



OPEC+ Cuts Oil Production

For Prelims: Organisation of the Petroleum Exporting Countries and its allies, Crude Oil

For Mains: OPEC+'s Oil Production Cut and Its Impact

Why in News?

Recently, The [Organisation of the Petroleum Exporting Countries and its allies \(OPEC+\)](#) has decided to **cut oil production by 2 million barrels** per day (bpd).

- This is the **largest cut since the beginning of the [Covid-19 pandemic](#)**.
- US legislation in May 2022 passed the **No Oil Producing and Exporting Cartels (NOPEC) bill**, which is intended to protect **US consumers and businesses from engineered oil spikes**.

What are the Reasons for Slashing Production?

- Oil prices skyrocketed after Russia's invasion of Ukraine and have since begun to **soften over the past few months**, before dropping sharply to under USD 90 in September, 2022 due to **fears of a recession in Europe** and reduced demands from China because of **its lockdown measures**.
- The reductions **would boost prices and be extremely beneficial for the Middle Eastern member states**, to whom **Europe has turned for oil** after levelling sanctions against Russia since it invaded Ukraine.
- OPEC+ members are concerned that **a faltering global economy would reduce the demand for oil**, and the cuts are seen **as a way to protect profits**.
- Increased oil prices, which first occurred during the invasion of Ukraine, have helped Saudi Arabia, one of the founding members of OPEC, **become one of the world's fastest-growing economies**.
- It is possible that Russia might be influencing OPEC, to make **it more expensive for the West to extend energy sanctions** on Russia.

What would be its Impact?

- **Impact on European Countries:**
 - Recently, the European Union had announced its plan to implement a price cap on oil exports from Russia.
 - Under the plan, countries will only be permitted to purchase Russian oil and petroleum products transported via sea that are sold at or below the price cap.
 - However, the recent decision to reduce the supply is likely to keep the global oil prices high, **allowing Russia to continue aiming for significant revenue from its crude export**.
- **Impact on the U.S:**
 - The move is likely to be highly detrimental to the US, which has **repeatedly asked the organisation to increase oil production**.
 - Slashes in reduction and subsequently increased oil prices can be **particularly dangerous**

to the US, who is trying to **reduce inflation rates before the midterm elections** in November 2022.

▪ **Impact on India:**

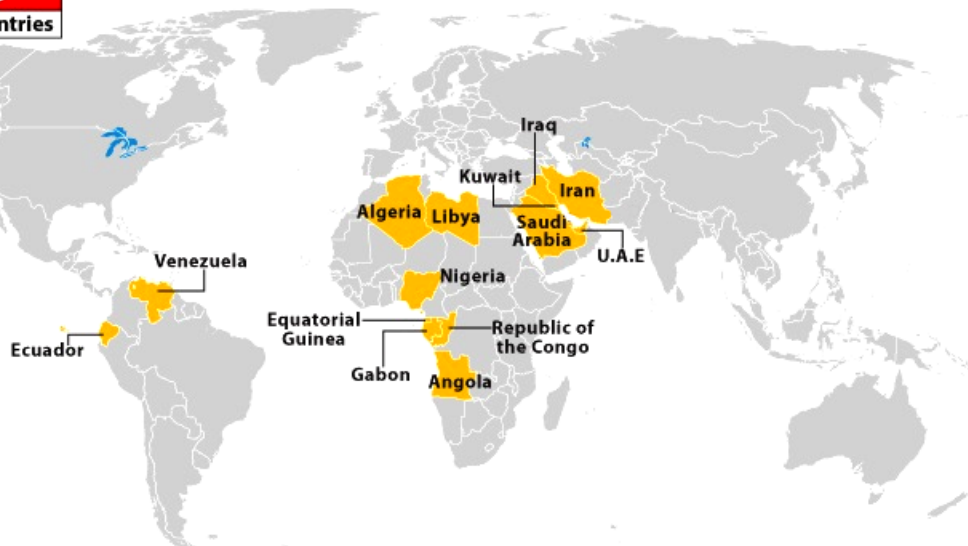
- India imports nearly **85% of its crude requirement**, the oil import bill will rise on account of the rise in prices. The rise in import bills will not only lead to **inflation** and **a rise in the Current Account Deficit (CAD) and fiscal deficit** but also weaken the rupee against the dollar and hurt stock market sentiment
 - As per **Investment Information and Credit Rating Agency (ICRA)**, for every \$10 per barrel increase in the price of the Indian crude oil basket, the CAD could widen by \$14-\$15 billion, or 0.4% of GDP.

What is OPEC+?

- Established in 1960 by founding members **Iran, Iraq, Kuwait, Saudi Arabia and Venezuela**, OPEC has since expanded and now has **13 member states**.
 - **Member countries are:** Algeria, Angola, Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, Venezuela.
 - **Qatar terminated** its membership on 1st January 2019.
- With the addition of **another 10 allied major oil-producing countries**, the OPEC is known as **OPEC+**.
 - **OPEC+ countries include** 13 OPEC member countries, Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan.
- The objective of the organization is to **“coordinate and unify the petroleum policies of its Member Countries** and ensure the **stabilisation of oil markets** in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and **a fair return on capital for those investing in the petroleum industry**.
- Previously controlled by western-dominated multinational oil companies known as the “Seven Sisters,” OPEC sought to give the oil-producing nations greater influence over the global petroleum market.
- They account for roughly **40 % of the world’s crude oil** and 80 % of the globe’s oil reserves, according to estimates from 2018.
- They usually **meet every month to determine how much oil the member states will produce**.
- However, many allege that **OPEC behaves like a cartel**, determining the supply of oil and influencing its price in the world market.

WORLD

OPEC Member Countries



Q. Other than Venezuela, which one among the following from South America is a member of OPEC? (2009)

- (a) Argentina
- (b) Bolivia
- (c) Ecuador
- (d) Brazil

Ans: (c)

Source: IE

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