

OPEC - Organization of the Petroleum Exporting Countries

[UPSC Notes]

What is OPEC?

OPEC or Organization of the Petroleum Exporting Countries was founded by five countries namely the republic of Iran, Kuwait, Iraq, Saudi Arabia, and Venezuela.

- The countries that joined later are Ecuador (1973), Gabon (1975), Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Angola (2007), Equatorial Guinea (2017) and Congo (2018).
- The main motive of OPEC is to unify the petroleum policies among the member countries to secure stable prices for petroleum producers, regular supply to the petroleum-consuming nations, and a good return to those investing in this sector.

History of OPEC Countries

Let's discuss how OPEC formed

- Representatives from Venezuela, Iran, Kuwait, Iraq, and Saudi Arabia met in Baghdad.
- In the meeting, they discussed ways to increase the price of crude oil produced by them and the ways to respond to unilateral actions of international oil companies.
- This led to the formation of OPEC, to get the best price possible from major oil companies.
- It was strongly opposed by the US, Saudi Arabia, along with other Arab and non-Arab oil producers.
- Originally, Beirut or Baghdad was the initial choice of Arab nations for the headquarters of OPEC. But it was objected to by Venezuela. On the basis of neutral grounds, Geneva (Switzerland) was chosen.
- As Switzerland did not extend diplomatic assurances, it was shifted to Vienna (Austria) on 1st September 1965.

The eight other Members, who later joined the five Founding Members were:

1. Qatar (1961)
2. Indonesia (1962)
3. Socialist People's Libyan Arab Jamahiriya (1962)
4. UAE (1967)
5. Algeria (1969)
6. Nigeria (1971)
7. Ecuador (1973–1992)
8. Gabon (1975–1994)

OPEC Members (Current)

Below we have listed the current members of the OPEC

- Algeria
- Angola
- UAE
- Venezuela
- Saudi Arabia
- Republic of Congo
- Libya
- Nigeria
- Kuwait
- Iran
- Iraq
- Gabon
- Equatorial Guinea

Objectives of OPEC

The objects of OPEC are

- To Unify and coordinate petroleum policies among its members, in order to achieve stable and just prices for petroleum producers.
- To ensure an efficient, economic, and regular supply of crude oil to consuming nations, with an adequate return on investment.

Functions of OPEC

The functions of OPEC include:

- The OPEC Member Countries regulate their oil production so that it brings security to the oil retail market and helps manufacturers get a good return on their money.
- The policy is also created in a habit to guarantee that consumer nations receive regular supplies of oil.
- The ministry of energy and hydrocarbon affairs meets twice a year to review the status of the international market and decide upon steps that will bring security to the oil market.
- Other meetings are also held by the Member Countries to address other topics of interest, such as those of petroleum and economic experts, as well as specialized groups such as environmental committees and panels.

What is OPEC+?

OPEC+ is a grouping of oil-producing nations. It is made up of OPEC members and 10 other members. Other members include South Sudan, Azerbaijan, Brunei, Kazakhstan, Bahrain, Malaysia, Mexico, Oman, Russia, and Sudan.

Why did OPEC plus come into existence?

- When Russia concluded the Vienna Agreement in 2016, the Russian leadership believed that higher oil prices would increase its financial capacity.
- In the case of Saudi Arabia, turning this ad hoc coalition into a formal group provides it protection against future oil-market turbulence.
- For Russia, the formalization of this group helps expand its influence in the Middle East.
- However, both aimed to drop oil prices in order to hit US shale producers, who have continued to benefit from OPEC production cuts by expanding their market share.

Concerns with OPEC

The concerns with OPEC are as follows

- The restrained production by OPEC will not help bring down oil prices that have soared to record highs.
- The rise in global inflation is also due to the rise in oil prices. It could dampen demand in the economy, thus slowing the economic recovery process.

What are India's Concerns

- India is the world's 3rd biggest importer of oil.
- 84% of its demand is met through imports.
- The three-fifth of it is met mainly by West Asian oil-bearing nations.
- As one of the largest crude oil-consuming countries, India is concerned about unilateral actions by oil-producing countries.
- Unilateral actions by OPEC have the potential to undermine consumption-led recovery and more so hurt consumers, especially in our price-sensitive market.
- With India's crude imports projected to rise robustly, it hopes that OPEC would not squeeze supply unfairly, and made a pitch for sweeter deals in terms of lower prices and longer credit periods.