: OPEC and allies led by Russia have agreed on a record cut in output to prop up oil prices amid the coronavirus pandemic.**

**Placing it in syllabus:** World economy

**Static dimensions:** About OPEC

**Current dimensions:**

- Saudi Russia oil war
- About the OPEC and Russia deal

**Content:**

**About OPEC:**

- The Organization of the Petroleum Exporting Countries (OPEC) is a permanent, intergovernmental Organization, **created at the Baghdad Conference held at Iraq in 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela.**
- It initially had its headquarters in Geneva, Switzerland which was then moved to **Vienna, Austria in 1965.**
- The **objective** is to
  - coordinate and unify petroleum policies among Member Countries;
  - in order to secure fair and stable prices for petroleum producers;
  - an efficient, economic and regular supply of

- petroleum to consuming nations;
- a fair return on capital to those investing in the industry;
- Currently, the Organization has a total of **13 Member Countries**– Algeria, Angola, Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, Venezuela.
- **2020 marks the 60th anniversary of the founding of OPEC.**

### ***Estimated production and reserves:***

- According to current estimates, **79.4% of the world's proven oil reserves are located in OPEC Member Countries**, with the bulk of OPEC oil reserves in the Middle East.
- OPEC's proven oil reserves currently stand at **1,189.80 billion barrels.**
- **Venezuela has the highest crude oil reserves followed by Saudi Arabia and Iran.**

### ***Non-OPEC countries which are major oil producers are:***

Russia, Azerbaijan, Bahrain, Brunei, Equatorial Guinea, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan, South Sudan, Brazil and Bolivia.

### **Saudi-Russia oil war:**

- In 2014, with a boom in U.S. shale oil production the oil prices crashed to about \$27 in 2016.
- In September 2016, Saudi Arabia and Russia agreed to cooperate in managing the price of oil, creating **an informal alliance of OPEC and non-OPEC producers that was dubbed "OPEC+."**
- By January 2020, OPEC+ had cut oil production by 2.1 million barrels per day (bpd), with Saudi Arabia making the largest reductions in production.
- Due to the COVID-19 pandemic, factory output and demand fell globally, which triggered an **OPEC summit in Vienna**

**on 5 March 2020.**

- At the summit, **OPEC agreed to cut oil production by an additional 1.5 million bpd through the second quarter of the year.**
- OPEC called on Russia and other non-OPEC members of OPEC+ to abide by the OPEC decision.
- On 6 March 2020, **Russia rejected the demand**, marking the end of the unofficial partnership, with oil prices falling 10% after the announcement.
- On 8 March 2020, **Saudi Arabia announced unexpected price discounts of \$6 to \$8 per barrel to customers in Europe, Asia, and the United States.**
- The announcement triggered a free fall in oil prices with Brent crude falling by 30%, the largest drop since the Gulf War.
- **The Russian ruble fell 7% to a 4-year low against the U.S. dollar.**
- On 10 March, Saudi Arabia announced that it would increase its production from 9.7 million barrels per day to 12.3 million, while Russia planned to increase oil production by 300,000 barrels per day.
- As demand continued to fall dramatically, oil prices went down further.
- Then Russian President Vladimir Putin stated that global production could be cut by 10 million barrels.
- In response to Putin's statement, oil prices jumped.
- US oil prices increased by 25% on 2 April, the biggest one-day increase in history.
- On 9 April, OPEC and Russia agreed to reduce oil production by 10 million bpd.

#### **About the OPEC and Russia deal:**

- **OPEC and allies led by Russia** have agreed to a **record cut in output to prop up oil prices** in an unprecedented deal with fellow oil nations.
- **OPEC+** has said that it **would reduce output by 9.7**

**million barrels per day (bpd) for May and June.**

- The total global oil cuts are expected to **amount to more than 20 million bpd or 20 percent of global supply**, effective May 1, 2020.
- This is the **biggest oil cut ever** and is more than four times deeper than the previous record cut in 2008.
- Producers will slowly relax curbs after June, although **reductions in production will stay in place until April 2022.**
- **Total global cuts will include** contributions from non-members, steeper voluntary cuts by some OPEC+ members and strategic stocks purchases by the world's largest consumers.
- Big consumer countries that backed the deal like the US, China, Japan, India and South Korea are preparing to buy oil to boost their reserves and tighten the market.

#### ***OPEC deal negotiations by USA:***

- **US president Donald Trump had continuous telephonic conversations with the Saudi crown prince, Mohammed bin Salman and President Vladimir V. Putin of Russia in the past few days.**
- Though the deal has been agreed, Saudi Arabia strongly resisted **Mexico's position which said that it would cut just 100,000 barrels a day** and not 400,000.
- However, as Trump said that the U.S. would help by shouldering the cuts that Mexico was unwilling to make, **under US pressure, Saudi Arabia allowed Mexico to cut by a smaller margin than its OPEC+ peers.**
- Thus the US has played a key role in coaxing the Saudis and Russians not to abandon the tentative agreement.