

Sketchy deal: On OPEC oil output boost

When it comes to crude oil prices, politics dwarfs everything else. The Organization of the Petroleum Exporting Countries (OPEC) on Friday agreed to increase its daily output to address the problem of rising crude oil prices. Saudi Arabia's Energy Minister Khalid al Falih announced that the cartel's output would be increased by about a million barrels a day beginning in July. The official statement released by the group, however, failed to mention any solid numbers regarding the planned increase in production. It simply stated that OPEC countries would "strive" to adjust production levels in order to conform to the terms of the production cut deal reached in 2016. Unsurprisingly, in the absence of any clear intent on the part of OPEC to guide prices lower, the price of the benchmark WTI crude increased by as much as 5% after Friday's announcement of a production increase. OPEC members had in late 2016, it is worth noting, agreed to a historic deal to cut output by 1.2 million barrels a day in order to end a supply glut and raise the price of oil. Since then, the cartel has in fact managed to overshoot its production cut target following unexpected outages in countries such as Venezuela and Libya, contributing to the steep rise in oil prices. In May, for instance, OPEC overshot its production cut target by 624,000 barrels a day. The lack of any clear commitment from OPEC to raise production suggests that the threat of a supply shock still looms over the global economy. But, for now, the deal allows stakeholders in the energy market to save face.

Oil rises after OPEC agrees to lift output

The pressure on Saudi Arabia, the *de facto* leader of OPEC, to be seen as doing something to tackle rising oil prices was clear, going into the meeting on Friday. U.S. President Donald Trump has been vocal in recent months about the need to bring down rising oil prices that threaten to put the global economy under stress. Other oil-importing economies, especially emerging markets such as India that have been affected by the rising cost of oil imports, have also been exerting pressure. The present deal could help the Saudis appease major oil consumers to some extent. Meanwhile, Iran, which has been opposed to raising OPEC output as it would lower prices, is set to suffer a marginal loss as it lacks spare capacity to ramp up production. This works in favour of its rival, Saudi Arabia, which can recover from the impact of lower prices by capturing market share. The deal, however, still allows Iran to save face by projecting the proposed output increase simply as a return to the original OPEC agreement framed in 2016. Whether all this politicking will bring a stable reduction in global oil prices remains to be seen.

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