PLUTUS IAS
CURRENT AFFAIRS
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Date – 07 June 2024

"OPEC+ OIL PACT DECIDED TO CUT OIL PRODUCTION"

THIS ARTICLE COVERS "DAILY CURRENT AFFAIRS" AND THE TOPIC DETAILS OF "OPEC+ OIL PACT DECIDED TO CUT OIL PRODUCTION". THIS TOPIC IS RELEVANT IN THE "INTERNATIONAL RELATION" SECTION OF THE UPSC- CSE EXAM.

Why in the news?

Brent crude oil prices dipped below $80 per barrel shortly after the group's decision on Sunday to prolong most of their oil output cuts until 2025. However, the agreement also allows for a gradual easing of voluntary cuts by eight members starting in October. This price point is crucial for many OPEC+ members as it aligns with their budget-balancing needs. Currently, OPEC+ members collectively reduce their production by 5.86 million barrels per day (bpd), which roughly corresponds to 5.7% of the global demand for oil.

About OPEC+:

- Established in **September 1960 in Baghdad,** OPEC (Organization of the Petroleum Exporting Countries) was founded by Iraq, Iran, Kuwait, Saudi Arabia, and Venezuela. It has since grown to encompass 12 member countries, collectively representing approximately 30% of global oil production. With its headquarters situated in **Vienna, Austria,** OPEC operates primarily in English.
- The current Secretary General of OPEC is **Haitham al-Ghais**. OPEC holds considerable sway in the global oil market and international diplomacy, with its decisions often shaping both economic and geopolitical landscapes.
- OPEC+ emerged in 2016 as a response to the downturn in oil prices spurred by increased shale oil production in the United States. Comprising OPEC members and ten other oil-producing nations, including Russia, OPEC+ aims to synchronise petroleum policies among its members.
- The coalition's primary goals are to stabilise prices for producers, ensure a steady supply for consumers, and provide favourable returns on investment in the oil industry.
- Key aspects of OPEC+ include its formation in 2016, which brought together OPEC nations and ten other oil-producing countries to coordinate production and stabilise global oil prices.
- The alliance focuses on securing fair pricing for producers, ensuring a reliable supply for consumers, and fostering profitable investments in the oil sector. Membership in OPEC+ extends beyond OPEC's 13 countries, including non-OPEC nations like Russia, Mexico, and Kazakhstan.
- OPEC+ has implemented various rounds of production cuts to stabilise oil prices, including a reduction of 1.2 million barrels per day in 2023, with these cuts extended into 2025. The alliance's combined production represents a significant portion of global oil output, accounting for approximately 59% in 2022.

REASONS BEHIND OIL PRODUCTION CUT:

- **Managing Supply and Supporting Oil Prices:** OPEC+ aims to manage supply and support oil prices by reducing production to counterbalance slow demand growth, high interest rates, and the rise in U.S. oil production.
- **Uncertain Economic Conditions:** The group is waiting for more favourable economic conditions, such as lower interest rates and consistent global economic growth, before altering its production approach.
- **Demand Forecast:** OPEC anticipates that demand for OPEC+ crude will average 43.65 million barrels per day in the latter half of 2024, which suggests a stock drawdown if output remains at April's rate.
- **Voluntary Cuts**: The voluntary cuts of 2.2 million barrels per day will be extended by three months, up to the end of September 2024, and then gradually phased out over the year.
- **Market Stabilization:** The extension of production cuts reflects OPEC+'s commitment to market stabilisation and its strategy to manage supply tightly to support oil prices.
- **Global Demand and Inventory Levels:** OPEC+ is looking for lower interest rates and more consistent global economic growth to ensure a stable market environment, rather than isolated growth spurts.
- **Discrepancy in Demand Forecasts**: There is a discrepancy between OPEC's demand forecast and the International Energy Agency (IEA) estimate, highlighting differing perspectives on future market dynamics between oil producers and consumers.
- **Saudi Arabia's Leadership**: Saudi Arabia has led OPEC+ in cutting production to reduce stocks and boost prices, and there is no sign of a fundamental rethink in the group's strategy.
- **Market Conditions**: Current market conditions, including inventory levels and prices, suggest that any increase in production is unlikely, and the group may decide to rescind some of last year's output cuts to pre-empt a further rise in production from the United States, Canada, Brazil, and Guyana.
- **Long-term Sustainability**: There are concerns about the long-term sustainability of OPEC+'s strategy, which prioritises volume over prices, but there is no indication of a significant change in strategy yet.

EFFECTS ON THE INDIAN ECONOMY:

- **Increased Imported Inflation:** The production cut will drive up crude oil prices, resulting in a rise in India's import bill and exacerbating the current account deficit by approximately 0.4% of GDP. This will further escalate retail prices of petrol and diesel, which are already at historic highs nationwide.
- **Diminished Economic Growth:** Elevated oil prices will escalate production and transportation costs across various sectors, impacting their profitability and competitiveness. This, in turn, will curtail consumers' disposable income, dampening their demand for goods and services.
- **Expanded Fiscal Deficit:** The surge in oil prices will elevate the government's subsidy burden, particularly concerning kerosene and liquefied petroleum gas (LPG), where the government subsidises the difference between market and controlled prices. This will widen the fiscal deficit, constraining public spending on crucial areas like infrastructure and social welfare.
- **Heightened External Vulnerability:** India's reliance on foreign exchange reserves and external borrowing to finance oil imports will intensify with the surge in oil prices. This heightened dependency exposes India to currency fluctuations and global financial upheavals.
- **Impact on Citizens:** If the increased crude oil import costs are transferred to the public, it may spur cost-push inflation, affecting every economic facet influenced by oil price movements.

Conversely, if state-controlled oil marketing companies absorb the additional costs, it could strain the financial stability of the oil public sector units.

- **Exploring Alternatives:** India could explore sourcing more affordable crude oil from Russia, although there has been a slight decline in Russia's share in India's oil imports recently. As a long-term strategy, the government should prioritise alternative energy sources and enhance infrastructure, including road networks. Additionally, integrating petroleum products into the goods and services tax framework and promoting energy-efficient vehicle usage or eco-driving practices could mitigate reliance on oil.

INDIA HAS VARIOUS ALTERNATIVE ENERGY SOURCES TO DIMINISH ITS RELIANCE ON OIL IMPORTS:

- **Solar Energy:** India receives sunlight throughout the year, making solar energy a viable option. Increased investment in solar power plants, rooftop solar panels, and solar farms can significantly contribute to reducing reliance on oil for electricity generation.
- **Wind Energy:** India has substantial wind resources, especially along its coastline and in certain regions. The expansion of wind farms and investment in wind turbines.
- **Hydropower:** Utilizing hydroelectric power from rivers and dams can offer a consistent and renewable energy source. India has considerable hydroelectric potential, particularly in states like Himachal Pradesh, Uttarakhand, and Arunachal Pradesh.
- **Biomass Energy:** India can harness energy from organic sources such as animal waste, agricultural residues, and urban waste through biomass power plants and biogas production.
- **Nuclear Energy:** Investing in nuclear power plants can provide a more reliable and low-carbon source of electricity. India has been expanding its nuclear energy capacity and can further develop this sector to decrease dependence on oil for power generation.
- **Geothermal Energy:** Although geothermal resources in India are limited compared to other countries, there is potential for utilising geothermal energy for heating and electricity generation in certain regions with volcanic activity or hot springs.
- **Tidal Energy:** India's long coastline offers opportunities to generate electricity from tidal energy. Research and development in tidal energy technologies can help harness this renewable resource.
- **Hydrogen Energy:** Hydrogen is a promising alternative energy source and can reduce dependence on oils and mitigate climate change.

Prelims based question:

Q. As an OPEC+ member, it decided to cut Oil production:

1. Global oil prices are likely to upsurge drastically.
2. India`s fiscal deficit will reduce .

Which of the following statement/s is/are above correct?

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

Answer: D

Mains based Question:

Q. Plunged Oil prices cause OPEC+ members to cut Oil Production. How can India reduce its dependency on oil demand? Analyse.

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