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Oil Crisis and its Supply Side Effect; A Review

KEYWORDS

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ABSTRACT *Oil business appears to be largest business in the world and is affecting every country, as well. The demand for energy is increasing at an exponential rate in all over the world; however the demand for oil products has registered a negative growth at international level. This research article is pondering over the reasons for negative growth of crude oil demands. In addition, it looks over the future of oil producing countries and their economic survival, in the backdrop of international policies on Green House Gas Emission. In response to the mandatory provisions, most of the countries have reduced the usage of oil products and they are looking for more fuel efficient technologies or alternative source of energies (renewable energies). While this is the case, what is the future of oil producing countries? This article throws light on the real challenge of oil crisis at international economic system.*

Introduction

The oil crisis originated from the discovery of oil fields in Saudi Arabia towards the end of 1930s, which marked the beginning of a new industrial world order. Most of the oil enriched Middle East countries have become major economic power, as they have been exporting their oil products to other countries. For protecting the interests of oil exporting countries, Kuwait, Libya and Saudi Arabia formed OPEC (Oil and Petroleum Exporting Countries) in the year 1968, which is now playing a dominant role in international economic system, as a pressure group in deciding international business policies to a considerable extent.

Thus, the emergence of OPEC is augmented with a new scope for geo-politics at international level in the name of oil products, which had several times impacted on the world economic system. The oil war is a fight between Europe and Asia, which may have a direct bearing on the entire economic system of the world. Most of the European countries are oil importing countries and most of the Asian, especially Middle East countries are oil exporting countries. These oil exporting and importing countries have been engaging in war for a long period of time over the supremacy of oil reserve and is still continuing with new modus operandi.

Objectives of the study

1. To find out the supply side effect of oil products in international economic system
2. To find out the future of oil producing countries in the backdrop of oil crisis
3. To find out the impact of renewable energy in international business and its demand

Data collection

Data collection is a method of collecting data regarding a research study and there are two methods of collecting data including primary and secondary data: former is obtained directly from first-hand sources by means of surveys, observation or experimentation and later is collected for a purpose other than current research project. This research study entirely depends on secondary data collected from different reliable sources.

Supply side effects of oil products

Supply of oil products seems to be a matter of strategic importance in the globalised world order, which may have a direct bearing upon the entire economic systems of the world. There are factors appeared to have impeded the supply of oil products and their prices, as well. The oil sector is essential for the growth of industries and transportation sectors, respectively. The lower oil price will likely to affect oil production and oil refining process in many respects. As production cost increases, the oil companies might be dropped the production of oil, which can bring about supply side shortage in the coming years. Industries however look for cost effective energy sources, which range from bio-fuels to fossil energy, from shale gas to coal and from nuclear energy to solar energy. Thus, renewable sources of energy are getting a massive acceptance from various industries, which will perhaps offset the supply and price of oil products. Similarly, volatility of oil sector will often bring about speculative surge with far reaching consequence and hence, it needs to be taken in to consideration by setting preemptive policy initiatives at global scale for impeding the speculative investments in oil sector. Of all the energy sources, natural oil seems to be dominating the entire industries owing to its lower price, but technology is advancing to make other sources of energy more industry friendly through lowering their operating costs.

It is an estimate that crude oil supply will reach to the extent of 30 million barrel per day by the end of 2040 and Middle East will supply nearly 20 million barrel per day towards the same period. In essence, the second largest crude oil contribution will stem from both Russia and Caspian regions respectively along with OPEC countries. However, the crude oil supply will contingent upon the expansion of oil pipeline, which is under the progress now. A well designed and structured pipeline capacity can augment further the oil supply to different parts of the world. The ongoing geo-political tensions between oil exporting and importing countries seem to be a hurdle in the process of achieving the end.

The growth of industries depend more on the supply of oil products among other sources of energies and hence, short supply of oil products will negatively impact on economies including transportation and other basic industries . The sudden oil price change may have negative impact on other sectors, which is likely to curtail the employment

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opportunities further. Most of the Middle East countries do not have any strong industries other than oil industries and subsequently, falling crude price may be responsible for dropping the oil production.

Under such critical circumstance, the governments will be unable to collect tax, as they collect their majority of tax from oil companies alone. Subsequently, the functioning of the governments will be on the cross-roads in most part of Middle East countries and thus, they will even resort to use their reserve currencies in propelling the basic functions of the governments.

As collapsing of the economies, the governments will borrow money from external banks with heavy interests that will result foreign debt in a long run and paying interest on such debts will be burdening the economies further. Under such crucial situation, the currency value may be collapsed and in response, the people may be going for public vandalism. World economic system is therefore sustained by the huge investments made by oil producing countries alone and dropping of such investments might be affecting even western economic system. Several banks and financial institutions maybe collapsed following the price fall of crude oil. However, the present fall of oil price is attributed to be excess production of oil on the one hand and the global recessionary trends, on the other hand. Still the real reasons for oil price fall remain silent and for figuring out the real reasons, it is imperative to analyze the political side of oil war, which seems to be a critical factor for the sustainability of oil sector in coming years.

In essence, increase in number of oil producing companies, oil refineries have on the one side reduced the oil demand at international market and on the other hand, most of the developed countries have large reserve of crude oil for their domestic demands. In addition, the international policies on Green House Gas Emission (GHG) might be impacting on the demand for oil products. Similarly, European Commission has set a target for a low carbon economy and the Commission has also proposed to increase the share of renewable energy at least 27% of total energy consumption by 2030 in Europe. As a result of such international policies, countries have unilaterally agreed on reducing the oil consumption and evolving more fuel efficient technologies. It gave ground for researching on renewable source of energies and their commercial scale use in different industries. All of these responsible for declining the demand for oil products at international market.

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