



Mains Practice Question

Q. What are the main factors and objectives behind OPEC+ decision to decrease its oil production? Evaluate the impact of this decision on India and how shall India tackle the situation. (250 words)

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Approach:

- **Introduction:** Begin your answer by providing a brief overview of OPEC+ and its decision to decrease oil production.
- **Body:** Discuss the main factors and objectives driving OPEC+'s decision to reduce oil production. Evaluate the impact of the OPEC+ decision on India and discuss various measures that India can undertake to mitigate the impact of rising oil prices.
- **Conclusion:** Summarize the key points discussed in your answer, emphasizing the importance of a comprehensive approach for India to tackle the impact of decreased oil production by OPEC+.

Introduction:

OPEC+ is a group of 23 oil-producing countries which aims to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations. The group has been coordinating its oil production policy since 2016 to balance the global oil market and support oil prices. OPEC+ has decided to extend the crude production cut announced in November 2022.

Body:

The main factors and objectives behind OPEC+'s decision to decrease its oil production are:

- To counter the weakening global oil demand and prices due to the uncertainty of the global economy and the oil market.
- To counter rising production by US.
- To maintain a stable and balanced oil market and avoid a supply glut that could lead to a price collapse and damage the revenues and budgets of the oil-producing countries.
- To maintain the value of its main export as in recent times dollar in which the crude is generally traded has seen a decline in its value.
- To exert pressure on the oil-consuming countries, who have been urging OPEC+ to increase its output to ease the inflationary pressures and energy shortages in their economies.

The impact of OPEC+'s decision to decrease its oil production on India:

- India, as the world's third-largest oil-importing and consuming country, will face higher oil import bills and inflationary pressures due to the rise in global oil prices.
 - According to some estimates, every USD 10 per barrel increase in crude oil prices could widen India's current account deficit by 0.4% of GDP and increase its inflation rate by 0.5%.
- India will also face challenges in ensuring adequate and affordable energy supplies for its economic recovery and growth, especially in sectors such as transport, agriculture, industry and power generation.
 - India imports about 85% of its crude oil requirements, mainly from OPEC+ countries.

How India should tackle the situation:

India should tackle the situation by diversifying its sources and modes of energy imports, enhancing its domestic production and refining capacity, promoting energy efficiency and conservation measures, making strategic reserves, accelerating its transition to renewable and alternative sources of energy such as nuclear energy, and engaging diplomatically with OPEC+ countries to convey its concerns and interests.

Conclusion:

OPEC+ decision to decrease its oil production is driven by various factors and objectives that aim to stabilize the oil market and protect the interests of the oil-producing countries. However, this decision has negative implications for India, which relies heavily on oil imports for its energy needs and economic growth. India should adopt various measures to cope with the situation and secure its energy security and sustainability.

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