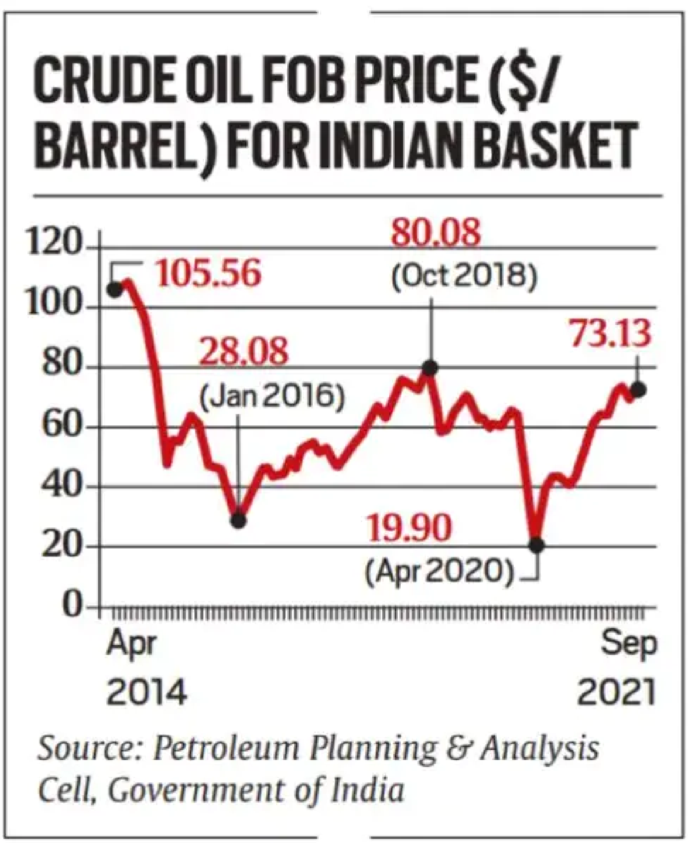
High Crude Oil Prices

Why in News

As the global recovery gains strength, the **price of crude oil is nearing its highest level since 2018.**

- **Brent crude oil** prices rose to USD 85.89 a barrel, the highest price since October 2018. **US West Texas Intermediate (WTI) crude** prices climbed to USD 83.40 a barrel, highest since October 2014.
- On the other side the **price of natural gas and coal are hitting record highs** amid an **intensifying energy shortage.**



Key Points

- **Oil Pricing:**
  - Generally, the **Organization of the Petroleum Exporting Countries (OPEC)** used to **work as a cartel** and fix prices in a favourable band.
    - **OPEC is led by Saudi Arabia**, which is the **largest exporter of crude oil in the world** (single-handedly exporting 10% of the global demand).
    - OPEC has a **total of 13 Member Countries** viz. Iran, Iraq, Kuwait, United Arab Emirates (UAE), Saudi Arabia, Algeria, Libya, Nigeria, Gabon, Equatorial Guinea, Republic of Congo, Angola, and Venezuela.
  - OPEC **could bring down prices by increasing oil production** and raise prices by cutting production.
  - The global oil pricing mainly **depends upon the partnership between the global oil exporters** instead of a well-functioning competition.
  - Cutting oil production or completely shutting down an oil well is a difficult decision, because restarting it is immensely costly and complicated.

    Moreover, if a country cuts production, it risks losing market share if other countries do not follow the suit.
  - Recently, OPEC has been working with Russia, as **OPEC+** to fix the global prices and supply.

    In 2016, **OPEC allied with other top non-OPEC oil-exporting nations** to form an even more powerful entity named OPEC+ or OPEC Plus.
- **Reasons for High Prices:**
  - **Slow Production:**

    Key oil producing **countries have kept crude oil supplies on a gradually increasing production** schedule despite a **sharp increase in global crude oil prices.**

      OPEC+ had agreed to sharp cuts in supply in 2020 in response to **Covid-19** global travel restrictions in 2020 but the organisation has been slow to boost production as demand has recovered.
  - **Supply Side Issues:**

    Supply side issues in the US including **disruptions caused by hurricane Ida** and **lower than expected natural gas supplies from Russia** amid increasing demand in Europe have raised the prospect of natural gas shortages in the winter.

- **Impact on India:**
  - **Current Account Deficit:**
    The increase in oil prices will increase the country's import bill, and further disturb its current account deficit (excess of imports of goods and services over exports).
  - **Inflation:**
    The increase in crude prices could also further increase **inflationary pressures** that have been building up over the past few months.
  - **Fiscal Health:**
    If oil prices continue to increase, **the government shall be forced to cut taxes on petroleum and diesel** which may cause loss of revenue and deteriorate its **fiscal balance**.
    - The growth slowdown in the last two years has already resulted in a precarious fiscal situation because of tax revenue shortfalls.
    - The revenue lost will **erode the government's ability to spend or meet its fiscal commitments** in the form of budgetary transfers to states, payment of dues and compensation for revenue shortfalls to state governments under the **Goods and Services Tax (GST)** framework.
  - **Economic Recovery:**
    Although the rising prices have impacted the world, **India is particularly at a disadvantage** as any increase in global prices can affect its import bill, stoke inflation and increase its trade deficit, which in turn will **slow its economic recovery.**
      India and other oil importing nations have called on OPEC+ to **boost oil supply faster,** arguing that elevated crude oil prices could undermine the recovery of the global economy.
  - **Natural Gas Price:**
    The increase in gas prices has put upward pressure on the price of both **Compressed Natural Gas (CNG)** used as a transport fuel and **Piped Natural Gas (PNG)** used as a cooking fuel.

Difference between Brent and WTI

- **Origin:**
  - Brent crude oil **originates from oil fields in the North Sea** between the Shetland Islands and Norway.
  - West Texas Intermediate (WTI) is sourced from **US oil fields**, primarily in Texas, Louisiana, and North Dakota.

- **Light and Sweet**:
  - Both oils are relatively light, but **Brent has a slightly higher API gravity**, making WTI the lighter of the two.
    - American Petroleum Institute (API) gravity is an indicator of the density of crude oil or refined products.
  - **WTI with a lower sulphur content** (0.24%) than Brent (0.37%), is **considered "sweeter".**
- **Benchmark Prices:**
  - **Brent crude price is the international benchmark price used by OPEC** while **WTI crude price is a benchmark for US oil prices.**
    - Since India imports primarily from OPEC countries, **Brent is the benchmark for oil prices in India.**
- **Cost of Shipping:**
  - **Cost of shipping for Brent crude is typically lower**, since it is produced near the sea and it can be put on ships immediately.
  - Shipping of **WTI is priced higher since it is produced in landlocked areas** like Cushing, Oklahoma where the storage facilities are limited.

Source: IE