Invesco Mutual Fund

UAE exit weakens OPEC’s grip

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The recent decision of the United Arab Emirates (UAE) to leave Organisation of the Petroleum Exporting Countries (OPEC), driven by long-standing discrepancies in production quotas and geopolitical tension with Saudi Arabia, deals a significant blow to the organisation. This development may lead to increased market volatility and further erode OPEC’s cohesion, with implications for global energy markets.

The Organisation of the Petroleum Exporting Countries (OPEC), established in 1960, has seen its market dominance gradually decline, with its share of global crude oil production falling from over 50% in the 1970s to ~45% by 2026. To counter this trend, OPEC formed the OPEC+ alliance in 2016, but it has so far failed to stem the tide. The UAE's exit may force OPEC to reassess its internal dynamics. While Saudi Arabia retains significant spare capacity, the loss of the UAE, a key stabilizing force, could lead to increased price volatility in both directions.

Structural analysis

OPEC was founded by five nations—Iran, Iraq, Kuwait, Saudi Arabia and Venezuela to coordinate petroleum policies, ensure fair pricing for producers and stabilise global oil markets.

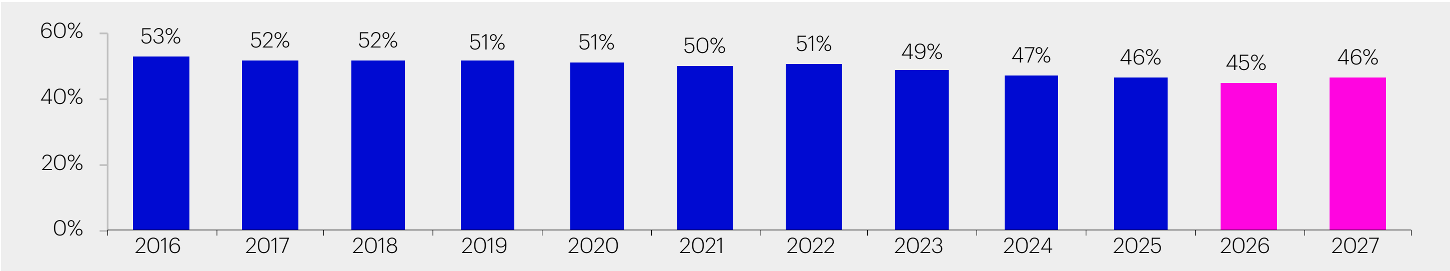
It gained geopolitical prominence during the 1973 Arab oil embargo, quadrupling global oil prices and demonstrating its influence over industrialised economies through collective output restrictions.

For decades, the OPEC was the de facto price-setter in global energy markets, leveraging its control over a substantial share of the world's crude oil reserves and production. Its traditional strategy involved coordinated supply management, with member countries agreeing to production quotas to maintain a price floor and prevent market oversupply.

Erosion of market share

OPEC's dominance in the global oil market has been gradually diminishing in recent years, with its share of worldwide crude production declining from over 50% in 2016 to approximately 45% by 2026. This decline is driven by the increasing contribution of non-OPEC producers and fundamental shifts in global energy markets, such as technological progress and supply diversification. Despite the formation of the OPEC+ alliance in 2016, which included major non-OPEC countries like Russia, the organization has been unable to significantly regain market share. While OPEC+ temporarily slowed the erosion by expanding collective production capacity, it has not succeeded in reversing the overall downward trend.

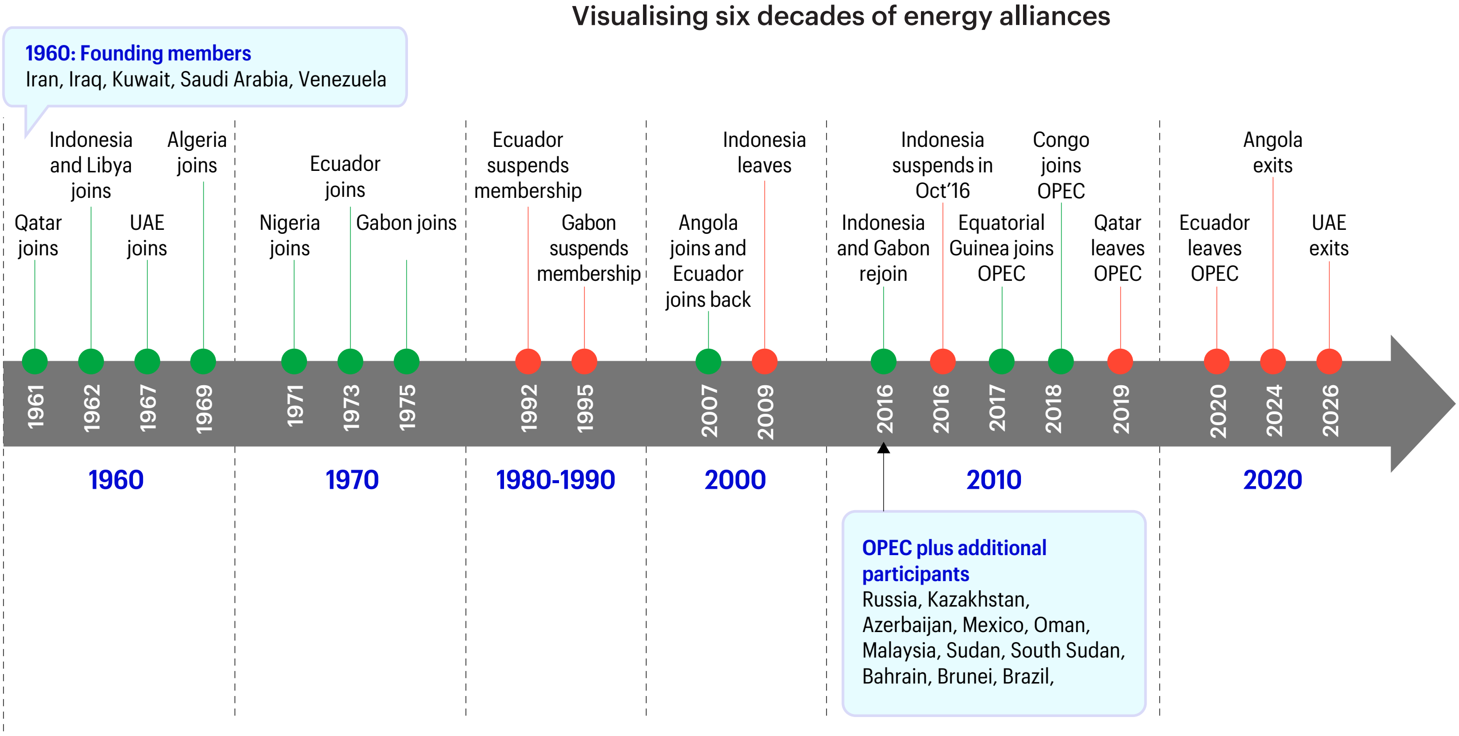
OPEC+ crude oil production as a % of world production



Source: EIA, Short term energy outlook. Data for 2026 and 2027 are projections by EIA, Data as on April 7, 2026

Entries and exits

Visualising six decades of energy alliances

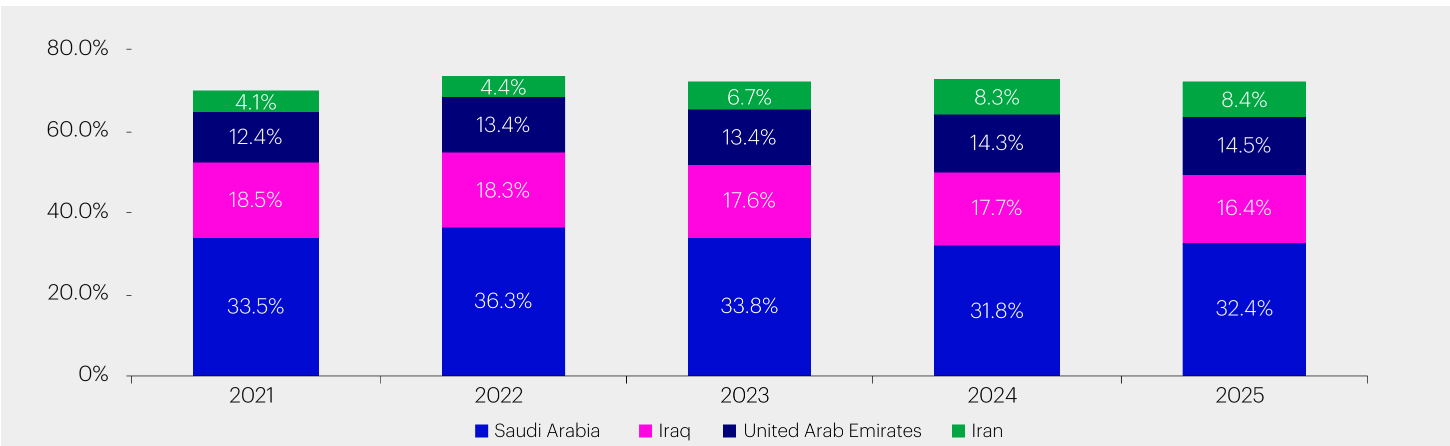


Source: OPEC

OPEC has faced a steady exodus of member countries, with six nations leaving the organisation since 1992. The departures include Ecuador (1992, rejoined in 2007, and exited again in 2020), Gabon (1995, rejoined in 2016), Indonesia (suspended in 2009, reactivated, and then suspended again in 2016), Qatar (2019), Angola (2024), and the UAE (2026). These exits have been driven by dissatisfaction with production quotas, financial burdens of membership and geopolitical tensions with fellow members.

The UAE exit

OPEC countires Crude exports as a % of total OPEC exports



Source: OPEC statistical bulletin 2026. Data as of May 2026

The UAE joined the OPEC in 1967, but its withdrawal in May 2026 has been the most consequential in the organisation's history, driven by longstanding frustrations over production quotas that limited its ability to utilise its capacity of ~4.3 million barrels per day (mb/d). Deepening geopolitical divergences with Saudi Arabia over regional influence and conflicts further eroded trust, prompting the UAE to prioritise national interests and revenue maximisation over collective discipline.

The exit of UAE, one of OPEC's largest producers with significant spare capacity, and third largest crude exporter reduces the cartel's influence over global supply and price stability, potentially leading to increased market volatility, downward pressure on prices and diminished cohesion among fellow oil producers.

This move reflects a growing trend toward national autonomy, raising concerns about a fragmentation cascade as other members may follow suit.

The UAE's departure from OPEC presents both risks and opportunities in the global energy landscape. On the one hand, its increased production can help stabilise supply and mitigate price spikes during geopolitical disruptions. On the other hand, the loss of a major stabilising force within OPEC may lead to greater price fluctuations and oversupply risks in the long term.

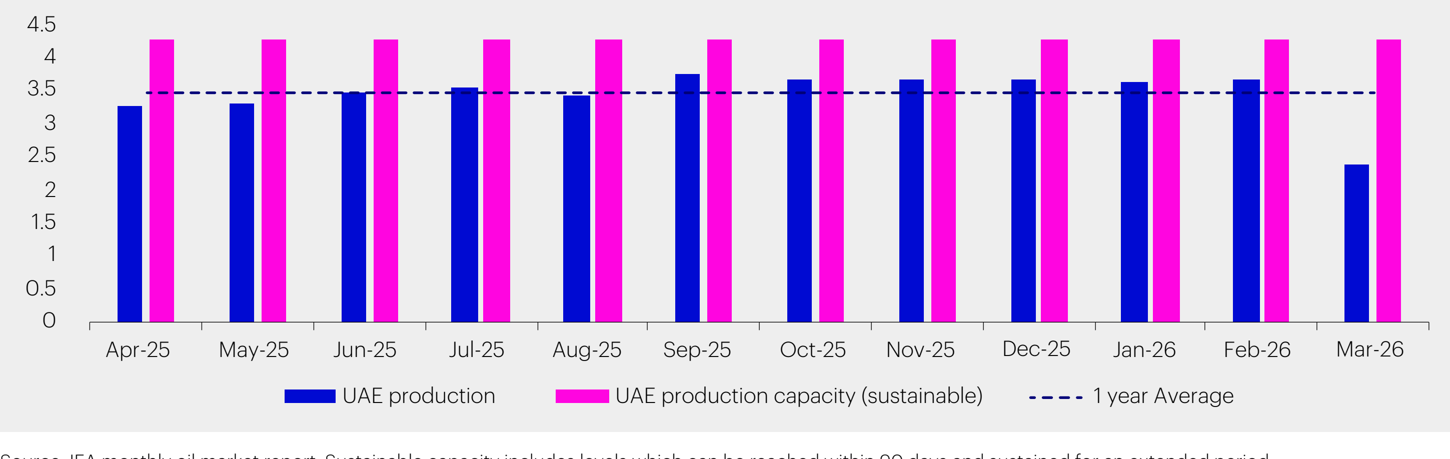
The move reshapes regional power dynamics, diluting Saudi Arabia's leadership and potentially fragmenting the traditional OPEC alliance. The UAE's exit marks a shift toward a more fragmented and competitive energy landscape, with lasting implications for market stability, geopolitical relations and the future of coordinated energy policy.

The collapse of the UAE-Saudi Arabia alignment, which had underpinned Gulf energy policy for two decades, has been a key driver of the UAE's decision. The two countries had diverged on Yemen's civil war and the Iran nuclear deal. Although they initially cooperated during the Iran conflict that began in late February 2026, their differences on a diplomatic settlement ultimately proved insurmountable.

Iran's ongoing disruption of traffic through the Strait of Hormuz, which brought oil exports to a near standstill, served as a critical driver of the UAE's decision to exit OPEC, rendering continued participation in the same quota-sharing framework with a fellow member actively undermining its economic interests untenable.

Countries with substantial capital investment programmes, particularly those expanding their capacity with sovereign wealth fund financing, bear the biggest opportunity cost as a result of production restraints. The UAE situation is a striking example: the country had invested billions through the Abu Dhabi National Oil Company (ADNOC) to build a sustainable production capacity of ~4.3–4.8 mb/d. However, this effort was hindered by an OPEC quota of ~3.2 – 3.6 mb/d. As a result, the disparity between the UAE's potential production capacity and its allowed production quota widened every year.

UAE production vs capacity in mb/d



Source: IEA monthly oil market report, Sustainable capacity includes levels which can be reached within 90 days and sustained for an extended period

The UAE's departure on May 1, 2026, has made headlines. Even though it is the latest and largest in a series of exits that have been accelerating since 1992, it is not a unique event. Qatar left in 2019, Angola in 2024 and Ecuador, which left twice. Indonesia also exited twice. The pattern is consistent: countries whose production ambitions exceed their assigned quotas, or whose national interests diverge from the Saudi-led consensus, eventually withdraw from the organisation.

History and reasons of exits

Country	Joined	Exit year	Primary reason
Ecuador	1973	1992 / 2020	Quota constraints; $2 million membership fee
Gabon	1975	1995	High fees, Production disagreement (rejoined 2016)
Indonesia	1962	2009 / 2016	Became net importer; production declines
Qatar	1961	Jan 2019	Pivot to liquefied natural gas; Saudi political tensions
Angola	2007	Jan 2024	Disputed quotas blocking output growth
UAE	1967	May 2026	Quota ceiling; Saudi rivalry; Iran war

Implications for India

For India, the structural weakening of OPEC is broadly, though not unconditionally, positive. As the world's third-largest crude importer, India relies on imports for ~85% of its crude oil needs. Any weakening of the cartel's ability to manage supply and prices is likely to exert downward pressure on the prices India pays.

The near-term picture

In the immediate term, India's crude import calculus is dominated not by OPEC membership dynamics but by the Hormuz closure. Following the escalation of tensions between the US and Israel against Iran in late February 2026, Brent crude prices have surged to over $104/bbl as of May 11, 2026, representing a more than 40% increase from pre-conflict levels. This is the dominant macroeconomic risk for India's current account, fiscal position, and the Reserve Bank of India's inflation management framework.

The medium-term opportunity

Once the Hormuz situation normalises, a quota-free UAE is expected to ramp production toward its stated goal of ~5 mb/d by 2027. This may create an opportunity for India. All leading state-owned Indian refiners—Indian Oil, Bharat Petroleum Corporation Ltd and Hindustan Petroleum Corporation Ltd are already in collaboration with ADNOC on large-scale refining projects.

With the UAE no longer constrained by OPEC quotas, it may negotiate bilaterally with India on long-term offtake agreements at commercially negotiated prices, rather than OPEC's reference basket prices. Given India's scale as a buyer (it is expected to be the world's largest incremental demand market over the next 15 years), this bilateral leverage may be substantial.

Disclaimer: The stocks mentioned above are illustrative of the medium-term opportunities arising from the UAE's exit from OPEC and should not be construed as recommendations from Invesco Asset Management (India) Pvt. Limited. Schemes of Invesco Mutual Fund may or may not have any present or future positions in these stocks.

OPEC far from over

OPEC is not on the brink of immediate collapse, with 11 members still on board. Saudi Arabia with 9 mb/d of production and the world's largest proven reserves, has a vested interest in maintaining the organisation as a coordination platform. The cartel has survived the departures of Qatar, Angola, Ecuador, Indonesia, and Gabon without collapsing.

However, the structural indicators are unmistakable. OPEC's market share has dwindled from over 50% to 45% and is still declining. The crucial bilateral relationships that underpin cartel discipline, between Saudi Arabia and the UAE and Saudi Arabia and Russia are strained.

The real question is not whether OPEC will survive, but whether it will remain relevant. A cartel that cannot enforce compliance, retain its most ambitious members, or prevent non-OPEC supply from setting the marginal price is not a cartel in any meaningful sense—it is a trade association with a nostalgic past.

OPEC was born in a world of scarcity, built for a world of dependence and is now navigating a world of abundance. The UAE's exit marks a significant chapter in this transition, but it is not the end of the story.

Source: Crisil Intelligence.