Reasons and Implications of Rising Oil Prices

Why in news?

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The international benchmark for oil prices crossed $80 a barrel touching the highest level since 2014.

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What are the concerns with rising oil prices?

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- Brent, the international benchmark for oil pricesis almost three times the cost in early 2016 when it was $29 a barrel.
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- The trend may continue in the coming weeks and months, according to most reporting on oil.
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- Rising oil prices could cause significant inflation, dampen economic growth and alter geopolitics in multiple ways.
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What are the reasons behind increasing oil prices?

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- **American Factor -**U.S. Administration’s decision to withdraw the country from the Iran nuclear deal.
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- Sectors such as financial and banking, underwriting services, insurance, shipping and shipbuilding and port operation will come under US sanctions all of these will influence oil trade.
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- US administration is also threatening unstable Venezuelan economy which is dependent on petroleum exports with new sanctions.
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- **Russian Factor -**Oil prices are also driven up by coordinated action by

Russia and Saudi Arabia to keep supply on a tight leash.
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- The heightened instability in West Asia in the form of Saudi Arabia-Iran rivalry and the looming possibility of new military conflicts add to this.
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What is the reaction for US decision among global economies?

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- European countries, Russia and China, who are part of the Iran deal, have said they will not participate in American sanctions.
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- It is unclear how far European companies could withstand American pressure and continue trade with Iran.
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- French oil company Total has announced that it will halt a natural gas development project in Iran unless it receives a waiver from the U.S. government.
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- China will continue to buy from Iran and so will India, even if in reduced quantities.
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What will be the implications of this?

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- India imports significant quantities of oil from Venezuela and Iran.
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- The full impact of re-imposition of sanctions on Iran will have a serious impact on Chabahar port in Iran which was built with Indian aid.
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- Instability in oil prices could help America’s strategic rivals Russia and China.
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- Russia could benefit from higher prices in the international market.
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- China could get better deals in buying crude cheap from Iran as it could insulate the trade from secondary American sanctions.
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- Higher oil prices could have mixed impact domestically in America due to

increasing demands.
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Source: The Hindu

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