INSIDE STORY : EXPLORING THE RECENT OIL EPISODE IN THE GLOBAL ARENA

By

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There has been a great slump in petroleum prices across the globe. On one side this has provided relief to the consumers while on the other hand recession in the petroleum sector will adversely affected the livelihoods of those associated with this industry, fear most of the experts. Let's figure out what are the reasons for global decline in petroleum prices?

i. The U.S. has been able to produce increased volumes of petroleum from shale. This has caused a steep decline in oil being imported from the Persian Gulf and the Arabian Peninsula. Thus the decrease in oil demand against continued production volumes has caused a major slum in petroleum prices.

ii. With better automobile engines, euro compliant solar and hybrid vehicles; there has been a decrease in petroleum consumption volumes.

iii. The availability of several improved types of engines that are able to work on alternative sources of energy have caused a decline in gas consumption in the global arena.

iv. The struggling economies in Asia and Europe have cut down their oil consumptions tremendously.

However, some of the aforementioned arguments may not be the root cause of immediate decline in the petroleum prices in the international market. In the global watch; falling oil prices have hit Russia much harder than Western sanctions, reports *The Washington Post*. According to Russian officials the energy prices will push Russia's economy into recession next year (2015). Russian currency i.e. rubble has already been facing hard time to survive its value in the international market.

United Kingdom's *The Telegraph* reports that Saudi Arabia; the world's largest oil exporter - is now locked in a bitter oil price war with the likes of Russia, Iran and shale oil drillers in North America. Oil has fallen by over 30pc since June to trade at around $70 per barrel with some analysts suggesting the level could fall further to as low as $40 per barrel!

Organization of the Petroleum Exporting Countries (OPEC) is a key player in this prevailing scenario. Let's analyze what OPEC is. OPEC is an intergovernmental organization that was created at the Baghdad Conference on 10–14 September 1960, by Iraq, Kuwait, Iran, Saudi Arabia and Venezuela. Later it was joined by nine more governments : Libya, United Arab Emirates, Qatar, Indonesia, Algeria, Nigeria, Ecuador, Angola and Gabon. OPEC was headquartered in Geneva, Switzerland before moving to Vienna, Austria, on September 1, 1965. According to United Kingdom's *The Week*; the decision by members of the Organization of the Petroleum Exporting Countries (OPEC) not to cut oil production could have profound effects on the global economy, analysts say, but not all of them will be negative.

According to *The Fortune*, global oil supplies are exceeding demand and driving down prices in the process. A major factor has been the explosion in U.S. oil production, which is up to almost 9 million barrels per day and expected to hit the highest levels in four decades next year. Another factor is the struggling economies in Asia and Europe leading to a decrease in oil consumption. China, one of the world's largest oil consumers, has seen its economic struggles

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result in its demand for oil being out paced in Asia by India, a country that has also struggled financially of late. Saudi Arabia also cut the price of its own crude to the U. S. earlier this month, which has further propelled the sell-off.

In this scenario the biggest losers are the energy companies such as Exxon Mobil, Chevron, Trans Ocean, Halliburton and Continental Resources.

However, looking at the brighter side of the picture, cheap fuel is a blessing for travelers — with more hitting the roads over the holiday — and for retailers, with traditional logic suggesting that low gas prices are a boon to consumer spending, states a business news website. The commodity prices have plummeted to much lower levels than expected. This has provided relief to consumers who, otherwise would have been complaining about soaring commodity prices.