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The Effects of OPEC Intervention on Indonesia on the Policy of Reducing Oil Production during the Covid-19 Pandemic

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Abstract

The pandemic, which hit many countries in 2020, caused a crisis and created confusion for oil-exporting countries, including OPEC member countries, which were required to agree to an agreement on reducing oil production. The objective of the present study was to determine OPEC's intervention in the Policy of Oil Production during the Covid-19 Pandemic towards its member countries and to find out OPEC's intervention in the Policy of Oil Production during the Covid-19 Pandemic towards Indonesia. The authors applied a qualitative approach to compiling this study. In this study, the data collection was carried out by examining various sources such as books, electronic media, trusted websites, and relevant previous research. Based on research results, the Covid-19 pandemic that has attacked various countries has weakened industrial activities and created government policies that require physical distancing which reduces the demand for fuel oil. Therefore, OPEC issued a policy of reducing production to its members in the hope that prices would rise. The impact of the Covid-19 pandemic on the global oil and gas industry has also had an impact on Indonesia. Although fuel prices in many countries have fallen due to the impact of OPEC policies, there is a dispute in oil production between Russia and Saudi Arabia as well as the Covid-19 pandemic. However, the price of fuel sold by Pertamina to consumers has not changed and was not lowered at that time.

Keywords: *OPEC; Oil; Covid-19*

Introduction

In 2020, the world was shaken by the Covid-19 pandemic which has infected many countries around the world so that various sectors such as the economy, agriculture, education, social and culture faltered. The outbreak of the Covid-19 virus is creating concern in various countries because the number of cases in several countries is increasing sharply. At that time, China, Italy and Spain were the countries with the largest number of Covid-19 cases after the United States. Changes that occur globally have a significant impact on the world economy. One of them hit Germany, which has been in a recession since 2009 based on the federal statistical office of Germany (Soemartini, 2020).

Direct restrictions on human activities, through Physical Distancing regulations set by WHO with the aim of reducing the potential for the spread of the virus, are getting out of control. As a result, human activities have become abnormal so that the oil and gas economic sector has experienced a decrease in demand because the use of transportation that is usually used to go to work or other activities has decreased (Nasution et al, 2020). The domestic economy in Indonesia has also experienced a decline (Hadiwardoyo, 2020). Other economic sectors that have also experienced a decline in output are shown by the tourism sector, micro, small and medium enterprises, transportation, hotels, travel agents, and others (Shiyammurti, 2020). Various countries have taken policy steps to deal with the COVID-19 pandemic, including tight security on various international transportation routes to limit the flow of people in and out from other countries. The importance of support from the oil and gas industry for Indonesia is as a source of revenue for the State Revenue and Expenditure Budget and a facility that contributes to the economy in various regions where oil and gas production, exploration, refining and distribution activities take place. In addition, oil and natural gas are commonly used energy to drive the life sector in Indonesia (Widyastuti & Nugroho, 2020).

Looking at the facts in the field, Covid-19 has had the impact of reducing energy consumption including fuel oil, coal, electricity and natural gas. In addition, the number of utilization of production machines that use fuel oil and gas has also decreased because many workers have been ordered to work from home so that the amount of production is also reduced (Nugroho & Muhyiddin, 2021). The problems and various crises that have arisen as a result of the Covid-19 pandemic have led to a reduction in natural gas imports for industrial production processes due to a decline in various countries. As a result, there was a disruption in the process of imports and exports of countries that produce petroleum due to changes in their production, especially those that are members of OPEC. OPEC member countries consist of Iraq, Iran, Kuwait, Saudi Arabia, Venezuela, Algeria, Angola, Libya, Nigeria, Qatar, United Arab Emirates, and Ecuador (Veno et al, 2020). OPEC's policy of requiring cuts in oil supply has been agreed and lasts from July to December 2020, which has experienced pros and cons from its own members.

Oil-exporting countries were confused because of the crisis, including OPEC member countries which were required to agree to an agreement on reducing oil production due to internal conflicts such as those that occurred in Iraq and Libya which were experiencing prolonged conflicts. Libya, which enjoys UN backing in Tripoli, has been in trouble due to one of the world's worst revenue shortages due to a Russian-backed blockade of the country's eastern oil ports. Thus, the Libyan national oil company has experienced record sales of US $4 billion since the beginning of the Covid-19 pandemic. Other conflicts related to the world oil crisis can give rise to new seeds of conflict if they are not controlled. Therefore, OPEC intervened in the policy of reducing oil production in 2020.

The formulation of the research questions are 1) how is OPEC intervention against the policy of reducing oil production during the Covid-19 pandemic towards its member countries, 2) what is the effect of OPEC's intervention on the policy of reducing oil production during the Covid-19 pandemic towards Indonesia. The research objectives were to determine 1) OPEC's intervention in oil production policies during the Covid-19 pandemic for its member countries, 2) OPEC's intervention in oil production policies during the Covid-19 pandemic towards Indonesia.

Research Method

The present study applied a qualitative approach that answered research questions by analyzing more deeply and specifically various events which were then disclosed based on data in descriptive research that emphasized the depth of the information. In this study, data collection was carried out by examining various sources such as books, electronic media, trusted websites, and relevant previous research. Furthermore, the document was through interpretative analysis and discourse analysis to obtain an interpretation of the qualitative assessment of the existing data. This study analyzed the effects caused by OPEC's intervention in the policy of oil production on the situation in Indonesia during the Covid-19 pandemic. At that time, there was a reduction in the mobility of the world's oil export-import process by oil producing countries that were members of OPEC, including Indonesia.

Discussion

OPEC Intervention on the Policy of Reducing Oil Production

In 2020, the world was faced with many changes that had a significant impact on the industrial sector, one of which was the attack of the Covid-19 pandemic which had hit many countries. Several countries experienced a significant economic downturn. Many developed countries were threatened with a recession which caused their economic growth to slow down. This also had an impact on reducing imports of oil and natural gas for production activities due to the impact of reduced production in various countries. This caused the export and import processes to be disrupted, especially for oil exporting countries which must experience changes in oil production. The economic crisis resulting from the Covid-19 pandemic had begun to hit oil-producing countries, especially OPEC members. Since then, OPEC realized that they had to issue policies related to the production of oil supply to keep prices from falling too far (Sari, 2022). This policy was based on several internal and external factors which formed the basis of this policy.

1. Internal Factors of OPEC Intervention on Oil Production

a. Abundant stock of goods

The decline in world oil demand occurred at the beginning of 2020. However, at that time there were still many countries that ignored this situation so they still produced oil as usual because the assumption of oil was still in a stable state. Oil-producing countries continued to produce oil without reducing production. Therefore, at the beginning of 2020, worldwide crude oil supplies had increased due to declining demand from various countries. Even though the demand for crude oil fell, it did not necessarily force the world's crude oil production to stop. Even though it had decreased, production must continue because producing countries must maintain their country's income. As a result, world crude oil production experienced an oversupply and made the reservoirs full so that prices at that time decreased (Ilahi, 2016). The market balance had also been disrupted due to falling demand and increasing supply so that world crude oil prices continued to decline (Ghufron, 2020). Based on research records from Swiss Bank UBS AC, oil production from OPEC member countries decreased in 2020 to 29.6 million barrels per day, then 30 million barrels the following year. Weak demand for oil and growth in supply that occurred in countries other than OPEC members also led to an excess of crude oil stocks of 600 thousand barrels per day which pushed the Brent benchmark oil price down to 60 per barrel at that time (Sari, 2022).

b. Member State Conflicts

The reason for setting the policy to reduce oil production in 2020 was because OPEC member countries did not comply with the May policy. Countries that did not comply with this policy included Nigeria and Iraq. This caused OPEC to hold a meeting on July 6 2020 which aimed to discuss cutting oil production so that the world oil price decline would not get worse. One of the problems for OPEC was that countries do not comply with predetermined quotas where subsequent agreements are subject to greater compliance (Sari, 2022). In July to September, countries that fail to limit crude oil production by a set amount must limit it for that month. Compliance with policies was very important so that global oil market stability can be maintained and restore the confidence of all group members. The extension of cutting oil production depended on the level of compliance of member countries. OPEC required an agreement on countries that produce high production quotas in terms of May and June in which they must comply with production targets and provide compensation for excess production (Indah, 2019).

2. External Factors of OPEC Intervention on Oil Production

a. Price Rivalry from Other Non-OPEC Countries

Demand and excess storage of oil caused the price of West Texas Intermediate (WTI) to decline. Excessive oil supplies which caused WTI to decline had an impact on the price of oil produced by OPEC member countries. Based on data released by the API (American Petroleum Institute), stocks of crude oil, gasoline and distillate stocks in the United States rose sharply. Crude oil stocks increased by 1.14 million barrels, while the analysis projection was inversely proportional to Reuters' revenue which decreased by 1.45 million barrels. The data stated unexpected circumstances which resulted in WTI oil stocks increasing while demand decreased due to the Covid-19 pandemic. As a result, many investors were hesitant to get WTI oil because stocks and industrial developments around the world are being disrupted. Like WTI oil, Brent oil also experienced a decline. After OPEC issued a policy to cut production, world oil prices slowly increased. It also had an impact on world oil supplies which also experienced a decline. OPEC's policy had caused WTI and Brent oil prices to also increase, because OPEC intervention can affect other oil prices (Naji & Martin, 2022).

b. Lockdown Policy and Decreasing Population Mobility

OPEC oil prices in 2020 experienced a decline at the worst price compared to the previous year where prices tended to be stable but suddenly slumped. The main cause was that many countries were focusing on fighting the Covid-19 pandemic which had forced many countries to adopt lockdown policies to limit community mobilization and prevent more severe transmission (Naji & Martin, 2022). As a result, community activities and industrial activities had decreased due to the lockdown policy and made the demand for fuel drop dramatically. People just stayed at home causing the demand for fuel for vehicles to decrease because of the prohibition to leave the house that was happening all over the world. This of course caused the demand for world oil to decrease (Naji & Martin, 2022). Many trips had been restricted or even stopped from land, sea or air transportation. The flow of traffic for the process of sending packages or goods from various countries had decreased. Lockdown policies made it difficult for goods to enter a country because they had to go through strict inspection. People who were willing to travel outside the area or abroad must go through strict Covid-19 procedures and even many restrictions on entering an area. As a result, people were reluctant to leave their homes which results in decreased use of transportation which also caused a decrease in income. As a result of the lack of income from transportation, the demand for fuel was also reduced.

c. Declining Industrial Activity

During the Covid-19 pandemic, many industrial companies closed their employees to work from home. The large number of employees working at home made individual demand for fuel decrease. Reduced industrial activity also resulted in a reduction in production due to fears of losses resulting from a decrease in the number of requests for goods. This certainly reduced the demand for fuel for production activities. In contrast to the case of the oil industry, which experienced a decrease in demand but the number of oil producers remained constant, market competition caused a decrease in oil prices, even though regulations related to oil prices had been regulated, but this had no effect on oil producers. Reduced consumers and continued oil production led to competition in oil prices that occurred in early 2020 during the outbreak of Covid-19.

State of Oil and Gas Production in Indonesia during the Covid-19 Pandemic

The ups and downs that have occurred in Indonesia's relationship with OPEC had raised many questions from various parties because the influence that Indonesia once had when it became a full member of OPEC could not be ignored. The traces of cooperation that had existed between Indonesia and OPEC member countries were important records for the history of international relations. Indonesia was once a member of OPEC starting in 1962 together with the entry of Libya (Sari, 2022). Before joining OPEC, Indonesia had attended the Arab oil congress meeting. The congress was attended by other major countries that have interests in oil, such as the Soviet Union and the United States. At that time Indonesia had the same views as OPEC's vision and mission in oil trade cooperation. As long as it was a member of OPEC, Indonesia had an important role as a member country. Together with neutral countries such as Nigeria and Venezuela, Indonesia always provided a good mediating solution to the 2 OPEC groups that had different opinions, such as groups of countries that were pro-Western and pro-Eastern (Satria, 2018). However, over the years, there had been changes in Indonesia's journey to becoming a member of OPEC. In 2014-2016, there was a decline in oil prices due to increased world production and consumption (Fahlefi, 2020). After oil prices did not rise while oil production and consumption in producing countries increased, OPEC issued a policy to cut the amount of crude oil production so that world oil prices increased. In 2008, the Indonesian government left OPEC membership because as an oil importing country, Indonesia's production experienced a decline which caused a difference in interests between OPEC and Indonesia (Fahlefi, 2020). On November 30, 2016, OPEC held a conference in Vienna, Austria in issuing an agreement to cut crude oil production quotas of 1.2 million barrels per day from total production. The agreement was approved by OPEC members except Indonesia, which disagreed with the policy (Anggita, 2019). This happened because Indonesia's policies were inconsistent with OPEC's policy of cutting production, due to the need for oil as a measure to increase energy security (Ongiriwalu, 2018). Energy needs were quite high and continue to increase, making the government reconsider leaving OPEC membership unilaterally. The Indonesian government thought that the decision to leave OPEC members was better for Indonesia according to the conditions at that time. In this case, there was no impact if Indonesia left and was not bound by the agreement in force at OPEC (Vani, 2017).

The impact of the Covid-19 pandemic on the global oil and gas industry had also had an impact on Indonesia. Through government policies regarding large-scale social restrictions in various regions in Indonesia, the use of vehicles for travel has decreased dramatically (Lubis, 2021). This resulted in the demand for fuel in Indonesia decreasing by up to 35%, where avtur experienced a sharp decline of up to 45%. The decline in fuel demand is the lowest point in the history of oil demand in Indonesia. In addition, the transportation and tourism sectors experienced the worst impacts, which weakened fuel demand in Indonesia (Pradana et al, 2020).

In the first quarter of 2020, oil and natural gas production was still going well enough that the oil and natural gas production target was relatively achievable within that period. However, oil and gas production could not meet the target in the following quarter as specified in the RPJMN/APBN. Production activities experienced obstacles due to the longer delivery of materials abroad, the mobilization of workers to the location became difficult due to licensing issues, potential overstays and quarantine. In addition, oil and gas equipment manufacturing activities intended for projects had taken longer and even been delayed. Then, approval to obtain permits took longer, and engineering and construction productivity became lower.

At that time there was a gap due to the decline in domestic oil production and high consumption so far this had been handled by increasing imports of crude oil and other fuel products. Although imports of diesel had decreased and there was no need to import diesel and aviation fuel, gasoline imports were still high. The reduction in imports was also carried out to implement the government's policy for foreign cooperation contractors to sell some of their production to Pertamina so that it could be processed at its own oil refineries. In the downstream or mid-downstream, oil refining activities had begun to be affected by the cessation of oil refinery activities whose capacity or number of units would increase in the future. Reducing activities and even stopping refinery operations could continue if at that time the lockdown policy continued due to the ongoing pandemic. Storage in refineries, avtur depots near airports, and all gas stations full of stored fuel were the impacts that must be endured due to overproduction.

The 2020 crude oil price was assumed in the State Revenue and Expenditure Budget to be US$ 63 per barrel. However, the Indonesian Crude Price (ICP) had in fact fallen far below the figure assumed by the State Budget. With reference to oil prices in Indonesia, the ICP price in March 2020 plunged by around 40 percent to US$ 34.23 per barrel, or decreased by US$ 22.38 per barrel, compared to the previous month's US$ 56.61 per barrel. It was very clear that a decrease in production and a decrease in oil prices had an effect on oil and gas revenues in the 2020 State Budget (Tampubolon & Kiono, 2021). Although in various countries the price of fuel had fallen due to the impact of OPEC policies, the oil production dispute between Russia and Saudi Arabia, and the Covid-19 pandemic, the price of fuel sold by Pertamina to consumers had not changed and was not reduced at that time. Pertamina only provided a limited 50 percent discount for online motorcycle taxi drivers. In addition, Pertamina was providing a 30% discount to the public during Ramadan 2020. Other fuel selling companies in Indonesia, such as Shell, had also not lowered their retail sales prices. In comparison, Malaysia had made several reductions in fuel prices that had enabled the country to sell fuel at the lowest prices in ASEAN. Indonesia had Pertamina as the main player which did not reduce the selling price of fuel. It did not immediately mean that there was an increase in income. However, at the same time, there was a sizable reduction in sales volumes. In addition, the company must protect the company's assets from upstream and refining activities that had experienced a decline in production.

Conclusion

The COVID-19 pandemic had attacked various countries, weakening and reducing industrial activity, which had an impact on reducing demand for fuel and natural gas that could support production activities. Government policies regarding physical distancing obligations limited all activities including transportation which reduced the demand for fuel oil. On the other hand, continued oil production had led to an oversupply which had resulted in lower world oil prices. Therefore, OPEC issued a policy to reduce oil production to its members in the hope that oil prices could rise.

The global impact of the Covid-19 pandemic on the oil and gas industry had also had an impact towards Indonesia. This resulted in the demand for fuel in Indonesia declining by up to 35%, with avtur experiencing a sharp decline of up to 45%. The decline in fuel demand was the lowest point in the history of oil demand in Indonesia. In addition, the transportation and tourism sector experienced the worst impact, which weakened fuel demand in Indonesia. Even though fuel prices had fallen due to the impact of OPEC policies, the dispute over oil production between Russia and Saudi Arabia and the Covid-19 pandemic, the price of fuel sold by Pertamina to consumers had not changed and was not lowered at that time. Pertamina only provided a limited 50 percent discount for online motorcycle taxi drivers. In addition, Pertamina was providing a 30% discount to the public in the month of Ramadan 2020. Other fuel selling companies such as Shell in Indonesia had also not lowered their retail sales prices.

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