U.S. challenges OPEC+ with Release of Oil Reserves

What is the issue?

The US has said it is releasing 50 million barrels of oil from its reserves in an attempt to bring down soaring energy and petrol prices.

What is the U.S.'s move about?

- US President Joe Biden has repeatedly asked the OPEC group of oil-producing nations to boost output more rapidly.
- OPEC+ which includes Russia has resisted pressure for swifter hikes sticking to its plan of gradually raising output by 400,000 barrels per dayeach month since August.
- It said that it is concerned that a resurgence of coronavirus cases could drive down demand as happened at the height of the pandemic.
- Crude oil prices recently touched 7 year highs amid a sharp uptick in global demand as economies recover from the pandemic and it has driven up petrol prices and energy bills in many countries.
- So, the U.S. announced that it will release millions of barrels of oil from strategic reserves in coordination with China, India, South Korea, Japan and Britain.
- Under the plan, the United States will release 50 million barrels, India would release 5 million barrels, while Britain would release of 1.5 million barrels of oil from privately held reserves.
- China, the world's largest crude importer, remains non-committal, though it has taken steps this year to cool price rises of other commodities in its domestic market.

***OPEC** is a permanent, intergovernmental organization created at the Baghdad Conference on September 1960.At present, it has 13 members with its headquarters at **Vienna**. OPEC countries produce about two-fifths of the world's crude oil.*

***OPEC+** is a loosely affiliated entity consisting of the 13 OPEC members and 10 of the world's major non-OPEC oil-exporting nations. Since 2016 they cooperate in fixing the global crude oil prices*

Does the move look viable?

- **Short term** - Prices were expected to go downwards in the short term but that has not happened in the 24 hours since the move was announced.
- Oil prices moved up after the announcement by the US and India, partly because the move was already priced in by the markets and partly because the market anticipates the OPEC+ to retaliate.
- **Long term** – The measures are bound to bounce back because the group commands limited ability to influence supply dynamics.
- The OPEC alone, in comparison, contains over more than 1,100 billion barrels, which is 80 of global oil reserves.
- The strategic reserves are meant to be drawn down only when supplies are blocked either due to war or a natural calamity and there is a limit to which they can be used to influence prices.
- **OPEC's response** - Chances are that the cartel may decide not to go ahead with a planned increase of 4,00,000 barrels a day in order to nullify the impact of the release from strategic reserves.

Where does this leave India?

- India has a limited size of its reserves which add up to just about a week's consumption.
- There is unlikely to be any gain in terms of lower prices by joining this U.S. initiative.
- The country will have to top up its reserves again at the current high prices as the agreement provides for the release of oil from the reserves.
- The focus of the government should be on building additional storage to increase the reserves to at least a fortnight's consumption.

The top 4 importers of oil in 2020 were China, United States, India and South Korea.

The top 5 exporters of crude oil in 2020 were Saudi Arabia, Russia, Iraq, United States and United Arab Emirates.

References

1. https://www.thehindubusinessline.com/opinion/editorial/a-group-of-nations-releasing-oil-from-strategic-reserves-to-cool-prices-may-have-only-a-

limited-impact/article37668552.ece
2. https://www.bbc.com/news/business-59353194

