

How Does OPEC Affect the World?



Because of the role the Organization of Petroleum Exporting Countries (OPEC) plays in oil production levels and the influence it has over pricing, OPEC affects industries of all sorts throughout the world. OPEC has a strong role in the economy of the world, and because money is deeply entwined with power, OPEC also has influence in the arenas of politics and public policy.

Oil Production Levels

According to OPEC, one of its primary goals is to stabilize prices in international oil markets and eliminate harmful fluctuations. One of the tools at OPEC's disposal to assist in achieving that goal is to control of oil production levels within OPEC nations. To prevent wild fluctuations in oil prices, in theory, OPEC responds to increased and decreased world oil demand by adjusting production levels up or down. OPEC does this in order to avoid the rapid rise and fall of prices that can occur as changes in supply and demand affect the oil market.

Fuel Prices

While OPEC does not directly set fuel prices – nor has it directly set the price of crude oil since the middle of the

1980s – the organization still does influence fuel prices. That is because OPEC nations do work together to control oil production levels. If supply outstrips demand for oil, then the price of oil swings low. However, if demand outstrips supply, then the price will move upward, because people are willing to pay more to ensure that they have the oil they need.

Agriculture

Modern agriculture depends on oil to produce the food necessary to meet the nutritional needs of an ever-growing world population. Petroleum-based products used in agriculture range from the fuel necessary to run tractors and other farm equipment to the pesticides, fertilizers and other products for enhancing crop growth and production. Therefore, OPEC does affect global food production, indirectly influencing the costs associated with agriculture.

Cost of Goods

If it costs more to produce food, then that cost is going to be passed on to consumers in the form of higher prices. However, that is not the only way the price of oil affects the price of goods. Most goods must be moved from one place to another, and many goods are transported by means that rely on petroleum-based fuels. Higher oil prices lead to gas and diesel price increases – costs that will also be passed to the consumer when they purchase such goods. Because OPEC controls oil production levels, thus influencing the price of oil, OPEC also has an indirect effect on the pricing of goods throughout the world.