RISK & INVESTMENT MANAGEMENT PROJECT WORK

REPORT

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The Organization of the Petroleum Exporting Countries

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INTRODUCTION

The Organization of the Petroleum Exporting Countries (OPEC) is a permanent, intergovernmental Organization, created at the Baghdad Conference on September 10–14, 1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five Founding Members were later joined by: Qatar (1961) – terminated its membership in January 2019; Indonesia (1962) – suspended its membership in January 2009, reactivated it in January 2016, but decided to suspend it again in November 2016; Libya (1962); United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973) – suspended its membership in December 1992, reactivated it in October 2007, but decided to withdraw its membership effective 1 January 2020; Angola (2007); Gabon (1975) - terminated its membership in January 1995 but rejoined in July 2016; Equatorial Guinea (2017); and Congo (2018). OPEC had its headquarters in Geneva, Switzerland, in the first five years of its existence. This was moved to Vienna, Austria, on September 1, 1965.

OPEC's objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.

In accordance with its Statute, the mission of the Organization of the Petroleum Exporting Countries (OPEC) is to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry.


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HISTORY & ITS IMPACT

Post-WWII Era:

In 1949, Venezuela and Iran took the earliest steps in the direction of OPEC, by inviting Iraq, Kuwait and Saudi Arabia to improve communication among petroleum-exporting nations as the world recovered from World War II. At the time, some of the world's largest oil fields were just entering production in the Middle East. The United States had established the Interstate Oil Compact Commission to join the Texas Railroad Commission in limiting overproduction. The US was simultaneously the world's largest producer and consumer of oil; and the world market was dominated by a group of multinational companies known as the "Seven Sisters", five of which were headquartered in the US following the breakup of John D. Rockefeller's original Standard Oil monopoly. Oil-exporting countries were eventually motivated to form OPEC as a counterweight to this concentration of political and economic power.

The 1960s:

OPEC's formation by five oil-producing developing countries in Baghdad in September 1960 occurred at a time of transition in the international economic and political landscape, with extensive decolonisation and the birth of many new independent states in the developing world. The international oil market was dominated by the "Seven Sisters" multinational companies and was largely separate from that of the former Soviet Union (FSU) and other centrally planned economies (CPEs). OPEC developed its collective vision, set up its objectives and established its Secretariat, first in Geneva and then, in 1965, in Vienna. It adopted a 'Declaratory Statement of Petroleum Policy in Member Countries' in 1968, which emphasised the inalienable right of all countries to exercise permanent sovereignty over their natural resources in the interest of their national development. Membership grew to ten by 1969.

The 1970s:

OPEC rose to international prominence during this decade, as its Member Countries took control of their domestic petroleum industries and began to play a greater role in world oil markets. The decade witnessed several impactful events that caused volatility in the global oil market to rise steeply. OPEC broadened its mandate with the first Summit of Heads of State and Government in Algiers in 1975, which addressed the plight of the poorer nations and called for a new era of cooperation in international relations, in the interests of world economic development and stability. This led to the establishment of the OPEC Fund for International Development in 1976. Member Countries embarked on ambitious socio-economic development schemes. Membership grew to 13 by 1975.

The 1980s:

Demand for energy slumped and oil demand fell in the early part of 1980s, culminating in a market crash in 1986 in response to the oil glut and a consumer shift away from hydrocarbons. OPEC's share of the smaller oil market fell heavily, and its total petroleum revenue dropped, causing economic instability in many Member Countries. In the final part of the decade, the oil market witnessed something of a recovery and OPEC's share of newly growing world output began to recover. This was supported by OPEC introducing a group production adjustment divided among Member Countries and a Reference Basket for pricing, as well as significant progress with OPEC and non-OPEC dialogue and cooperation, seen as essential for market stability. Environmental issues emerged on the international energy agenda.

The 1990s:

Timely OPEC action reduced the market impact of Middle East issues in 1990–91, but excessive volatility dominated the decade. The Southeast Asian economic downturn and mild Northern Hemisphere winter of 1998–99 saw the oil market return to mid-1980 conditions. However, a solid recovery followed and the oil market, which was adjusting to the post-Soviet world, became more integrated, with a focus on globalisation, the communications revolution and other high-tech trends. Breakthroughs in producer-consumer dialogue matched continued advances in OPEC and non-OPEC relations. As the United Nations-sponsored climate change negotiations gathered momentum, after the Earth Summit of 1992, OPEC sought fairness, balance and realism in the treatment of oil supply. One country left OPEC, while another suspended its Membership.

The 2000s:

OPEC continued with its efforts to help strengthen and stabilize the global oil market in the early years of the decade. But a combination of market forces, speculation and other factors transformed the situation in 2004, pushing up volatility in a well-supplied crude market. Oil was used increasingly as an asset class. Market volatility continued to increase in an unprecedented manner in early 2008, before the collapse of the global financial sector that led to economic recession. OPEC became prominent in supporting the oil sector, as part of global efforts to address the economic crisis. OPEC's second and third summits in Caracas and Riyadh in 2000 and 2007 established stable energy markets, sustainable development and the environment as three guiding themes, and it adopted a comprehensive long-term strategy in 2005. One country joined OPEC, another reactivated its Membership and a third suspended it.

The 2010s:

The global economy represented the main risk to the oil market early in the decade, as global macroeconomic uncertainties and heightened risks surrounding the international financial system weighed on economies. Escalating social unrest in many parts of the world affected both supply and demand throughout the first half of the decade, although the market remained relatively balanced. The oil market was stable between 2011 and mid-2014, before a combination of speculation and oversupply caused it to contract. Trade patterns then continued to shift, with global oil demand growing, particularly in the Asian region. The world's focus on multilateral environmental matters began to sharpen, resulting in the Paris Agreement in 2015, which OPEC Member Countries have all signed and 10 have ratified. OPEC continued to attend the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP) meetings to dialogue and exchange views.

Market conditions led to the emergence of the unprecedented Declaration of Cooperation in December 2016, with OPEC Members and 10 non-OPEC oil-producing countries coming together to help rebalance the market, bring down inventory levels and support oil market stability. In 2019, the Charter of Cooperation — a long-term platform dedicated to cooperation and the exchange of views and information — was established.

OPEC held its 5th, 6th and 7th International Seminars in 2012, 2015 and 2018, respectively, which brought together an unprecedented number of representatives from producing and consuming nations, national and international oil companies, along with journalists and industry analysts.

OPEC continued to seek stability in the market, and looked to further enhance its dialogue and cooperation with producers, consumers, international organizations, institutions and other industry stakeholders, noting that the need for energy dialogue has never been greater. The decade witnessed more understanding and appreciation of the role that OPEC has played in helping stabilize the global oil market, in the interests of both producers and consumers.

The 2020s:

The new decade witnessed an unprecedented beginning with the outbreak of the COVID-19 pandemic pervading almost every aspect of daily lives. The pandemic had a detrimental impact on both the world economy and the energy sector, pressuring nations to take necessary, firm measures to slow the spread of the virus and counter its effects.

The oil market saw demand in freefall, global storage filling quickly and large-scale volatility. This propelled OPEC and its partners in the Declaration of Cooperation to intensify their collaborative efforts to restore much-needed stability, resulting in the largest and longest voluntary production adjustments in the oil market's history. The importance of these efforts was recognized by numerous countries and organizations, including G20 Energy Ministers, Argentina, Brazil, Canada, Colombia, Norway, the African Petroleum Producers' Organization, the International Energy Agency, the International Energy Forum and many independent producers.

OPEC turned 60 in September 2021, marking a significant milestone on the Organization's historic journey.


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MEMBER COUNTRIES & STRUCTURE OF OPEC

Member Countries:

Currently the Organization has 13 countries including Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia, Venezuela, Libya, the United Arab Emirates, Algeria, Nigeria, Gabon, Angola, Equatorial Guinea and Congo.

The OPEC Statute distinguishes between the Founder Members and Full Members - those countries whose applications for membership have been accepted by the Conference.

The Statute stipulates that “any country with a substantial net export of crude petroleum, which has fundamentally similar interests to those of Member countries, may become a Full Member of the Organization, if accepted by a majority of three-fourths of Full Members, including the concurring votes of all Founder Members.” The Statute further provides for Associate Members which are those countries that do not qualify for full membership but are nevertheless admitted under such special conditions as may be prescribed by the conference.

Founding members - *Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela.*

Full members - *Algeria, Angola, Congo, Equatorial Guinea, Gabon, Libya, Nigeria, and United Arab Emirates*.

Now, let us look at the contribution of each member country in further detail.

Algeria

Covering an area of around 2,382 thousand square kilometres, the Republic of Algeria is, territorially, OPEC’s largest Member Country and the largest country in Africa. It is situated in the north of the continent, and shares borders with Morocco, the Western Sahara, Mauritania, Mali, Niger, Libya and Tunisia. To the north is the Mediterranean Sea.

The country achieved political independence in 1962 after more than a century of colonial rule by France. Algeria’s struggle for independence was one of the most bitter in Africa’s colonial history.

It has a population of almost 44 million, with over 3.5 million living in the capital, Algiers. Arabic is the official language, while French and Berber Tamazight are also spoken. The currency is the dinar.

The oil and gas sector are the backbone of the economy, accounting for about 20 per cent of the gross domestic product, and 85 per cent of total exports. The country's other natural resources include iron ore, phosphates, uranium, and lead. The country joined OPEC in 1969.

Angola

Located on the Atlantic coast in the southern part of Africa, the Republic of Angola is the second largest oil producer in Africa.

It has a population of around 31 million and is bordered by Zambia to the east, Namibia to the south and the Democratic Republic of Congo to the north. Its capital city is Luanda, and the national currency is the kwanza. Portuguese is its official language, but Bantu and other African languages are also spoken. Angola gained independence from Portugal in 1975.

Angola's impressive economic growth rate is being driven by its oil sector. Oil production and its supporting activities contribute about 50 per cent of the nation's gross domestic product and around 89 per cent of exports.

Angola's President is HE João Manuel Gonçalves Lourenço. The country joined OPEC in 2007.

Congo

Located in Central Africa, the Republic of the Congo is spread out over an area of 342,000 square kilometres. The country is bordered by Gabon and the Atlantic Ocean to the west, Cameroon to the northwest, the Central African Republic to the northeast, the Democratic Republic of the Congo to the east and south, and Angola's exclave of Cabinda to the southwest.

The capital and largest city in the country is Brazzaville, which has a population of roughly 1.8 million. The national currency is the CFA franc, which is used by five other countries in Africa, including fellow OPEC Members Equatorial Guinea and Gabon. French is the official language, although several local languages – such as Kituba and Lingala – are also widely spoken.

Apart from being a producer and net exporter of crude oil, the Republic of the Congo has solid agriculture, industry and handicraft sectors.

The current President of the Republic of the Congo is HE Denis Sassou Nguesso, who was elected in 1997 for the second time. The Republic of the Congo became a Full Member of OPEC on 22 June 2018.

Equatorial Guinea

The Republic of Equatorial Guinea is located in Central Africa. The country consists of an insular region, made up of several islands, and a mainland region named after the Río Muni. The mainland region is bordered by Cameroon to the north, and Gabon to the south and east. On the west, the Río Muni region overlooks the Gulf of Guinea. Equatorial Guinea covers an area of around 28,000 square kilometres and is inhibited by approximately 1.41 million residents.

The capital city is Malabo, which has a population of 297,000 persons, while the seat of government is in Oyala. The country's currency is the CFA franc, a currency used by five other countries in Africa, including OPEC Member Country Gabon. The official language of Equatorial Guinea is Spanish. French and Portuguese are widely used, too.

While the African nation is a producer and net exporter of crude oil, it is also a key producer and exporter of natural gas. In former times, Equatorial Guinea exported coffee, timber and cocoa.

The current President of Equatorial Guinea is HE Teodoro Obiang Nguema Mbasogo. He was elected in 1979. Equatorial Guinea became a full member of OPEC on 25 May 2017.

Gabon

The Republic of Gabon is situated on the western shores of Central Africa. It is bordered by the Gulf of Guinea to the west, the Republic of Congo to the east and south, Cameroon to the north and Equatorial Guinea to the northwest. Located on the equator, Gabon covers a gross area of approximately 268,000 square kilometres, while its population is about 2 million.

Gabon's capital city is Libreville, which is inhabited by around 700,000 residents. The republic's currency is the CFA franc, a currency used by five other African nations. The country's official language is French.

In addition to being an oil producer and net oil exporter, Gabon possesses abundant primary materials, and enjoys growing agriculture and tourism sectors. Other notable exports are timber, uranium and manganese.

Gabon's current President is HE Ali Bongo Ondimba, who was elected in 2009. Gabon became a full member of OPEC in 1975 but terminated its membership in 1995. It re-joined the Organization on 1 July 2016.

Iran

Stretching from Turkey and Iraq to Turkmenistan and Pakistan, the Islamic Republic of Iran is the world's 17th largest country in terms of territory, comprising around 1,648 thousand square kilometers. It is one of the world's oldest continuous major civilizations.

It has a population of around 84 million. The capital, Tehran, is located at the foot of the Alborz Mountains, and is home to around seven million people. Most Iranians speak Farsi, while other languages include Azeri, Kurdish and Luri.

Apart from petroleum, the country's other natural resources include natural gas, coal, chromium, copper, iron ore, lead, manganese, zinc and sulphur. The national currency is the rial.

The Islamic Republic of Iran's President is HE Ebrahim Raisi. The country is a Founder Member of OPEC.

Iraq

Sharing borders with three other OPEC Member Countries – the Islamic Republic of Iran, Kuwait and Saudi Arabia – Iraq covers an area of around 438 thousand square kilometers. It has a population of about 40 million, one fifth of which lives in the capital, Baghdad. Most Iraqis speak Arabic, although Kurdish is also used, especially in the northern part of the country.

Iraq attained its independence as a Kingdom in 1932. In 1958, a military coup d'état ended the monarchy, making Iraq a republic.

Apart from petroleum, Iraq's other natural resources include natural gas, phosphates and sulphur. Its national currency is the dinar. The country has a varied landscape, which includes areas of desert, mountains and fertile regions.

Iraq's President is HE Barham Salih. The country is a Founder Member of OPEC.

Kuwait

Located on the Arabian Peninsula bordering Saudi Arabia and Iraq, Kuwait is one of the most densely populated OPEC Member Countries. The Middle Eastern nation comprises an area of around 18 thousand square kilometres and has a population of around 4.5 million. Its official language is Arabic.

Kuwait has a prosperous economy. Oil and gas sector accounts for about 40 per cent of its gross domestic product and about 92 per cent of export revenues. The country is a Founder Member of OPEC.

Libya

Situated in the north of Africa and sharing a border to the west with fellow OPEC Member Country Algeria, Libya is the 16th largest country in the world in terms of land mass, comprising around 1,760 thousand square kilometres. More than a quarter of the country's six million plus inhabitants live in its capital city, Tripoli. Arabic is the main language.

Apart from petroleum, Libya's other natural resources are natural gas and gypsum. Its economy depends primarily on the oil sector, which represents about 69 per cent of export earnings. Moreover, the oil and gas sector accounts for about 60 per cent of total GDP. Substantial revenues from the energy sector, coupled with a small population, give Libya one of the highest per capita GDPs in Africa. The national currency is the dinar. The country joined OPEC in 1962.

Nigeria

The most populous country within OPEC, Nigeria has around 213 million inhabitants. Located on the Gulf of Guinea on Africa's western coast, Nigeria covers an area of around 924 thousand square kilometres. Abuja, the capital since 1991, has a population of more than one million. English is Nigeria's official language, although many local languages such as Hausa, Yoruba, Igbo and Ijaw are also spoken.

Apart from petroleum, Nigeria's other natural resources include natural gas, tin, iron ore, coal, limestone, niobium, lead, zinc and arable land. The oil and gas sector accounts for about 10 per cent of gross domestic product, and petroleum exports revenue represents around 86 per cent of total exports revenue. Its currency is the naira.

Nigeria's Head of State and Commander-in-Chief of the Armed Forces is HE Muhammadu Buhari. The country joined OPEC in 1971.

Saudi Arabia

The Middle Eastern Kingdom of Saudi Arabia straddles the Arabian Peninsula, bordered by Jordan, Kuwait and Iraq in the north and Oman and Yemen in the south. It is the 14th largest country in the world, covering around two million square kilometres, making it the second largest

OPEC Member Country. Saudi Arabia has a population of over 35 million, more than seven million of whom live in the capital, Riyadh. Arabic is the official language.

Saudi Arabia possesses around 17 per cent of the world's proven petroleum reserves. The oil and gas sector accounts for about 50 per cent of gross domestic product, and about 70 per cent of export earnings. Apart from petroleum, the Kingdom's other natural resources include natural gas, iron ore, gold, and copper.

The national currency is the riyal. The Sovereign is the Custodian of the Two Holy Mosques, HM King Salman Bin Abdulaziz Al-Saud. Saudi Arabia is a Founder Member of OPEC.

United Arab Emirates

The United Arab Emirates comprises seven emirates – Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al-Khaimah, Sharjah and Umm Al-Quwain – located along the southeast coast of the Arabian Peninsula. The country covers an area of around 84 thousand square kilometres and has a population of around 9 million. More than one million people live in the capital, Abu Dhabi. Arabic is the country's official language.

About 30 per cent of the country's gross domestic product is directly based on oil and gas output. Since the discovery of oil in the UAE, the country has become a modern state with a high standard of living. The currency is the dirham.

The United Arab Emirates' President is HH Sheikh Khalifa Bin Zayed Al-Nahyan. The country joined OPEC in 1967.

Venezuela

The Bolivarian Republic of Venezuela lies along South America's Caribbean Coast. It is bordered by Brazil, Colombia and Guyana. The country covers an area of around 916 thousand square kilometres, excluding the Esequibo area, and has a population of around 32 million. Around four million people live in the capital, Caracas, and Spanish is the country's official language.

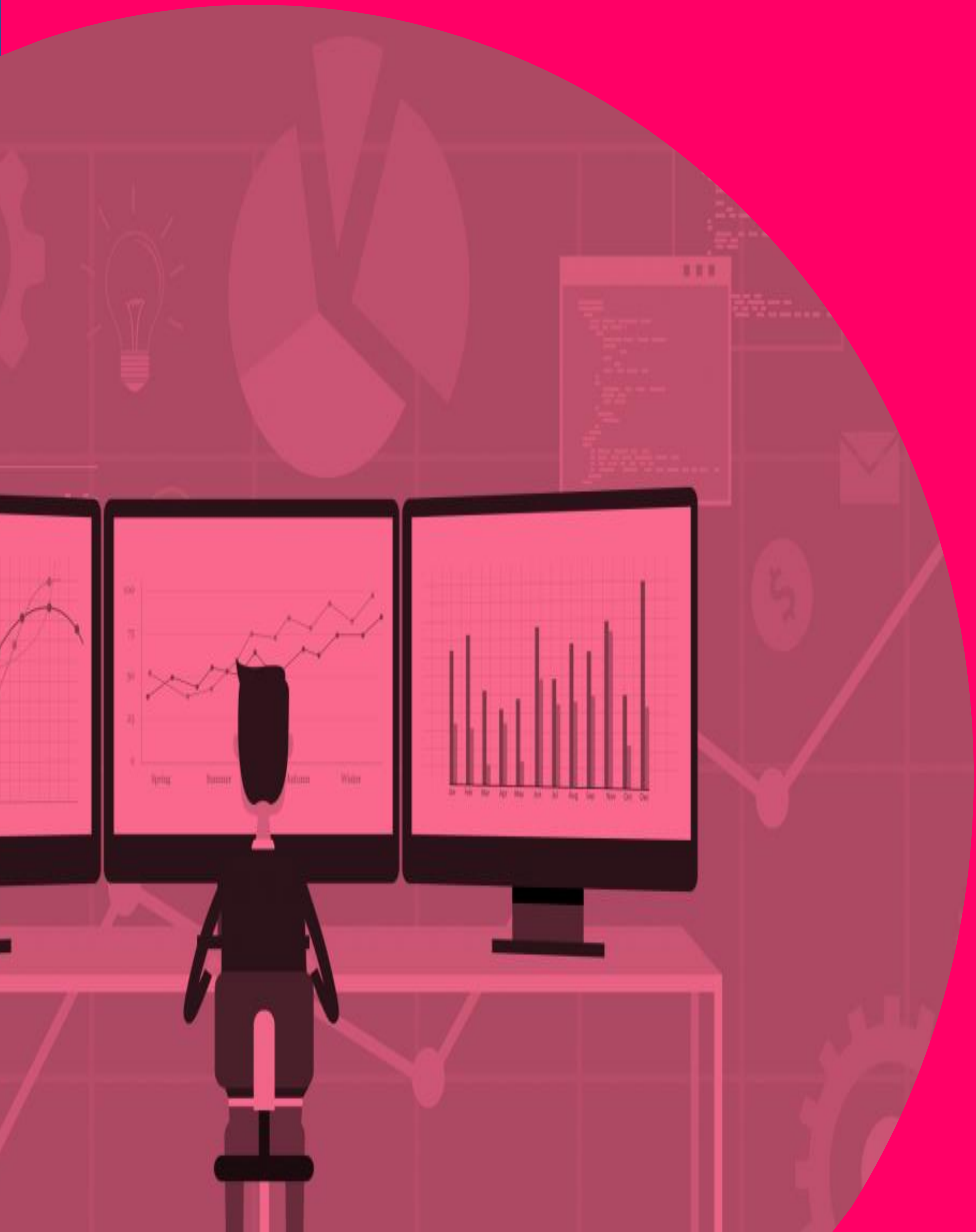
Venezuela's oil revenues account for about 99 per cent of export earnings. Apart from petroleum, the country's natural resources include natural gas, iron ore, gold, bauxite, diamonds and other minerals. The national currency is the bolivar.

HE Nicolás Maduro Moros is the President of the Bolivarian Republic of Venezuela, and the country is a Founder Member of OPEC.

Structure of OPEC:

OPEC claims that its members collectively own about four-fifths of the world's proven petroleum reserves, while they account for two-fifths of world oil production. Members differ in a variety of ways, including the size of oil reserves, geography, religion, and economic and political interests. Some members, such as Kuwait, Saudi Arabia, and the United Arab Emirates, have very large per capita oil reserves; they also are relatively strong financially and thus have considerable flexibility in adjusting their production. Saudi Arabia, which has the second largest reserves and a relatively small (but fast-growing) population, has traditionally played a dominant role in determining overall production and prices. Venezuela, on the other hand, has the largest reserves but produces only a fraction of what Saudi Arabia produces.

The influence of individual OPEC members on the organization and on the oil market usually depends on their levels of reserves and production. Saudi Arabia, which controls about one-third of OPEC's total oil reserves, plays a leading role in the organization. Other important members are Iran, Iraq, Kuwait, and the United Arab Emirates, whose combined reserves are significantly greater than those of Saudi Arabia. Kuwait, which has a very small population, has shown a willingness to cut production relative to the size of its reserves, whereas Iran and Iraq, both with large and growing populations, have generally produced at high levels relative to reserves. Revolutions and wars have impaired the ability of some OPEC members to maintain high levels of production.



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CURRENT OPERATIONS & SITUATION OF OPEC

Before looking at the current operations and situation of OPEC, let us understand the principal aim of OPEC, the benefits of being an OPEC member and the role of OPEC in the international markets.

Principal aims of OPEC:

- The principal aim of the Organization shall be the coordination and unification of the petroleum policies of Member Countries and the determination of the best means for safeguarding their interests, individually and collectively.
- The Organization shall devise ways and means of ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations.

Benefits of being an OPEC member:

- Due regard shall be given at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on their capital to those investing in the petroleum industry.

Role of OPEC in the international market:

- Oil prices and OPEC's role in the international petroleum market are subject to a number of different factors. The advent of new technology, especially fracking in the United States, has had a major effect on worldwide oil prices and has lessened OPEC's influence on the markets. As a result, worldwide oil production increased and prices dropped significantly, leaving OPEC in a delicate position.

Before delving further, we need to understand the functioning of OPEC. To meet this objective, we shall look at the OPEC Basket.

What is the OPEC Basket:

- The OPEC Basket is a weighted average of oil prices from the different OPEC members around the world. Members of the Organization of the Petroleum Exporting Countries (OPEC) contribute data that forms the basis of the basket. The basket is a benchmark, or reference point, for those monitoring the oil price and the stability of the global oil market.

Understanding the OPEC Basket:

- The OPEC Basket depends on specific petroleum blends from OPEC member countries and is a weighted average. A weighted average is a mean, calculated by giving values to data influenced according to some attribute. In the case of the OPEC Basket, the defining characteristic is the weight of the crude oil.
- As of December 2020, the OPEC Basket averaged the prices of crude oils from thirteen member states. They included Saharan Blend from Algeria, Girassol from Angola, Djeno from Congo, Zafiro from Equatorial Guinea, and Rabi Light from Gabon. Iran Heavy, Basra Light from Iraq, Kuwait Export, and Es Sider from Libya were also part of the basket. Bonny Light from Nigeria, Arab Light from Saudi Arabia, Murban from the United Arab Emirates, and Merey from Venezuela round out the list.
- Some of the OPEC oils have higher sulfur content than crude oils from other countries. Hydrocarbons or crude oil that have higher sulfur contents are more expensive to refine. Because of that, the price of the OPEC Basket is generally lower than other oil reference prices.
- Many other countries throughout the world also produce oil. However, they are not OPEC members. Russia, the United States, China, and Canada are all major oil producers but not OPEC members. OPEC's member countries produce a substantial fraction of the world's oil.
- Oil prices matter a great deal to the global economy because the production and distribution of all consumer goods depend on petroleum. Oil fuels the trucks that transport goods, the tractors that plow agricultural fields, the cars that consumers use to get to the market, and much more. OPEC provides a way for the member oil-producing countries to create stable market conditions for themselves by raising or lowering production.

Benefits of OPEC basket:

- The main use of the OPEC Basket is setting and achieving OPEC price targets. Whenever people hear news stories about OPEC raising oil prices, the price they are hearing about is the OPEC Basket price. There is a substantial competition between various crude oils because most of them are relatively close substitutes. However, the direct goal of OPEC members is to raise the price that they receive for their own oil in the global market. Since the OPEC Basket is a weighted average of OPEC members' oil prices, it is ideal for setting the organization's goals and measuring its success.

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Criticism of OPEC basket:

- Since it is just an average, the OPEC Basket is not a type of unrefined oil that businesses can buy directly. Instead, they must buy some oil, such as Kuwait Export or Arab Light. These crude oils vary in price and quality, so the OPEC Basket is not very useful for oil refineries.

Having understood the concept of OPEC basket, we are in a good position to understand the ongoing situation within the OPEC. We will start by evaluation the reasons that led to the reduction in the production of oil within the OPEC over the last 5 years.

What lead to the reduction in production of oil:

- OPEC decided to maintain high production levels and consequently low prices as of mid-2016, in an attempt to push higher-cost producers out of the market and regain market share. However, starting in January 2019, OPEC reduced output by 1.2 million barrels a day for six months due to a concern that an economic slowdown would create a supply glut, extending the agreement for an additional nine months in July 2019.
- Demand for oil dropped during the global crisis, which began in 2020. Producers had an overabundance in supply with no place to store it, as the world experienced lockdowns cutting down demand. This, along with a price war between Russia and Saudi Arabia, led to a drop-in oil prices. As a result, the organization decided to cut production by 9.7 million barrels per day between May and July 2020. Oil prices continued to experience volatility, leading OPEC to adjust production levels to 7.2 million barrels per day as of January 2021.
- OPEC faces considerable challenges from innovation and new, green technology. High oil prices are causing some oil-importing countries to look to unconventional—and cleaner—sources of energy. These alternatives, such as shale production as an alternative energy source,

and hybrid and electric cars that reduce the dependence on petroleum products, continue to put pressure on the organization.

During this scenario, the Organization agreed on the development of OPEC+. Let us look at what OPEC+ is about.

OPEC+ :

OPEC+ is considered an extension of OPEC when the organization makes production cut deals with non-OPEC countries. It includes Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan, and Sudan.

In September 2016, the organization faced the prospect of lower oil prices without a production cut. This incentivized OPEC to make headway toward its first production cut since oil's price collapse during the 2008 financial crisis.

Eventually, one million barrels per day were dropped from production, agreed to in November 2016. Russia and ten other non-OPEC members also agreed to the cut. Nonetheless, other producers were expected to offset the cut to take more market share, notably the US shale industry. Libya and Nigeria also did not participate. Indonesia forfeited its membership rather than agree to a production cut.

From then on, any OPEC agreement with non-OPEC members would be referred to as OPEC+.

Most notably, this included the following deals and strategic response:

December 2017: Russia and OPEC to cut production 1.8 million barrels per day until the end of 2018.

January 2019: Qatar withdrawals from OPEC as part of the Qatar boycott by the UAE, Saudi Arabia, Bahrain, and Egypt.

June 2019: Russia and OPEC agree to extend cuts by another six to nine months.

December 2019: OPEC and Russia agree to further cuts (2.1 million barrels per day) to prevent oversupply in the market, to last throughout Q1 2020.

March 2020: With oil already down to the coronavirus pandemic hitting global demand, Saudi Arabia and Russia decide to stop cooperating on output cuts. Economically, Saudi Arabia had been taking a disproportionate effect of the output cut. It can also produce at less than $5 per barrel, while Russia's estimated breakeven cost is around $25-$30. "Flooding" the oil markets would also place economic pressure on the heavily indebted US shale industry.

OPEC is also known for its earmarked fund for international development. Let us understand the characteristics of this fund.

OPEC Fund for International Development:

The OPEC Fund for International Development is a multilateral development finance institution established in 1976. Its 12 Member Countries are: Algeria, Ecuador, Gabon, Indonesia, IR Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, the United Arab Emirates and Venezuela.

The organization works in cooperation with developing country partners and the international development community to support sustainable social and economic advancement in low- and middle-income countries around the world.

The OPEC Fund's work is people-centred, focusing on financing projects that meet essential needs, such as food, energy, infrastructure, employment (particularly relating to MSMEs), clean water and sanitation, healthcare and education.

By providing public, private and trade sector financing, as well as grants, to countries and regions that often find funds difficult to secure, the organization is helping to solve challenges in a market-supportive manner, while promoting cooperation with and among more vulnerable parts of the world.

To date, the OPEC Fund has committed more than $22 billion to development projects in over 125 countries with an estimated total project cost of $187 billion.*

It is the only globally mandated development institution that provides financing from member countries to non-member countries exclusively.

Facts & Figures

The OPEC Fund has approved almost 4,000 projects across public (1,612), private and trade finance (500) sectors, as well as grants (1,889).*

Operational outcomes include:

- Providing 11.5 million households with access to water supply and sanitation.
- Giving 2.4 million children access to education.
- Benefitting more than 350,000 MSMEs.
- Constructing and rehabilitating 11,360 km of roads and railways.

The OPEC Fund has also dedicated $1 billion to fund the recovery efforts from COVID-19 and its impact in developing countries.

****As of December 31, 2020.***

Having understood the current operations and situation of OPEC, let us end by looking at the future of OPEC.

5

FUTURE OUTLOOK OF OPEC

OPEC's Long-Term Strategy ('LTS'):

OPEC's Long-Term Strategy provides a coherent framework and consistent vision for the future of the Organization. The Strategy is prepared every five years by the OPEC Secretariat under the guidance of the Deputy Ministers of Petroleum and Energy of Member Countries.

The Strategy analyzes factors that may affect the Organization's efforts to ensure market stability and fair prices, and also analyzes global trends that may have an impact on the security of world oil demand. In line with OPEC's fundamental mission, the Strategy considers the overall conditions which are necessary for the regular supply of petroleum to consumers.

Objectives of LTS:

The LTS sets objectives in relation to the long-term petroleum revenues of OPEC Member Countries; fair and stable prices; the role of oil in meeting future energy demand; OPEC's share of world oil supply; the stability of the world oil market; the security of a regular supply to consumers; the security of world oil demand for producers; and in seeking to secure and enhance the collective interests of Member Countries in global negotiations and future multilateral agreements.

Considerable uncertainty over future oil demand:

Perhaps the most notable event since the previously published LTS has been the global financial crisis and the ensuing economic recession. The financial crisis was unparalleled, not only in terms of the number of losses incurred by the financial sector, but also because of the strong contractionary effects that this had on the real economy. In turn, this had major negative implications for oil demand. In the coming years, one of the main questions that will need to be answered is: what medium- and long-term effects remain on the world economy and how will this impact potential growth?

Despite the efforts to keep market in balance, OPEC's intentional production cuts have not been able to counteract other geopolitical factors. For example, a key factor responsible for the increase in the price of oil during 2018 and 2019 in parallel with the output cuts was the US sanctions on Iran and Venezuela's oil sectors. This became clear when the market remained oversupplied even though OPEC reduced exports, and the price of oil has mostly remained under $70 since January 2019, mainly due to the gloomy economic growth outlook caused by trade tensions.

Several geopolitical events have influenced crude oil prices which have nothing to do with OPEC policies. These events include attacks on oil tankers transiting the Persian Gulf and the Red Sea, the September 2019 drone attacks on Saudi Arabia's energy infrastructure, recent tensions between the US and Iran, and ongoing US-China trade war.

Persistent divisions within the cartel added to OPEC's diminishing global power. Qatar, for instance, ended its 58-year membership on January 1, 2019, stating that it wanted to focus more on liquefied natural gas production and exports. Another OPEC member, Iran, was isolated in the Middle East due to its regional political rivalry with Saudi Arabia. The country is excluded from OPEC+ production cut agreement due to the US sanctions.

With some members leaving OPEC and others facing oil output declines, the organization is losing both price control and its market share. OPEC lowered oil production three times in the last three years to counter oversupply but at the expense of its market share. OPEC's decreasing market share was mostly captured by the US unconventional producers – market-driven players controlling almost 7% of global oil and 16% of global gas production today. It is interesting to note that the US continue to import crude oil from the OPEC countries: in 2018, the share of crude oil imports from OPEC accounted 29% in total US imports. However, this share decreases drastically, already reaching 16% as of November 2019. The decline in imports arrives as the US continues to break production output records and is exporting more oil to the world market.

New techniques, such as hydraulic fracturing, allowed US crude oil production to surpass both Russia and Saudi Arabia. The US is now the world's largest oil producer reaching 12.3 million b/d in 2019, according to the US Energy Information Administration (EIA), up from 11 million b/d in 2018.

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CONCLUSION

We hope that this report provided a deep insight into ‘The Organization of Petroleum Exporting Countries’. OPEC is a crucial part of the oil and petroleum industry worldwide and its exclusion is impossible!

THANK YOU!