

Organization of the Petroleum Exporting Countries (OPEC)[UPSC Notes]

OPEC is an acronym for the Organization of the Petroleum Exporting Countries. It is a permanent, intergovernmental organization, created at the Baghdad Conference in September 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Currently, it has 13 members.

The topic on OPEC is important for [IAS Exam](#) from the GS-II perspective and this article will give the relevant details about it.

OPEC Countries - Brief History

Government representatives from Iran, Iraq, Kuwait, Saudi Arabia and Venezuela met in Baghdad to discuss ways to increase the price of crude oil produced by their countries, and ways to respond to unilateral actions by the MOCs.

Despite strong opposition from the US, Saudi Arabia, along with other Arab and non-Arab oil producers, formed the Organization of Petroleum Producing Countries to get the best price possible from major oil corporations. Originally, Arab nations advocated for Beirut or Baghdad to be the headquarters of the OPEC but under strong objections from Venezuela, on basis of neutral grounds, Geneva in Switzerland was chosen. Due to Switzerland not extending diplomatic assurances, the headquarters of OPEC was shifted to Vienna, Austria on 1st September 1st, 1965.

By the early 1970s, OPEC's membership accounted for more than half of worldwide oil production.

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.

The 2019 OPEC World Oil Outlook (WOO) was launched on November 5, 2019, at the Wiener Börse in Vienna, Austria. The 13th edition of the WOO was about an in-depth review of the OPEC Secretariat's medium- to long-term projections and assessment for the global oil and energy industry. The next meeting of OPEC is scheduled on December 5 at its headquarters in Vienna.

The five Founding Members were later joined by eight other Members:

1. Qatar (1961)
2. Indonesia (1962)
3. Socialist Peoples Libyan Arab Jamahiriya (1962)
4. United Arab Emirates (1967)
5. Algeria (1969)

6. Nigeria (1971)
7. Ecuador (1973–1992)
8. Gabon (1975–1994)

OPEC - Current Members

1. Algeria
2. Angola
3. UAE
4. Venezuela
5. Saudi Arabia
6. Republic of Congo
7. Libya
8. Nigeria
9. Kuwait
10. Iran
11. Iraq
12. Gabon
13. Equatorial Guinea

OPEC Countries - Objectives

OPEC's main objectives are given below:

1. Unification and coordination of petroleum policies among Member Countries, in order to achieve just and stable prices for petroleum producers
2. Ensuring of an efficient, economic and regular supply of petroleum to consuming nations and an adequate return of investment

OPEC Countries - Functions

Organization of the Petroleum Exporting Countries(OPEC) has a working methodology which is mentioned below.

- The OPEC Member Countries adjust their oil productions activities in order to bring stability to the petroleum market and help manufacturers get a good return on their investments. This policy is also designed to ensure that oil consumers continue to receive stable supplies of oil.
- Twice a year, the ministry of energy and hydrocarbon affairs meet twice a year to review the status of the international oil market and decide upon steps that will bring security in the oil market

- The Member Countries also hold other meetings that address various point of interests including that of petroleum and economic experts nad specialized bodies such as committees and panels in charge of the environment.

OPEC Countries - Latest Updates (2023)

1. OPEC+ has agreed not to increase supply in April as they await a more substantial recovery in demand amid the COVID-19 pandemic. Crude prices rose after the announcement and are up 33% this year.

Why is India Concerned?

India is the world's third-biggest oil importer. India imports about 84% of its oil and relies on West Asian supplies to meet over three-fifths of its demand. As one of the largest crude-consuming countries, It is concerned that such actions by producing countries have the potential to undermine consumption-led recovery and more so hurt consumers, especially in our price-sensitive market.

1. According to the International Energy Agency (IEA), the Organisation of the Petroleum Exporting Countries (OPEC+) plus might face a sharp demand fall due to a recent surge in crude oil production from the countries like USA, Norway, and Guyana. According to data from the International Energy Agency, global demand from January to July was 10.5 million barrels per day below last year's average level, estimated at just above 100 million barrels. The year 2020 is expected to end with an overall contraction of 9%, and global consumption is expected to reach pre-covid levels only by 2025 if the pandemic is not quelled by next year.
2. OPEC and its allies, together known as OPEC+, plan on tapering production cuts in January 2021 from a current 7.7 million barrels per day (bpd) to about 5.7 million bpd. OPEC+ is scheduled to meet on Nov. 30 and Dec. 1 to set policy. The non-OPEC countries which export crude oil are termed as OPEC plus countries, these are the alliance of crude producers, who have been undertaking corrections in supply in the oil markets since 2017. It includes Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan, and Sudan.
3. The new system of taxes, approved by Russian President Vladimir Putin, to help Russia weather the economic fallout from the COVID-19 pandemic, make it more expensive for energy companies to boost production from mature oil fields and produce more heavy crude. That could make Russia's energy sector more willing to accept tighter policies from the Organization of the Petroleum Exporting Countries (OPEC) and its allies, known as OPEC+, rather than engaging in a tussle with other oil-producing countries such as Saudi Arabia over oil market share, analysts say.
4. Oil prices jumped by close to 10% for its biggest daily gain in almost six months after news of a highly effective vaccine against COVID-19 and Saudi Arabia's assurance that an OPEC+ oil output deal could be adjusted to balance the market.

5. Prime Minister of India, Narendra Modi outlined a national plan that would contain our carbon footprint, increase the use of gas as a fuel, and hike our annual oil refinery capacity from 250 to 400 million tonnes in a few years. With India's crude imports projected to rise robustly, recently he expressed the hope that OPEC would not squeeze supply unfairly, and made a pitch for sweeter deals in terms of lower prices and longer credit periods.

Why OPEC plus came into existence?

- When Russia concluded the Vienna Agreement in 2016, the Russian leadership believed that it would help prepare the country for the Russian presidential elections in March 2018.
- Higher oil prices ensured the Kremlin's financial capacity to lead a successful electoral campaign.
- This changed the regime's priorities – from satisfying the needs of the general population to ensuring the sustainability of the Kremlin's alliance with powerful tycoons, including that controlling oil production.
- For Saudi Arabia, turning what had been an ad hoc coalition into a formal group provides a hedge (protection) against future oil-market turbulence.
- For Russia, the formalization of the group helps expand Putin's influence in the Middle East
- However, both reportedly aimed at causing a drop in oil prices in order to hit US shale producers, who have continued to benefit from OPEC production cuts by expanding their market share.

OPEC Updates as of April 2023

OPEC has decided to cut oil production due to sluggish demand and to stabilize the markets.

What is the quantum of output cut?

- The total cut is around 1.16 million barrels per day (bpd).
- The production cuts by one-third of oil producers of the world will begin in May 2023 and last for the entire calendar year.
- Russia which comes in the OPEC+ group also announced a cut of 500,000 bpd until this year's end.

Why was the output cut decided?

- As per OPEC, this is a precautionary measure to support the stability of oil markets.
- To mitigate the impact of a sluggish global economy and the banking crisis in the US on crude oil prices.

- A significantly weakened crude oil price (\$67-68/barrel). It had hit \$139 per barrel in March 2022.

Implications of this cut

- Rise in the global benchmark Brent by more than 5%.
- Inflationary pressures and fluctuations in global assets.
- Oil producers, other than OPEC, have also reduced their output.
- The oil market might move into a deficit.

Impact on India

- Higher import bills and rise in inflation.
- Increase in [current account deficit](#) and weakening of the Indian rupee.
- A probable decrease in global investment.
- A task for the Monetary Policy Committee (MPC) to adjust the basis points.

Way forward: An economic cycle goes through several stages in a cyclical pattern i.e. expansion, peak, contraction, and trough. A cautious approach with periodic assessment of the economy is needed. The volatility of the situation due to international tensions has exacerbated the demand-supply mismatches, therefore developing economies like us may need a recalibration of the policies.

Frequently Asked Questions related to OPEC Countries**Q. Which country left OPEC?**

Qatar left OPEC on 1 January 2019, after joining the organization in 1961, to focus on natural gas production, of which it is the world's largest exporter in the form of liquified natural gas (LNG).

Q. Is Russia an OPEC country?

Russia is not a member of the Organization of Petroleum Exporting Countries (OPEC) but is a key fellow exporter and typically an ally to the group. Some members of OPEC insisted that non-OPEC allies, such as Russia, join in with production cuts.

Q. How many countries are in OPEC?

OPEC's 14 Member Countries are Algeria, Angola, Congo, Ecuador, Equatorial Guinea, Gabon, the Islamic Republic of Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, the United Arab Emirates and Venezuela.

Q. Is Canada in OPEC?

Many of the world's biggest oil producers have never belonged to OPEC, including Canada, China, Mexico, Norway, Oman, Russia, and the U.S. Many of them have responded to OPEC's attempts to control world oil prices by exploring for and pumping more oil themselves and achieving greater market share and energy.

Q. What country has the most oil?

Venezuela has proven oil reserves of 303.2 billion barrels (17.9% of world total), Saudi Arabia has proven oil reserves of 266.2 billion barrels (15.7% of world total), Canada has proven oil reserves of 168.9 billion barrels (10% of world total).

Q. What are the 7 GCC countries?

The Gulf Cooperation Council (GCC) is a political and economic union of Arab states bordering the Gulf. It was established in 1981 and its 6 members are the United Arab Emirates, Saudi Arabia, Qatar, Oman, Kuwait and Bahrain.