

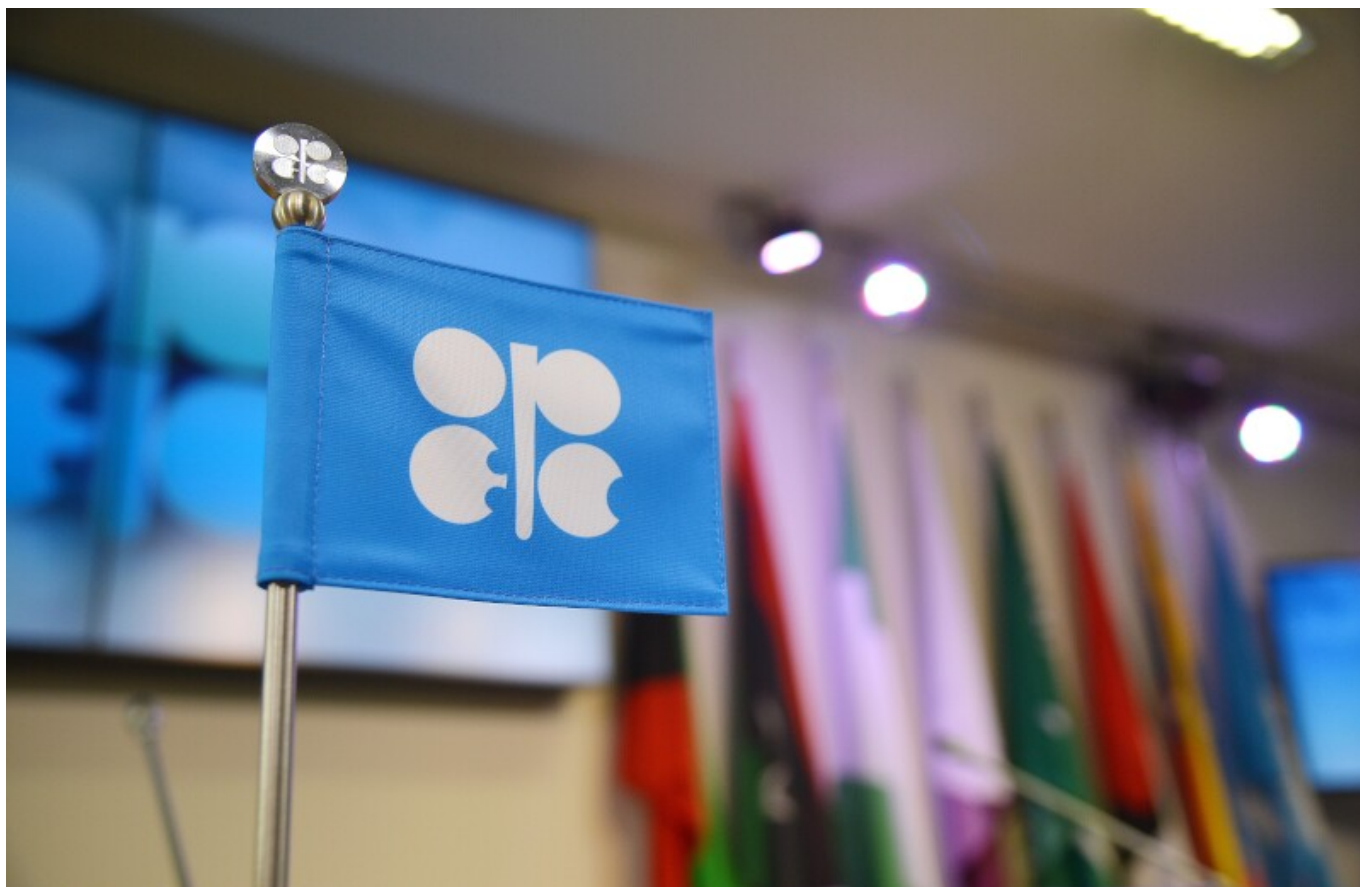
Repercussions of OPEC's Decision: Major Supply Cut to Oil Production

written by Ezba Walayat | October 14, 2022



Introduction

The OPEC+ group of countries have agreed upon largest cut to oil output, since the beginning of coronavirus outbreak in 2020, limiting oil supplies in a market that is already strained, despite of the pressure from the United States and others to produce more oil. The world's oil producing nations said in a statement that they would produce 2 million fewer barrels per day following at 33rd Organization of the Petroleum Exporting Countries (OPEC) meeting held in Vienna on 5th October, 2022. It has raised the concerns over skyrocketing inflation which is likely to increase as the world's oil supply is expected to tighten. The action is taken before Russian energy economic sanctions by the European Union due to the ongoing war in Ukraine. Following the meeting, Prince Abdulaziz bin Salman, the Saudi Arabian energy minister, claimed that OPEC+ was acting in response to warnings of a global economic slowdown that may reduce demand for oil and drive down the prices.



US' Disappointment at the Decision

In recent months, as Russia tightened its grip on Europe's energy supply, natural gas prices skyrocketed, plunging Europe and much of the world into a severe energy crisis that resulted in unrest and compelled Governments to declare emergencies and make efforts to stabilize markets. For this reason, three months ago, when President Biden visited the Middle East he asked the Crown Prince Mohammed Bin Salman, to increase the oil production because Saudi Arabia controls nearly one-third of OPEC's oil reserves. After the decision made by OPEC, it seems like the President Joe Biden's advice for taking measures to increase oil production have been ignored. Quickly after the decision was made, the White House criticized it as "shortsighted" and charged the oil cartel as for supporting Russia. The United States' Secretary of State Antony Blinken stated after OPEC's statement that his Government was working "to ensure that energy is available on the market and the costs are kept low." This was also quoted by the US National Security Advisor and Director of the National Economic Council (NEC), they said in a statement "At a time when maintaining a global supply of energy is of paramount importance, this decision will have the most negative impact on lower and middle income countries that are already reeling from elevated energy prices." According to some analysts, in order to counteract what OPEC's recent decision, the US may try to release part of its oil reserves. In order to increase American energy output and weaken OPEC's grip over energy prices, Biden urged his administration and Congress to look into possible solutions. The White House added that Biden has requested another 10 million barrels oil release from the American Strategic Petroleum Reserve in an effort to bring down oil costs and ensure energy security. Moreover, in light of recent development, the White House accused "it was obvious that OPEC+ was aligning with Russia." Following the establishment of OPEC+ oil output agreement in 2016 and Saudi King Salman bin Abdulaziz

historic trip to Moscow in October 2017, Moscow's relations with Saudi Arabia and other Gulf Cooperation Council (GCC) members have progressively improved. It is once again in the highlights, because of the OPEC's deal, it is being said that Saudi Arabia is favoring Russia.



Response by the Organization of the Petroleum Exporting Countries (OPEC)

The accusations made by the United States have been rejected by saying that the decision is technical not a political one which was purely made for the global economy and the energy market. In response, the Organization of the Petroleum Exporting Countries (OPEC) energy ministers dismissed claims of the US that the most recent oil output cut was “endangering the global energy market” and contributing to “energy poverty in the West.” The output cut by OPEC+ was also supported by the OPEC Secretary General Haitham Al Ghais, who claims that the decision aims to give the energy market “security and stability.”



The blame game is persisted for energy weaponization, as the West accused Russia to spark a crisis in Europe that might lead to gas and power shortages this winter. In contrast, Moscow accused the West of turning the dollar and financial systems into weapons as a reaction to the Ukraine war initiated in February. The global humanitarian and economic effects of the Ukraine war are being felt at all levels, the energy sector is the most vulnerable which has put Europe in a difficult situation too. The state of global economy is already not good, high inflation is one of the biggest challenges that the world is facing. A possible recession is on the horizon as a result of the recent OPEC oil cut decision, therefore, it needs to be dealt in a responsible and responsive way to avoid any devastating situation that people and Governments cannot handle.