

OPEC's Caution on Boosting Supply

What is the issue?

The rise of prices of natural gas, coal and electricity are putting extra pressure on oil markets and boosting the demand as industries and power generators are seeking to switch to liquid fuels.

How are oil prices decided?

- **Supply and demand** - The concept of supply and demand is the mechanism by which the prices of crude oil are controlled.
- OPEC as producers have no influence over the demand for petroleum but they tend to change its supply in order to influence the price.
- In order to keep prices of the oil stable, OPEC countries usually maintain a quota of oil supply.
- **Speculations** - Another mechanism of pricing is the future supply based on some speculations.
- These are the supply and demand based on speculations of suppliers and consumers.

What are the reasons for the current oil demand?

- Fuel switching from gas and coal to oil and crude is the reason for increased demand.
- Soaring natural gas prices have spiked the price by 300%
- Agencies like IEA's forecast on oil demand contributes for the reluctance of OPEC to open the taps.



What will be the future prospects of oil demand?

- Top exporter Saudi Arabia has started cutting its official selling price to its core customers to ease the price of Brent crude oil futures.
- On the demand side, China's industrial slowdown, collapse of real estate giant Evergrande, rising inflation pressure and Covid-19 disruptions could undermine oil demand growth over the next 12 months.
- But in the near term, a repeat of a cold winter across the Northern

Hemisphere could cause major energy supply shortages in many leading industrial hubs.

Source: Bloomberg

Quick facts

OPEC (Organization of Petroleum Exporting Countries)

- OPEC is a permanent, intergovernmental organization created at the Baghdad Conference on September 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela.
- Aim - To coordinate and unify the petroleum policies of member countries and ensure the stabilization of oil market.
- At present, it has 13 members with its headquarters at **Vienna**
- OPEC countries produce about two-fifths of the world's crude oil.
- They possess more than 80% of the world's total crude oil reserves.
- **OPEC+** - It is a loosely affiliated entity consisting of the 13 OPEC members and 10 of the world's major non-OPEC oil-exporting nations.
- It includes Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan in addition to OPEC members
- Since 2016, they cooperate in fixing the global crude oil prices

