

## Reducing Global Oil Prices - Causes and Impacts on India

*Mains: GS II - Effect of Policies and Politics of Developed and Developing Countries on India's interests*

### Why in News?

Recently there has been a declining trend in the demand and price of the global crude oil.

### What is crude oil?

- **Crude oil** - It is a naturally occurring, fossil fuel mixture of hydrocarbons found in underground reservoirs that must be refined into usable products like gasoline, diesel, and jet fuel.
- **Formation** - It is formed from the remains of ancient marine organisms, it is transformed over millions of years by intense heat and pressure.
- **Composition** - It is a complex mix of hydrocarbons, with impurities like sulfur, and sometimes metals or other compounds.
- **Appearance** - It appears as a black, brown, or amber liquid, or sometimes as a thick tar-like substance.
- **Physical properties** - Crude oil can be classified by its density (light, heavy, etc.) and its sulfur content (sweet or sour).
- **Usage and importance** - Crude oil itself has limited use.
- It must be refined, where its long molecules are broken down into smaller, more valuable ones to produce products like gasoline, diesel, and jet fuel.
- **Products** - Beyond fuel, crude oil is used to make plastics, lubricants, cosmetics, and asphalt for roads.
- **Economic importance** - Crude oil remains a dominant global energy source, and its price and availability are major factors in the world economy.
- Crude is the world's most valued commodity, with over 100 million barrels per day (mbpd) produced, nearly half of which is traded globally.
- Depending upon the prevailing unit price, the daily global crude trade currently tops \$3 billion.
- Thus, crude is not only a vital input for transport and petrochemicals, it is also a financial lubricant.

### What are the consumption trends of crude oil?

- **Impacts of new technologies** - From the supply side, new technological disruptions such as shale, horizontal drilling, and ultra-deep continental shelf drilling have greatly enhanced production.

- Over the past two decades, technology and economics have had a profound and largely bearish impact on the oil market.
- On the other hand, global demand seems to be approaching a peak.
- **Changes in global demand** - There is a relatively robust growth in crude consumption continues in the Global South from a low base.
- But the consumption of fossil fuels has been stagnant in the industrialised countries due to factors such as an anaemic post-COVID-19 economic recovery, climatic concerns and the growing popularity of electric vehicles (EVs).
  - **For example**, in 2025, the global crude demand is expected to grow by 1.3 mbpd or 1.2%, with only a tenth of that coming from the 38 countries of the Organisation for Economic Co-operation and Development (OECD) with 46% of the world's GDP.
- **Impact of EVs** - The consumption in China, the world's largest importer, has been curbed largely by an economic slowdown and by the growth of EVs, which now account for half of the vehicles sold.
- **Increased production** - On the other hand, production of crude has surged by 5.6 mbpd last month over last year, with 3.1 mbpd coming from the OPEC+ (as it unwound COVID-19-era production cuts) and the rest mainly from higher production from (in order of their growth) the U.S., Canada, Brazil, Guyana and Argentina.
- **Decline in prices** - The Brent oil prices, currently at \$61 a barrel, have declined by 16% since the beginning of the year, with nearly half of that fall coming over the last month.

***Brent crude** is a major global benchmark for oil prices, referring to a type of sweet, light crude oil extracted from the North Sea*

- The drop would have been even steeper but for the consumers leveraging the low prices to replenish their strategic petroleum reserves, and the producers hoarding over 100 million barrels of unsold crude on tankers on high seas.

### **What are the Global events that disrupts the supply?**

- **Geopolitical tensions** - The decline is despite geopolitical disruptions such as the China-U.S. tariff war and concerted Ukrainian drone attacks on Russian hydrocarbon infrastructure.
- **Increased surplus** - The looming supply surplus has affected the inner dynamics of the OPEC+ group of producers.
- Saudi Arabia, the leading exporter, wants to quickly unwind the remaining production cuts to regain its market share and reverse the revenue shortfall.
- Russia, under severe crude exports sanctions, favours a more gradual course.
- **Opposing views of OPEC and IEA** - OPEC and the International Energy Agency (IEA), in their respective monthly reports in mid-October, reached diametrically opposite conclusions.
  - OPEC sees the global supplies in 2026 being some 50,000 bpd short of the demand.
  - IEA projects an unprecedented projection of 4 mbpd.

- The majority of other think-tanks largely agree with the IEA projection and predict an oversupplied market next year, with Brent prices declining to the low fifties per barrel, a further 10% to 20% fall from their current level.
- **Geopolitical developments** - Technicals apart, the proverbially slippery oil market can also be affected by several geopolitical developments, including the end of sanctions on Russia, Iran and Venezuela, resumed West Asian tensions and the de-escalation of the Trumpian tariff wars.

***The International Monetary Fund's World Economic Outlook (WEO)*** released on October 16, describes the global economy as "in Flux, Prospects Remain Dim", predicting a marginal slowdown of the global economic growth rates to 3.2% in 2025 and 3.1% in 2026, with risks to the downside.

- Further, it sees world trade growth come down to 2.9% in 2025-26, significantly slower than the 3.5% in 2024.
- Most of these factors tilt towards downside risk to the oil prices.

### What are the outlook for India?

- **A net positive impact** - The simultaneous decline in both oil price and the U.S. dollar it is priced in is likely to have a net positive impact on India.
- India's oil imports in 2024-25 were \$137 billion, and a dollar's decline in oil prices improves its current account deficit by \$1.6 billion.
- **Reduces subsidy burden** - It also reduces the subsidy burden and inflation. With the government keeping most of the gains from lower prices, the fiscal balance improves, boosting capital expenditure and giving a tailwind to growth.
- **Lessens the dependence** - The oil glut may also reduce the reliance on discounted Russian crude, thus removing the underlying cause for the tariff frictions with the U.S.

### What lies ahead?

- On the flip side, the remittances, exports and investments may stagnate as the West Asian economies attenuate.
- However, given the highly cyclical nature of the global oil market, any relief may be short-lived. India would be well advised to keep its consumption mitigation strategies on course.

### Reference

[The Hindu| Declining global oil prices](#)