



Mains Practice Question

Q. Analyze the impact that the Covid-19 pandemic has had on the global oil sector. (250 words)

28 Apr, 2020 GS Paper 2 International Relations

Approach

- Briefly discuss the recent trends in global oil prices and how these are affected by the Covid-19 pandemic.
- Discuss the impact of Covid-19 on the oil sector and other related areas.
- Conclude suitably.

Introduction

Oil prices were already facing a downward trend, owing to a disagreement between Russia and Saudi Arabia (regarding oil production cut, leading to an oversupply of oil- Price war). Covid-19 has just acted as a catalyst in bringing down oil prices (because of too little demand).

Body

Impact of Covid-19 on Oil Sector

- **Reduced Demand: China, which is the world's manufacturing base and one of the leading consumer of oil, has been** impacted by the lockdown imposed by the pandemic.
 - Similarly, other major economies like the US, EU and India etc. are also witnessing economic shutdowns.
 - This, in turn, has reduced the demand for oil and dragged the oil prices to a historic low.
- **Impacting Industries:** Further, the major demand for crude oil comes from **transportation and industries** like electricity, aviation, tourism etc. **which are under shut down mode.**
- **Fear of Global Recession:** IMF fears that the global recession triggered by Covid-19 will be one of the worst economic crisis since the Great depression of 1929.
 - The subdued demand in the global economy will further keep the prices of oil at a low level.
- **Political Instability in West Asia:** This crash in oil prices may undermine the political stability of several oil-exporting countries in West Asia.
- **Domino Effect:** Given the high interdependence in the world economy, the **oil crisis will create a domino effect in other non-oil-producing countries and further impact the growth prospects of the global economy.**
- **Shifting of Wealth:** In the long run, the wealth would transfer from oil-exporting countries to oil-importing countries.
 - The sharp fall in oil prices can turn out to be a blessing in disguise to large oil-importing countries like India and China.

Conclusion

Oil is critical for the energy needs of the world economy. Thus, there is a need for a multilateral effort to finalize an agreement which could help bring the **oil prices to a healthy range** (which could be beneficial for the consumers and economically viable for the producers). In this context, G-20 can take the lead in coming up with an **international intergovernmental framework for energy governance**.

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