

OPEC meeting

Why in news?

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OPEC meeting has been scheduled for November last week in Austria.

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What is OPEC?

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- Organisation of Petroleum Exporting Countries is a cartel of oil exporting nations, which accounts for more than 40 per cent of the world's oil supply.

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- As of now OPEC has 14 members, Saudi Arabia, Iran, Iraq and Kuwait, Venezuela are the founding members of the group.

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- OPEC aims to coordinate and unify the petroleum policies of its member countries to stabilise oil markets.

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- Member countries together increase or decrease oil production to try to achieve desired supply levels and prices, based on a unanimous vote.

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- As a 'swing producer', OPEC could turn on and turn off the stoppers to control global oil production and prices.

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What are the Challenges OPEC is facing from non-members?

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- Technological advancements horizontal drilling and fracturing enabled

shale oil exploration and production on an industrial scale in the US.

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- US output since last year has increased by nearly a million barrels a day to a daily nine million barrels.
- That already puts American producers in the league with oil giants Saudi Arabia and Russia (non- member) and cuts further into OPEC's past ability to play a role in setting prices and supplies.
- This upended the dynamics of the oil industry and precipitated the collapse of oil trade since mid-2014.
- Mega producers such as Russia that are also not part of OPEC, too now command significant influence in the oil market.

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What is the need for upcoming meet?

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- During mid 2014 to contain oil trade collapse OPEC nations introduced price cuts in production, as a result crude oil prices dropped.
- The cuts helped halt oil's collapse and aided its 40 per share resulting \$64 a barrel now.
- At the same time US shale producers assumed on and it eventually teamed with major non-OPEC producers such as Russia to cut about 2 per cent of global production.
- This strategy seems to have helped, the price collapse halted giving way to the meeting this year.
- This OPEC meeting is expected to approve extension the production cost cuts until December 2018 with Russia (non- member) also on board to boost production.

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- The meeting is crucial as OPEC will decide whether to continue with output cuts or not.

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What are the implications for India?

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- India imports more than 80 per cent of its oil requirement.

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- If OPEC gets aggressive on its output cut programme, it could mean trouble for India.

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- As oil prices halving since 2014 has been a fiscal boon for the government and oil companies.

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- Higher oil prices will invariably mean costlier petrol and diesel and higher inflation in India.

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- Even if prices rise India has not burned as US shale oil would come back to the market resulting in a cap on prices.

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Source: Business Line

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