Syllabus subtopic: Effect of policies and politics of developed and developing countries on India's interests, Indian diaspora.

News: OPEC and allies led by Russia agreed one of the deepest output cuts this decade to prevent oversupply in a deal that will apply for the first three months of 2020.

Prelims and Mains focus: about OPEC, its members and its importance for India’s oil demand, OPEC+

Context

The Organization of the Petroleum Exporting Countries (OPEC) is meeting to discuss policy in Vienna. On Friday OPEC will meet with Russia and other producers, a group known as OPEC+.

Existing supply curbs of 1.2 million barrels per day, aimed at supporting oil prices and preventing excess supply, are set to expire in March.

A panel of energy ministers including Saudi Arabia and Russia had recommended OPEC+ deepen the cuts by 500,000 bpd (barrels per day). A cut of 1.7 million bpd would amount to 1.7% of global supply.

About the time framc

Cuts would last through the first quarter of 2020, a shorter timeframe than suggested by some OPEC ministers, who have called for extending cuts until June or December 2020.

OPEC+ has agreed voluntary supply cuts since 2017 to counter booming output from the shale fields of the United States, which has become the world’s biggest producer.

Challenges faced by OPEC

OPEC's actions in the past have angered U.S. President Donald Trump, but Trump has said little about OPEC in recent months. That might change if oil and gasoline prices rise ahead of the U.S. presidential election set for November 2020.
OPEC sources have said Riyadh was pressing fellow members Iraq and Nigeria to improve their compliance with quotas, which could provide an additional reduction of up to 400,000 bpd.

Washington has forced an even steeper reduction in supply through sanctions on OPEC members Iran and Venezuela aimed at choking both countries' oil export revenue.

Producers face another year of rising output from the United States along with other non-OPEC producers Brazil and Norway.

With a weaker U.S. dollar, improving economic data and OPEC aggressively managing supply, this should ensure a $60-$65 Brent oil price in the seasonally weak period of next year.

OPEC's actions have supported oil prices at around $50-$75 per barrel over the past year.

Compromise

Non-OPEC member Russia had previously opposed extending or deepening cuts as its companies are arguing that reducing output during winter months amid low temperatures damages the fields.

Saudi Arabia was more keen on reducing output as the kingdom needs higher oil prices to support its budget revenue and the initial public offering (IPO) of Saudi Aramco.

About OPEC

- The Organization of the Petroleum Exporting Countries (OPEC) is a permanent, intergovernmental Organization, 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) – terminated its membership in January 2019; 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

- OPEC had its headquarters in Geneva, Switzerland, in the first five years of its existence. This was moved to Vienna, Austria, on September 1, 1965.

OPEC’s objective:

OPEC's objective is 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.

OPEC+

OPEC plus refers to OPEC’s cooperation with non-OPEC oil producers to effect production cuts.

In an attempt to cut production and raise oil prices, OPEC came together and agreed on a production cut where each member country would cut production by a small amount, a couple percent in most cases.

In addition to including OPEC countries in this production cut, OPEC invited non-OPEC nations, mainly Russia and former U.S.S.R states like Azerbaijan that are still heavily influenced by Russia. OPEC was able to reach a consensus for production cuts not just between OPEC members but also for a handful of non-OPEC nations just increasing the total amount of oil production being cut and presumably making their efforts more effective.

In June 2018, Russia agreed towards 100 per cent compliance with oil output production cuts.