

# OIL CONFLIT: INTERNATIONAL RELATION

**NEWS:** The ongoing oil price tensions

## WHAT'S IN THE NEWS?

OPEC+ has increased oil production, leading to falling global crude prices amid an oversupplied market, energy transition, and weak demand recovery. While this benefits oil-importing countries like India in the short term, it poses long-term risks to remittances, exports, and Gulf-region ties.

### Context: A New Oil War

- Unlike past oil wars driven by geopolitical tensions or armed conflict, the current oil war is unfolding through strategic production increases and pricing adjustments by major oil-producing nations.
- These moves are significantly influencing global oil prices, macroeconomic stability, and energy transition strategies across the world.

### Background: OPEC+ Decision and Market Response

- OPEC+ Decision (May 2025):
  - Announced a production increase of 411,000 barrels per day (bpd) starting June 2025.
  - This is the third consecutive monthly hike, partially reversing the 2.2 million bpd voluntary production cuts made in 2023.
- Market Impact:
  - The announcement triggered an immediate drop in Brent crude prices, underlining the sensitivity and volatility of global oil markets.

### Saudi Arabia's Changing Strategy

- Production Cuts in 2024:
  - Saudi Arabia had voluntarily reduced its output to below 9 million bpd, its lowest level since 2011.
  - The goal was to support falling oil prices and stabilize the market.
- Shift in 2025:

- Due to non-compliance by other OPEC+ members like Iraq, UAE, Nigeria, and Kazakhstan, Saudi Arabia is now planning to flood the market to discipline overproducers.
- This tactic mirrors previous oil war strategies used in 2014–15 and 2020, when supply gluts were used to maintain market control.

### Factors Behind Policy Reversal

- Post-COVID K-shaped Recovery:
  - Economic rebound has been uneven across sectors and countries, leading to weak oil demand despite reopening.
- Surge of Non-OPEC+ Producers:
  - Countries like Brazil, Guyana, and the U.S. (shale oil) have ramped up output to capture a bigger market share.
  - This has contributed to a global supply glut, further intensifying competition.

### Reasons Behind Declining Oil Prices

- Oversupplied Market:
  - Despite stagnant demand, many oil producers continue to increase supply, exerting downward pressure on prices.
- Peak Oil Demand Theory:
  - The International Energy Agency (IEA) has projected that global oil demand could plateau or decline by the decade's end.
  - This outlook has created long-term bearish sentiment in the market.
- Global Energy Transition:
  - Adoption of electric vehicles, renewable energy, and decarbonization goals in major economies like China, Europe, and India is steadily reducing fossil fuel dependence.

### Implications for India

- Short-Term Economic Benefits:
  - A \$1 fall in crude oil prices can save India about \$1.5 billion annually.

- Lower oil prices help curb inflation, reduce fiscal burden, and improve current account balance.
- Long-Term Strategic Risks:
  - Economic slowdown in Gulf countries (due to oil revenue loss) can threaten:
    - 9+ million Indian workers in the region.
    - \$50 billion worth of annual remittances that India receives.
  - Fall in refined petroleum product prices globally can hurt India's export earnings, as refined fuel is one of India's top exports.
  - Sovereign Wealth Funds from oil-rich nations may scale back investments in Indian infrastructure and energy projects, slowing growth.

### About OPEC (Organization of the Petroleum Exporting Countries)

- Establishment: Formed in 1960 during the Baghdad Conference by Saudi Arabia, Iran, Iraq, Kuwait, and Venezuela.
- Headquarters: Vienna, Austria.
- Current Members (12): Algeria, Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, UAE, Venezuela.
- Objective: To coordinate and unify petroleum policies among member countries, ensure stable oil markets, and secure fair returns for producers.

### About OPEC+

- Formation: Created in 2016 with the Algiers Accord and formalized through the Vienna Agreement.
- Members: Includes 12 OPEC nations + 10 non-OPEC countries, such as:
  - Russia, Kazakhstan, Azerbaijan, Brunei, Bahrain, Mexico, Oman, South Sudan, Sudan, and Malaysia.
- Purpose: To bring more oil-producing nations under one coordinated umbrella, enhancing market stability through collective production strategies.

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