



By: TA | AP Insight

# How will the UAE's withdrawal from OPEC affect markets?



The United Arab Emirates announced Tuesday that it will leave OPEC effective May 1, stripping the oil cartel of one of its largest producers and further weakening its leverage over global oil supplies and prices.

The UAE's decision had been rumored as a possibility for some time, as it pushed back in recent years against OPEC production quotas it felt had been too low — meaning it wasn't able to sell as much oil to the world as it had wanted.

“Having invested heavily in expanding energy production capacity in recent years, the bigger picture is that the UAE has been itching to pump more oil; it ultimately feels that being outside of its OPEC+ ‘obligations’ will give it more ‘flexibility,’” Capital Economics wrote in an analysis.

“Today’s move fits with our existing view that the ties binding OPEC members together have loosened,” it said, particularly after **Qatar withdrew** from the cartel in 2019.

Regional politics are also likely at play. The UAE has had increasingly frosty relations with Saudi Arabia, OPEC's largest producer, over political and economic matters in the Mideast, even after both came under attack by fellow OPEC member Iran during the war.

The UAE's withdrawal from OPEC won't necessarily have any immediate effects in markets.

That's because world oil supplies are sharply constrained by the war in Iran, which has closed off the **Strait of Hormuz**, a waterway through which one-fifth of global oil supplies is transported.

OPEC, based in Vienna, had already seen some of its market power wane in recent years as the United States increased its production of crude oil.

## UAE a longtime OPEC member

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OPEC, first through its emirate of Abu Dhabi in 1967 and later when the UAE became its own country in 1971. It had been producing around 3.4 million barrels of crude a day just before the United States and Israel launched a war on Iran on Feb. 28.

The UAE made the announcement via its state-run WAM news agency, saying it also would be leaving the wider OPEC+ group as well, which Russia had led in order to try to stabilize oil prices.



*The UAE's withdrawal removes one of OPEC's few members with the ability to quickly increase production*

“This decision reflects the UAE’s long-term strategic and economic vision and evolving energy profile, including accelerated investment in domestic energy production, and reinforces its commitment to a responsible, reliable, and forward-looking role in global energy markets,” the UAE said.

“Following its exit, the UAE will continue to act responsibly, bringing additional production to market in a gradual and measured manner, aligned with demand and market conditions,” the country added.

The UAE's withdrawal removes one of OPEC's few members with the ability to quickly increase production, the mechanism through which the cartel manages oil prices, said Jorge Leon, head of geopolitical analysis at Rystad Energy.

“A structurally weaker OPEC, with less spare capacity concentrated within the group, will find it increasingly difficult to calibrate supply and stabilize prices,” he said.

## Saudi Arabia, UAE increasingly at odds

Saudi Arabia and the UAE increasingly have competed over economic issues and regional politics, particularly in the Red Sea area.

The two countries had joined in together in a coalition to fight against Yemen's Iran-backed Houthi rebels in 2015.

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However, that coalition broke down into recriminations in late December, when **Saudi Arabia bombed** what it described as a weapons shipment bound for Yemeni separatists backed by the UAE.

Saudi broadcasters long based in Dubai, the economic hub of the UAE, have pulled back to the kingdom in recent months as well as the tensions rose.