

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.