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Implications of Angola's Withdrawal from OPEC

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The Organisation of Petroleum Exporting Countries (OPEC) was founded in Baghdad in September 1960 with Saudi Arabia, Kuwait, Venezuela, Iran, and Iraq as members. The mandate of the organisation was to coordinate the petroleum policies of its member countries and to provide them with techno-economic backing.¹ It was formed with the aim to emerge and function as an influential oil-exporting organisation. Initially headquartered in Geneva, OPEC was later moved to Vienna in 1965.

The major member countries inducted later included Qatar (in 1961), Indonesia & Libya (in 1962), Abu Dhabi (in 1967), Algeria (in 1969), Nigeria (in 1971), Ecuador in (1973), Equatorial Guinea (in 2017) and the Republic of the Congo (in 2018).² The non-OPEC countries which export crude oil are termed as OPEC plus countries. OPEC plus countries include Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan.

There were also a few members who terminated their membership of this organisation for some reason or other. For example, the OPEC membership of Ecuador was suspended from 1992 and remained so until 2007 when it finally withdrew from OPEC in 2020. Indonesia had suspended its membership in 2009 but briefly rejoined in 2016 before suspending its membership again that year. Qatar, during a prolonged blockade imposed by other OPEC countries, terminated its membership in January 2019 to focus on its indigenous natural gas production.

Angola's association with OPEC

Angola joined OPEC in 2007. As per the details available, for the year 2022, the members of OPEC taken together produce 34 million barrels per day (BPD), whereas Angola produces more than 1.11 million BPD³. In the November session of OPEC, Angola, which happens to be the second-largest oil producer on the continent, protested a decision by OPEC to cut its production quota for 2024. Angola holds the considered opinion that remaining in OPEC will not serve its interests as it will be forced to cut its production scales.⁴

Implications of Angola's exit from OPEC for world oil prices

Angola's decision to exit the OPEC carries mixed implications for world oil price levels, albeit within a context shaped by diverse factors such as extant geopolitical dynamics, global demand patterns and the evolving landscape of the global oil industry.

The decision of Angola to quit OPEC has raised questions about the potential impact on global oil prices, given the intricate interplay of geopolitical influences on the demand-supply dynamics of the oil market. One immediate consideration in this context is the role of OPEC in coordinating oil production among

its member countries. The organisation often fixes and implements production quotas to stabilise prices by managing the global supply of oil. Angola's departure from OPEC might be interpreted as a test of the unity among the member countries of the organisation. It is assumed that this may potentially undermine the effectiveness of OPEC in governing enforcement of the international production agreements.

Notwithstanding the above, the direct impact of Angola's exit on world oil prices is likely to be limited. Angola's oil production, though substantial, doesn't carry the same weight as that of other major OPEC members such as Iraq, Saudi Arabia, UAE and the USA. It is also worth noting here that OPEC's influence on global prices is more significantly shaped by the policies and performance of its larger members, particularly Saudi Arabia, which has historically played a pivotal role in adjusting oil output to balance the global market forces.

Furthermore, global oil prices are subject to a multitude of external factors. Geopolitical tensions, economic trends, and technological advancements all play integral roles in shaping the oil market trajectories. Angola's departure from OPEC should be understood in the broader context of a rapidly changing energy landscape. One potential consequence is the signalling effect that Angola's exit, along with terminations of membership by some other important members, may have on currently active OPEC members. It is because Angola's exit hints at a growing discontent or divergence of interests within the organisation, which may lead to a weakened ability of the organisation to coordinate and control the production policies. This, in turn, might contribute to increased competition among oil-producing nations as they seek to secure or expand their market shares.

As the world transitions towards renewable and sustainable energy sources, the influence of traditional oil-producing nations could diminish. Angola's exit might be seen as a strategic move to adapt to changing market dynamics, focusing on its own economic priorities outside the constraints of OPEC agreements. Additionally, the timing of Angola's withdrawal coincides with global efforts to address climate change and reduce dependence on fossil fuels.

As nations commit to carbon neutrality goals, there is a growing emphasis on transitioning to cleaner energy alternatives. Angola, by distancing itself from OPEC, may seek to position itself more flexibly in this changing energy landscape, potentially diversifying its economy and reducing reliance on oil exports.

The implications also extend to the financial markets, where oil prices have a direct impact on various sectors. Investors and businesses globally closely monitor oil prices as they influence transportation costs, inflation rates, and the profitability of energy-related industries. Additionally, Angola's exit also showcases an element of uncertainty and accords an opportunity for the global market participants to adjust their strategies based on perceptions of how this move could influence the broader oil market.

Significance of oil and its impact on India

Oil remains a strategic commodity, playing a crucial role in the development processes of countries worldwide, including those in the global south. The government, in response to a question on the floor of Lok Sabha, responded that India's oil imports from Angola had been to the tune of 3,175.05 US\$ million during 2022-23.⁵ However, in response to the same question, the government explained that Indian imports from Iraq and Russia have been worth 33,599.57 and 31,024.66 US\$ million respectively during 2022-23, which is much more than what India imports from Angola. This was followed by Saudi Arabia, UAE, USA, Kuwait and Nigeria wherein Angola was followed only by Mexico and Oman.⁶

Therefore, considering Angola's small percentage of total OPEC output, it is unlikely that Angola's departure from OPEC will have any significant impact on oil supplies for India. However, the move does raise questions about the unity of the group.

The Fallout

Therefore, while Angola's departure from OPEC may not have an immediate and dramatic impact on world oil prices, it certainly underscores the intricate relationship between geopolitical decisions and the prevailing trends in the global energy market. The implications extend beyond the realm of production quotas and could influence the strategies of both oil-producing nations and the broader international community as they navigate the evolving landscape of the global energy sector.

Notes:

¹ Organisation of Petroleum Exporting Countries webpage, Member Countries, https://www.opec.org/opec_web/en/about_us/25.htm. Accessed on December 27, 2023.

² ibid

³ "Crude oil production of the OPEC from 1998 to 2022," Statista, December 14, 2023, <https://www.statista.com/statistics/265205/oil-production-in-opec-countries-in-barrels-per-day/#:~:text=In%202022%2C%20crude%20oil%20production,day%20in%20the%20previous%20year>. Accessed on December 29, 2023.

⁴ Handan Kazanci, "Angola announces exit from OPEC amid dispute over oil production quota," *Anadolu Agency*, December 22, 2023, <https://www.aa.com.tr/en/africa/angola-announces-exit-from-opec-amid-dispute-over-oil-production-quota/3089171>. Accessed on December 29, 2023.

⁵ Ministry of External Affairs, "Question on Exporting Against Crude Oil," Lok Sabha Unstarred Question No-3888, Answered On-11/08/2023, <https://www.mea.gov.in/lok-sabha.htm?dtl/36998/question+no3888+exporting+against+crude+oil>. Accessed on January 01, 2024.

⁶ ibid