Saudi Oil Attacks

Why in news?

- A small army of drones attacked two major oil plants in Saudi Arabia, destroying nearly 50% of the country's global supply of crude.
- The Houthi militia fighting Yemen's Saudi Arabia-backed government in a four-year-long civil war claimed responsibility for the attacks.

What happened?

- The attacks targeted the Saudi Aramco-owned Khurais oilfield and Abqaiq oil processing facility.
- [Khurais is the closest of the targets to the Yemen border, but is still a considerable 770km away.]
- US officials said there were 19 points of impact on the targets, which could have come from a mix of drones and cruise missiles.
- The Houthis have repeatedly launched rockets, missiles and drones at populated areas in Saudi Arabia.
- The attacks have left at least four civilians dead.
- The conflict in Yemen escalated in March 2015, when the Houthis took control of much of the west of the country and forced President Abdrabbuh Mansour Hadi to flee abroad. (Click here to know more)
- Soon after, Saudi Arabia and its allies launched an air campaign in a bid to restore Mr Hadi's government.

What is the impact?

- The immediate impact of the attack has been the suspension of more than half of Saudi Arabia's daily crude oil output.
- It thereby affected the country's contribution to global oil supply.
- The Saudis have restored a portion of the supply that was hit.
- However, the sudden disruption resulted in the highest spike (nearly 20%) in Brent crude prices in more than a decade.
- Soon, the U.S. President's statement assured that America would release some of its strategic reserves.
- This resulted in the crude price easing back to $66 per barrel.

Who is responsible?

- The Houthi militia has claimed responsibility for the attacks.
- However, the U.S. has suggested that Iran was responsible for the attacks.
- The US has reportedly identified locations in Iran from which drones and cruise missiles were launched against major Saudi oil facilities.
- The locations were in southern Iran, at the northern end of the Gulf.
- Mr. Trump suggested that he was still trying to draw the Iranians to make a deal over their nuclear programme.
- Iran's response has been to dismiss the allegations accompanied by a refusal to talk on the U.S.'s terms.
- In all, the sudden disruption of global crude oil supply is the unintended consequence of -
    i. the unraveling of the painstakingly crafted P5+1+EU-Iran nuclear deal
    ii. the Saudis' reckless adventure in Yemen
    iii. the Iranian empowerment of its proxies in West Asia

What is Saudi's priority now?

- The Saudis must halt their Yemen intervention and leave it to the UN to broker peace in the disturbed country.
- The Saudi-led military campaign, with logistics support from the U.S. and the U.K., has only brought a stalemate in Yemen.
- It has escalated the conflict to include energy supply targets that were considered secure.

What is the possible impact on India?

- The above turn of events is bound to affect several emerging economies, including India.
- The Union Petroleum Ministry has sought to allay fears of a supply cut with assurance from Aramco officials.
- However, there is already an indication that crude prices would rise further due to an increase in the risk premium.
- Notably, India imports more than two-thirds of its oil from West Asia.
- So, a price surge is expected to impact the current account and result in further currency depreciation.
- Higher fuel costs and the imported inflation could also hurt the consumer at a time of a slowdown in the economy.
- Given these, the government should be prepared to handle the challenge with steps such as re-evaluating the excise duties on petroleum products.

Source: The Hindu

