



Output Pact: OPEC+

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Why in News

Recently, the United Arab Emirates (UAE) pushed back against a plan by the **Organization of the Petroleum Exporting Countries (OPEC+) Plus** group to **extend the global pact to cut oil production beyond April 2022.**

Key Points

- **The Output Pact & Fluctuating Oil Price:**
 - The OPEC+ group of countries had, in April 2020, entered into a **two-year agreement (Output Pact), which entailed steep cuts in crude production to deal with a sharp fall in the price of oil** as a result of the **Covid-19 pandemic**.
The price of **Brent crude** hit an **18-year low of under USD 20 per barrel in April 2020** as economic activity around the world crashed as countries dealt with the pandemic.
 - In **November 2020, the prices started rising** and in **July 2021, they were USD 76.5 per barrel** mainly due to the steady **rollout of vaccination programmes around the world.**
 - OPEC+, however, **maintained lower levels of production** despite crude oil prices reaching pre-Covid levels, with Saudi Arabia, notably, announcing a further cut in production of 1 million barrels per day for the February-to-April period, which **helped boost rising prices even further.**
The OPEC+ group ran into **sharp criticism from developing economies, including India, for deliberately maintaining low supply levels to raise prices.**
 - In April, OPEC+ agreed to gradually increase crude production, including a **phased end to Saudi Arabia's 1 million barrel per day cut in production by July.**

- **UAE's Objection:**
 - UAE agreed that there was a need to increase crude oil production from August 2021, but did not agree to a condition by the **OPEC Joint Ministerial Monitoring Committee (JMMC)** that the **two-year production agreement be extended by six months**.
 - The UAE's key objection to the existing agreement is the **reference output used to calculate the total production apportioned to each oil-exporting country**.
 - The **baseline production level reference** used in the current agreement was **not reflective of the UAE's production capacity** and, therefore, led to the UAE being apportioned a lower share of total production of crude oil.
 - UAE would be open to extending the agreement if baseline production levels were reviewed to be fair to all parties.
- **Impact of OPEC+ conflict on India:**
 - **Delayed Relief:**

If the UAE and other OPEC+ nations do not reach an agreement to increase production in August, **expected relief in the form of lower crude oil prices could be delayed**.
 - **High Domestic Prices:**

India is currently **facing record-high prices of petrol and diesel**. High crude prices have led to **Indian oil marketing companies hiking the price of petrol by about 19.3%** and that of diesel by about 21% since the beginning of 2021.
 - **Slow Recovery:**

The high price of crude oil was **slowing down the economic recovery of developing economies post the pandemic**.
 - **Inflation:**

The high prices might also increase the **Current Account Deficit** and put **inflationary pressure** on the Indian economy.

Organization of the Petroleum Exporting Countries

About:

- It is a **permanent, intergovernmental organization, created at the Baghdad Conference in 1960**, by Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela.
 - It aims **to manage the supply of oil in an effort to set the price of oil in the world market**, in order to avoid fluctuations that might affect the economies of both producing and purchasing countries.
- **Headquarter:**
 - Vienna, Austria.

- **Membership:**

- OPEC membership is **open to any country** that is a substantial exporter of oil and which shares the ideals of the organization.
- **OPEC has a total of 13 Member Countries** viz. Iran, Iraq, Kuwait, United Arab Emirates (UAE), Saudi Arabia, Algeria, Libya, Nigeria, Gabon, Equatorial Guinea, Republic of Congo, Angola and Venezuela are members of OPEC.

Organization of the Petroleum Exporting Countries Plus

It is a loosely affiliated entity consisting of the **OPEC members and 10 of the world's major non-OPEC oil-exporting nations which are:**

Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan.

Source: IE