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UAE Exit from OPEC: Why UAE Exit from OPEC Will Impact Global Oil Prices

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UAE Exit from OPEC Latest News

- The United Arab Emirates has announced its exit from Organization of the Petroleum Exporting Countries (OPEC) and the wider OPEC+ alliance, effective May 1.
- The decision is linked to Abu Dhabi's **long-term economic strategy**, though it comes amid major disruptions in global oil markets triggered by the **US-Iran conflict**.
- After more than five decades in the grouping, the move signals a **significant shift in global energy dynamics**, raising questions about its impact on oil supply, pricing, and market stability.

OPEC and UAE Membership: Origins and Evolution

- OPEC was founded in 1960 at the **Baghdad Conference** by five countries—***Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela***—to coordinate oil policies and ensure stable revenues for producing nations.

- It emerged as a response to the dominance of Western multinational oil companies (the “Seven Sisters”), which earlier controlled pricing.
- OPEC currently has **12 members**, including, aside from the **UAE**: Algeria, Republic of the Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, and Venezuela.
- The United Arab Emirates joined OPEC in 1967, initially through Abu Dhabi, becoming part of the expanding group of oil-producing nations.

Emergence of OPEC+ and Global Role

- OPEC+ is a grouping formed in 2016 between OPEC and 10 major non-OPEC producers such as Russia, Mexico, and Kazakhstan.
- It coordinates **oil production quotas** to manage global supply and stabilise crude prices.
- This alliance today accounts for a large share of global oil production and trade, reinforcing its role in shaping energy markets.
    - As per a report, OPEC+ produced roughly 40% of the world’s crude oil and accounts for 60% of internationally traded petroleum.

OPEC’s Role in Global Oil Markets

- OPEC functions much like a central bank for the global oil market, using production controls as its primary instrument.
- By setting output quotas for member countries, OPEC regulates how much oil is produced collectively.
- These quotas prevent **oversupply during periods of low demand**, helping avoid sharp declines in oil prices.
    - Member countries may have to produce below their maximum capacity to maintain market stability.
- In times of tight supply, OPEC can **increase production**, ensuring that oil prices do not rise excessively and disrupt global markets.
- Since many member nations rely heavily on oil revenues, this coordinated approach helps stabilise their incomes and domestic budgets, shielding them from sudden price volatility.

Iran War and UAE’s Exit from OPEC

- **Security Risks and Disrupted Oil Flows** – The US-Iran conflict has heightened security concerns for the United Arab Emirates, especially around the Strait of Hormuz—a route that previously carried about one-fifth of global oil trade.
- **Constraints within OPEC Framework** – As Iran is a founding member of OPEC, the bloc’s consensus-based decision-making limits the UAE’s flexibility in responding to the crisis and securing its oil exports.
- **Shifting Security Dynamics** – Gulf nations have traditionally depended on the United States for regional security. However, the conflict exposed gaps in this arrangement, as the U.S. could not prevent spillover impacts on Gulf infrastructure and trade.
- **Strategic Autonomy through Exit** – By exiting OPEC, the UAE seeks to remove diplomatic constraints, enabling it to independently leverage its oil production, pursue new strategic partnerships, and explore alternative security arrangements beyond traditional Western alliances.

UAE's Economic Drivers Behind Exit from OPEC

- **Production Constraints and Capacity Underutilisation** – Beyond geopolitical factors, the UAE faced economic limitations within OPEC quotas, which capped its oil output below full capacity. Concerns over production policies influenced the decision to exit.
- **Balancing Oil Dependence and Economic Diversification** – At the same time, the UAE is pursuing a transition toward a knowledge-based economy, expanding into sectors like education and technology to attract global talent. Achieving this shift requires higher oil production in the short term to generate the financial resources needed for long-term diversification.

Impact of UAE Exit on Global Oil Prices

- **Weakening of OPEC's Collective Power** – A key concern is the erosion of **spare capacity control**—the unused oil production that can be quickly deployed—traditionally held by countries like Saudi Arabia, Kuwait, and the UAE.
- **Rise of Competition and Market Pressure** – UAE could emerge as a more aggressive independent producer, putting pressure on OPEC members to increase their own production. This shift introduces greater competition in global oil markets.
- **Downward Pressure and Volatility in Prices** – In line with basic economic principles, higher supply and competition are expected to push oil prices downward and increase market volatility, especially amid disruptions from the ongoing geopolitical tensions.
- **Implications for Oil-Importing Countries** – In the short term, lower oil prices could benefit import-dependent countries like India by reducing energy costs. Over time, increased competition may also expand the range of oil suppliers, improving energy security.
- **Risk of Further Fragmentation** – The UAE's move may set a precedent, raising the possibility that other members—such as Saudi Arabia—could reconsider quota commitments, potentially leading to further fragmentation of OPEC.

Source: IE| IE | AJ
