The OPEC meet: Relevance for India

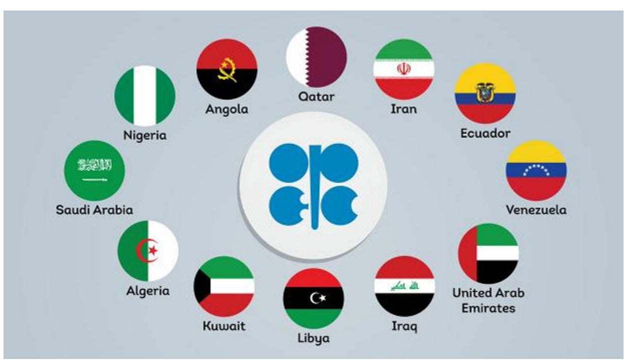
Recently:

- The biannual meeting of Organisation of Petroleum Exporting Countries (OPEC) in Vienna started on June 22, 2018 to decide a roadmap for oil production output.

About OPEC:

- OPEC (The Organization of the Petroleum Exporting Countries) is a permanent intergovernmental organization of 14 oil-exporting developing nations that coordinates and unifies the petroleum policies of its Member Countries.
- Its secretariat is at Vienna.

OPEC members:



- OPEC was created at the Baghdad Conference on September 10–14, 1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela.
- The five Founding Members were later joined by ten other Members: Qatar (1961); Indonesia (1962) – suspended its membership in January 2009, reactivated it in January 2016, but decided to suspend it again in November 2016; Libya (1962); United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973) – suspended its membership in December 1992, but reactivated it in October

2007; Angola (2007); Gabon (1975) – terminated its membership in January 1995 but rejoined in July 2016; and Equatorial Guinea (2017).

Objective of OPEC:

- To co-ordinate 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; and
- a fair return on capital to those investing in the industry.

Trends after 2010:

- The global economy represented the main risk to the oil market early in the decade, as global macroeconomic uncertainties and heightened risks surrounding the international financial system weighed on economies. Escalating social unrest in many parts of the world affected both supply and demand throughout the first half of the decade, although the market remained relatively balanced.
- Prices were stable between 2011 and mid-2014, before a combination of speculation and oversupply caused them to fall in 2014.
- Trade patterns continued to shift, with demand growing further in Asian countries and generally shrinking in the OECD.
- The world's focus on multilateral environmental matters began to sharpen, with expectations for a new UN-led climate change agreement. OPEC continued to seek stability in the market, and looked to further enhance its dialogue and cooperation with consumers, and non-OPEC producers.

What are the decisions that may take place in the meet?

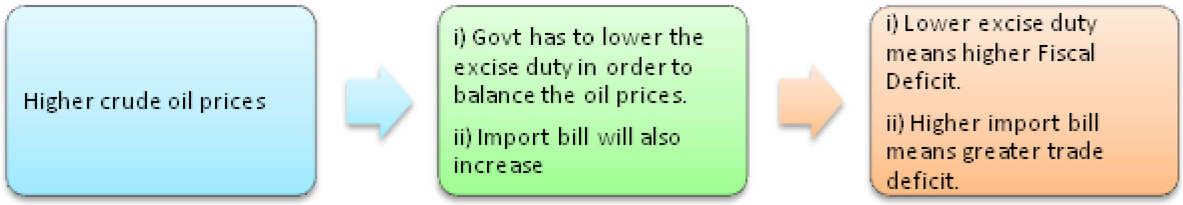
- The OPEC countries may decide to increase the oil production in order to stabilize the global prices.
- In Dec 2016, Russia and OPEC had reached a deal in which they had decided to cut the production by 1.8 bpd (Barrels per day). This was done in order to increase the oil prices.
- Though Russia is not a member of OPEC, yet the country along with Saudi Arabia is world's largest oil producer.
- Now, Russia wants to increase the oil production.
- However, OPEC members including Iraq, Iran and Venezuela do not have spare capacity like Saudi or Russia, and do not want enhanced limits.

What are the factors involved in price rationalization?

- Budget deficits of OPEC economies: Any increase in oil output will lead to a softening of prices, and oil-led economies will end up earning less for the same volumes, thereby leading to budget deficits.
- Geopolitics: Iran, the Saudis' great adversary in the Middle East, is smarting under US President Donald Trump's decision to pull out of the 2015 nuclear accord, and wants to convey its hold on the cartel while mopping up as much oil revenue as possible before sanctions kick in.

- Saudi, on the other hand, is pushing for extra oil in line with Trump's request; it also needs the cushion to attract investors for Saudi Aramco's IPO likely early 2019.
    - A three-way deal with Russia and a consortium of American oil giants would push Iran even further into a corner.
    - Like any cartel, each member tries to cheat, and connives against the others.
- US' Shale production: 2014 onward, the Saudis started to float more oil in the global market to bottom out prices.
- A fall below $40 a barrel prevented shale oil from flowing out of the US, and helped maintain the Middle East's hegemony in the oil world.
- And when shale shops in the US stemmed production, the Saudis got Russia and other non-OPEC players to agree to a cumulative 1.8 million bpd-cut in 2016.
- But a tightening market coupled with strong global demand spiked prices beyond $80, thereby signalling the rejuvenation of shale shops.
- Infrastructure constraints in the US has so far kept a large chunk of shale oil away from global markets, but once these bottlenecks are cleared, US entrepreneurs will be able to reverse the world's energy flows.
- A marginal increase in crude production could stall the shale oil gush from the US and Canada. Since most nations — including Saudi and Russia — have had to dip into their sovereign wealth funds to meet expenses as crude fell until 2016, the increase in output is expected to buy them time to replenish these funds, and address, for now, a gamut of economic issues and regional rivalries.

Why is this meeting important for India?



Impact of higher crude prices

- Ahead of the meeting, India had requested the OPEC forum (a conclave of ministers of both producing and consuming nations) to increase the supply of oil.
- Increased supply would lower the process and hence India's import bill and trade deficit will also reduce.
- A higher fiscal deficit also means lower credit rating for India.