

Looming Oil Crisis

What is the issue?

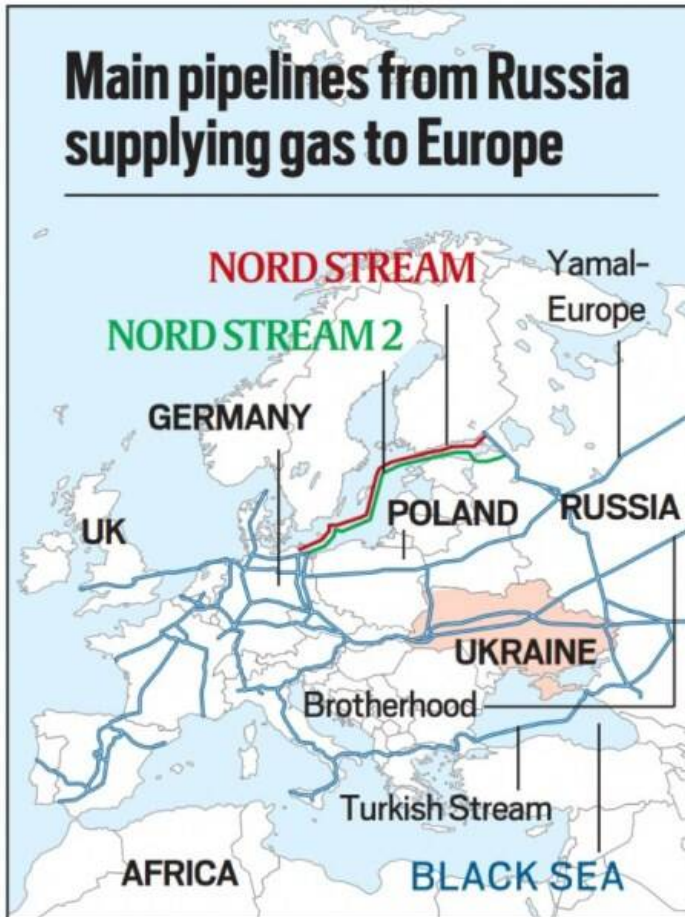
U.S. President Joe Biden announced a ban on all crude oil and natural gas imports from Russia into the US, while the UK announced that it would phase out imports of Russian oil by the end of the year.

Why were oil prices rising even before the Ukraine crisis?

- Crude oil prices have fluctuated quite sharply over the last two years in the wake of the pandemic.
- From 60 dollar a barrel at the start of 2020, they fell to less than 20 dollar in April 2020 owing to supply chain constraints.
- They have been steadily rising even before the Ukraine conflict caused them to skyrocket.
- Russia has been holding back from providing additional supplies of natural gas to Europe.
- Continued underinvestment in oil and gas exploration because of the public and regulatory aversion to fossil fuels adds to the issue.
- There is very limited spare capacity within the OPEC (Organization of the Petroleum Exporting Countries).
- It is into this already tight global oil market that the US ban has come into effect.

How big a player is Russia in the global oil market?

- **Share-** The US has the highest share in global output followed closely by Russia and Saudi Arabia, these three controlling almost 45% of all oil.
- Within OPEC, it is Saudi Arabia that dictates.
- **Exports-** Russia's share in global exports is around 12%.
- Russia supplies close to 5 million barrels a day to the global market and a ban will immediately tighten the market further.
- **Quality-** The other dimensions to this gap include the quality of crude oil apart from the viability and cost of transportation.
 - For example, unlike Russian oil, Venezuela oil has more impurities and it requires a more complex type of refineries.
- **Cost of production-** The individual country's cost of production also plays a key role.
 - Most oil fields in the US produce at 40 dollar a barrel, while those in Russia produce at around 20 dollar and those in Saudi Arabia at around 15 dollar a barrel.
- Russian supplies are not only the second-biggest, they are also the second-cheapest and of better quality than what a replacement like Venezuela may provide.



What are the challenges in meeting the gap?

- **Strategic reserves-** Strategic reserves are good enough only for emergencies.
- The top three countries in terms of such reserves are the US, China and Japan which have around 1500 million barrels.
- At an average daily global consumption of 95 million barrels a day, that's roughly 20-odd days of oil.
- It is an open question how far China will share globally.
- **Venezuela's case-** Venezuela has the world's largest oil reserves but the country's oil-producing apparatus is in disrepair due to the government's mismanagement and harsh US sanctions.
- Also, oil-producing companies in Venezuela are in debt and most don't even have good quality drilling equipment.
- **Iran issue-** Iran will not increase output unless it gets the nuclear deal with the US.
- **Coming together of states-** Since individual production levels are quite low, several countries will have to come together and still they may not come anywhere close to matching the levels that Russia produces.
- **Others-** Scaling the production will take time, money and effort.

What is the case of dependence of the US and its European allies on Russian energy imports?

- The US imports less than 10% of its energy requirement from Russia but European countries are much more heavily dependent on Russia.
- Germany is not just the most-industrialised economy but also the biggest decision-maker in the

EU accounting for over 40% of that country's oil needs.

- Unlike India, which gets most of its energy from coal (75%) and oil (10%) and very little from natural gas, Germany gets 25% from natural gas again hugely imported from Russia.
- Even if other countries come to Germany's rescue by providing LNG, Germany has no LNG terminals and is completely dependent on natural gas pipelines from Russia.

Reference

1. <https://indianexpress.com/article/explained/russia-ukraine-war-looming-oil-crisis-what-now-7807596/>

