

A COMPROMISE AMID UNCERTAINTY

Relevant for: International Relations | Topic: OPEC

A 3D printed oil pump jack is seen in front of displayed OPEC logo in this illustration picture. | Photo Credit: [REUTERS](#)

For now, the risk has receded that the United Arab Emirates (UAE), said to hold the world's largest untapped crude reserves, might quit the Organization of the Petroleum Exporting Countries (OPEC). The end to the UAE's weeks-long impasse with Saudi Arabia, one of the world's biggest crude exporters, and Russia, a non-OPEC state, was brought about by Sunday's deal. Under its terms, the [UAE's demand for an increase in its oil output quotas](#), in recognition of its higher production capacity, has been conceded. The baselines have also been raised for Saudi Arabia, Russia, Iraq and Kuwait.

The bloc will now step up crude production by 400,000 barrels a day starting in August. The deal will extend until the end of 2022. The output boost is in response to rising oil prices in the wake of the rebound in economic activity following the easing of lockdown restrictions and increased COVID-19 vaccinations in different parts of the world. Sunday's deal has also extended until the end of next year the broad terms of the unprecedented production cuts the bloc enforced in April 2020. The cartel cut oil production by 9.7 million barrels a day (mbd) as oil demand fell from 100 mbd to 91.1 mbd and prices plummeted from \$70 in January 2020 to around \$20 in April. The bloc has since gradually rolled back these steep cuts and hopes to return production to pre-pandemic levels by the end of 2022.

The UAE has played hard ball during the bloc's attempts to deal with the pandemic-induced price volatility. In December, when OPEC+ tried to ease production cuts, the UAE insisted that members who diluted the original output reductions should compensate through even steeper cuts, following its own example. Thus, while the internal rift has been resolved for now, the danger cannot be ruled out of an increasingly economically and politically assertive UAE flexing its muscle. Any potential break with the bloc would undoubtedly prove far more consequential for the OPEC than the 2019 exit of Qatar.

Bilateral relations between the traditional allies, Saudi Arabia and the UAE, have been especially strained since the UAE established diplomatic ties with Israel last year and withdrew troops from the Saudi-spearheaded war in Yemen the year before. A more recent arena of tension is the tariffs Riyadh has imposed on imports from the six-nation Gulf Cooperation Council. Saudi Arabia will now exclude from the GCC tariff agreement goods made by companies with a workforce of less than 25% of locals and industrial products with less than 40% of added value after their transformation process. Home to a predominantly migrant population, the move could hit the UAE especially hard.

The latest OPEC compromise echoes growing recognition of the delicate balance between competing domestic and global priorities. Foremost is their eagerness to maximise the returns on their substantial hydrocarbon resources, amid growing speculation of a peak in oil demand within sight. The OPEC, echoing other assessments, forecast in 2016 that a strict implementation of the Paris climate accord could see the demand for oil peak by 2030, owing to the proliferation of alternative fuels and electric cars. Conversely, its report last year pins hopes on population growth and expansion of the middle class for continued increase in oil demand. The International Energy Agency (IEA), which in 2016 forecast a continued rise in oil consumption until the 2040s, has more recently hinted at about 5% rise or fall relative to the demand before the pandemic within a decade. The OPEC's other concerns are the stabilisation

of world oil prices without jeopardising national expenditure programmes, and the diversification of economies in anticipation of the unfolding global energy transition. Unity would be of the essence amid this uncertainty.

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC

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