

**REASONS FOR CRUDE OIL PRICE WAR AND IMPACT OF CORONAVIRUS ON THE ECONOMY WITH SPECIAL REFERENCE TO CRUDE OIL PRICE****<sup>1</sup>Ms. Sunanda Narang**

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**Abstract:-** Today world economy is dealing with the “Corona viruses” and market around the world is lockdown. Global economy is staring at another recession as the novel corona virus pandemic has forced businesses across the world to suspend operations. Sectors such as automobiles, real estate and banking seem to be having a difficult time ahead of them. Investors fear the spread of the corona virus will destroy economic growth and that government action may not be enough to stop the decline. In response, central banks in many countries, including the United Kingdom, have slashed interest rates. That should, in theory, make borrowing cheaper and encourage spending to boost the economy. This study is totally focused on the impact of corona virus on the economy with special reference to crude oil price.

**Keywords:-** Corona Virus, Economy, Crude Oil Price.

**1. INTRODUCTION**

Corona virus affects the world economy very extensively. Due to this the usage of fuels is decreases because of lockdown and quarantine in many cities. The supply is overflowed in the market. So to maintain equilibrium point between supply and demand, the price of crude oil decreases. Investors fear the spread of the corona virus will destroy economic growth and that government action may not be enough to stop the decline. In response, central banks in many countries, including the United Kingdom, have slashed interest rates.

That should, in theory, make borrowing cheaper and encourage spending to boost the economy. The oil demand is hit hard because of the spread of virus that are disrupting factories, play havoc with the consumers, put off people from travelling and slowing other business activity, International trading is comes to low, there is no proper flow between industries and consumer, quarantine millions of people, as virus spread from china other tourism, travel and trade sectors all are in major hit, stock markets increases the loses. Some analyst say that, they estimate oil demand is on the worst hit in the global market

**2. WHAT IS CORONA VIRUS**

Definition by WHO- Corona viruses (CoV) are a large family of viruses that causes illness ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS-CoV) and Server Acute Respiratory Syndrome (SARS- CoV). Corona virus is Zoon tic, Means they are passing on between animals and people. Based on previous research it is found that, researcher found no evidence that virus was made in a laboratory intentionally or otherwise engineered. Corona virus (Covid-19) is a new hassle that was discovered in China, Wuhan (2019) and has not been identified previously in humans. Corona virus cases are jumped from china to various countries and their effects are very threatening.

**2.1 Crude oil**

Crude oil is liquid form fuel sources located in underground and extracted from drilling. Crude oil is a liquid form which is formed from earth crust. It is a nonrenewable resource, which means that cannot replace naturally once it is used or consumed. The formation of crude oil happened million of years ago. Oil is fossil fuels, which means it is formed from large amount of tiny plants and animals such as algae and zooplankton. These organisms died and fall to the bottom of the sea and trapped by multiple layers of sand and mud. As times goes, organisms combined with mud and then heated to high pressure created by heavy layers of sediment.

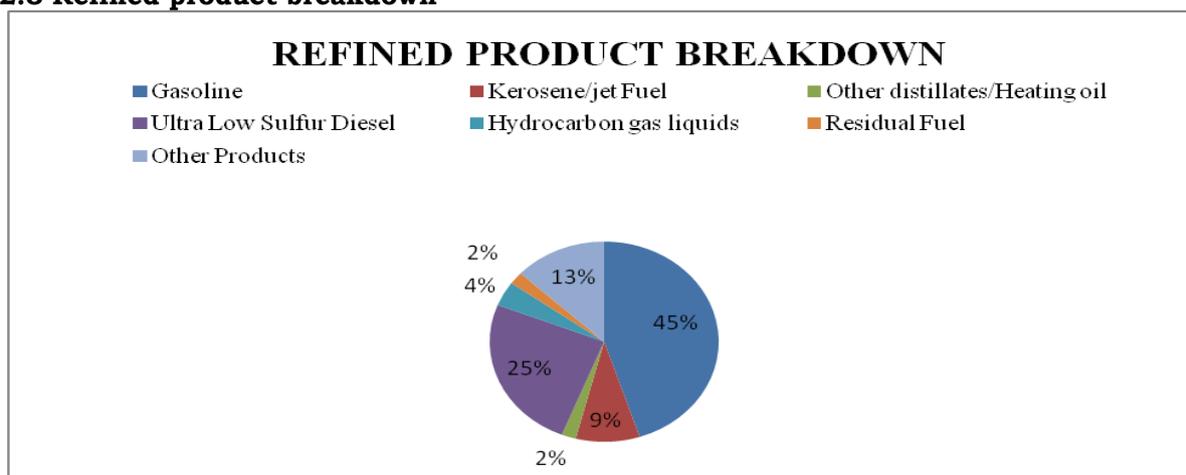
This, process is known as digenesis. As times goes, these organisms started converted into natural gas or oil by more heat and pressure began to rise as the organisms get buried. The process takes millions of years to convert organisms into natural gas. So the

availability of crude oil is limited on the earth. Crude oil is naturally available resources, unrefined petroleum product composed of hydrocarbon deposits and other organic materials. Each and every person use crude oil in many forms, all the countries in the world demand crude oil, not all the countries produce it. The top five oil producing countries are: United States, Russia, Saudi Arabia, Iraq and Canada.

## 2.2 Uses of Crude Oil

Crude oil is very valuable resources, as already discussed the crude oil is not produce by all the countries. After crude oil is extracted from the ground, it is generally transported to refinery, where it is heated and distilled into more usable product, and separated into useable petroleum products. These petroleum products include gasoline, diesel fuel, heating oil, jet fuel; petrochemical feed stocks, waxes, lubricants oils and asphalts.

## 2.3 Refined product breakdown



## 2.4 Oil Industry Structure

This oil industry structure is divided in three major sectors.

- Upstream
- Downstream
- Midstream
- **Upstream:** The upstream sector includes those companies which are searching for crude oil from the sea shore. Upstream sector companies work is to find the potential underwater or underground oil and natural gas by geological surveys, searching for oil reserves, and dig up more wells, drilling, and extraction of oil from underground areas, manufacturing and storage of crude oil. This all the works done by the upstream companies. Oil and Natural Gas Corporation (ONGC), PETRONET LNG, Reliance Industries, Aban Off shores etc. are the companies which come under the Upstream Sector.
- **Midstream:** Midstream companies work between upstream and downstream, act as a middle sources. They purchase the crude oil from the upstream and provide to the downstream, acts as a courier between upstream and downstream by providing transport of oil from the oil well to the refiners. They do this transport service by the pipelines, road transportation (oil tankers) and by oil shipments.
- **Downstream:** Downstream companies purchase crude oil from upstream companies, and they convert crude oil into the petroleum which is used in petrol, diesel, aviation fuel, kerosene, lubricants, petroleum wax etc. the products are distributed B2B and B2C. Indian oil corporation (IOCL), Hindustan Petroleum Corporation (HPCL) and Bharat petroleum Corporation limited (BPCL) etc. are the companies which all are traded in Downstream. Some of the downstream companies are now trying to taking up the work of Midstream work like transporting crude oil. Changes in Price of crude oil are directly affecting the companies. If the price of crude oil is high it is profitable to the upstream companies, and affected to the downstream companies. If the crude oil price is low, it is profitable to downstream companies and it is not only profitable to companies but also to the customer and

the government. Because they get in low price but the government impose some restrictions that the low price is not only benefitted to downstream and not affect the global economy.

### 2.5 Two most popular types of oil grades

1. Brent Crude oil (UK)
2. West Texas Intermediate (WTI)

These two types of crude oil are the most popular and used in all over the countries. There are some properties which differentiate between the Brent crude oil and WTI. There are variations in OPEC and NON OPEC nations. API Gravity (American Petroleum Institute), greater than 10 is considered as good is a measurement technique of crude oil quality. It is a testing of crude oil. It is measure by water, if the oil is floated in water it means the crude oil is good or it is lighter. Sulfur content (Less is good); when we measure crude oil it is necessary that sulfur is less.

When it comes to physical oil, there are different grades available but the most popular traded grades are Brent crude oil, North Sea Crude (known as Brent Crude) and West Texas Intermediate (known as WTI). Brent Crude's price is the benchmark for African, European, and Middle Eastern crude oil. The pricing mechanism for Brent dictates the value of roughly two-thirds of the world's crude oil production. Oil contains sulfur; in crude oil sulfur contains less than 1% which refers to "sweet crude" and the sulfur of crude oil helps to dictates how much processing the crude oil needs.

Both the crude oil contains less than 1% sulfur and making them both sweet. WTI Crude sulfur contains 0.26% and Brent Crude oil contains 0.37%. Both grades contain 1% less sulfur which makes them lighter and helps to get easily extracted. WTI Crude contains super quality of oil because of low sulfur and API scale. Generally the prices of Brent crude oil are little bit high than WTI.

### 3. FACTORS AFFECTING THE BENCHMARK OF CRUDE OIL

Brent and WTI have different chemical properties, which differ there crude oil prices and called as quality spread.

The WTI and Brent crude oil pricing is influenced by following factors:-

1. U.S. Shale crude oil production levels
2. Supply and demand of crude oil in US.
3. North Sea crude oil operations
4. Geopolitical issues in the international crude oil market
5. Political instability, natural disaster, global health issues etc. are the biggest shock factors in the oil market and this factor affect the crude oil demand. Because of the corona virus outbreak.

#### 3.1 Crude oil in India

India Imports nearly, 85% of crude oil which Indians consumes, India is the biggest importer or crude oil. Iran and Saudi Arabia is the major importer for India. Saudi Arabia has been the India's top crude oil importer, but it was first time that overthrow by Iraq in 2017-18 fiscal year. According to the data obtained from the Directorate General of commercial intelligence and statistics, Iraq sold 46.61 million tons of crude oil to India.

According to the data India imported 207.3 million tons of crude oil in 2018-19, which is somehow less than previous financial year from 207.3 million to 220.4 million tons. India, import crude oil from Iraq is 46.61 million tons, during April 2018 and March 2019, but in previous year the supplied crude oil from Iraq are 45.74 million tones, which is 2% less than fiscal year 2018-19. In 2018-19, India imported crude oil 40.33 million tons from Saudi Arabia which is up from 36.16 million tons in the previous financial year.

The Persian Gulf nation was the third largest crude oil supplier to India. They import 23.9 million tons of crude oil in India, which is up from 22.59 million tons in the previous year according to the data. Venezuela, become the fourth largest crude oil supplier in India. They sold 17.49 million of crude oil to India, which is up from 17.32 million tons in the previous financial year. Nigeria was the next biggest importer of crude oil after Venezuela with 16.83 million tones of exports in 2018-19 to India.

### 3.2 The question is why the oil prices are crashing?

Saudi Arabia which was the world's largest exporter launched a price war in this year. The question is why Saudi Arabia does that because there was fallout between the OPEC and Russia. From 2016 OPEC and Russia joint hands and formed an alliances when the oil price was \$ 32 per barrel. The reason behind this is to control the global oil market. The question is how to get control the global market. If the oil exporting countries reduce the production and supply less in the market. But the oil is something whose demand never is less, as a result after creating huge difference between demand and supply companies charges more money.

And the countries who import crude oil from Russia have to pay more money per barrel. So this was the whole idea of OPEC and Russia. That's why Saudi Arabia and Russia cut the oil production in 2016 by around 1 million per barrel day and Russia reduced by 5, 00,000 barrel a day. And the companies are started controlling the production this way and generated more revenue from this strategy. But the US Shale was very much aware about this and keeping this in mind the Russia and Saudi Arabia policy restrained gave more chances to US shale companies to grow and that is why the US Shale was the largest crude oil producer in 2018 and it was expected that the company produce to about 13 million barrels a day in 2020 in the first quarter of this year.

Over this Saudi Arabia decided to fight against greatest market share by slashing its own price of oil by \$4 to \$7 per barrel and also planned to lift the production to over 10 million barrel a day. Due to the price war both the Russia and Saudi Arabia slashing their oil prices and importing companies have to think to whom they have to buy crude oil and that is largely depend on price. The biggest buyer of Saudi Arabia oil is Asian countries: India, Japan, China, South Korea. Due to Corona virus china and South Korea not consuming crude oil and china cut the import of crude oil by 20% because of lower demand in the market due to lockdown in the last month.

After china India is the most populated country that needs a lot of oil. Lower demand of crude oil because of lockdown tends to decrease the oil price and India get benefit for this. Higher crude oil price badly affect the twin deficits account Current Account Deficit (CAD) and Fiscal Deficit. CAD is when Imports commodity value is more than Exports value. Currently India is run on CAD, but they get benefit from oil price war. Fiscal deficit is when government expenditure is more than revenue. So this is the positive sign for Indian Economy, lower price of crude oil save some money on import bill. But it is totally depend on the government, whether to transfer the benefit to the consumer or to get reduce the CAD. And from 2020 budget FDI in India rise to \$284 billion during 2014-19.

### 3.3 Reasons for crude price war

The sharp decline in crude oil price is not only affected by the global epidemic (corona virus) but also the lack of agreement in the OPEC nations (The Organization of the Petroleum Exporting Countries). It was set up in 1960, to systematize the petroleum policies for its members and to provide member states technical and economic aid. It is a group consisting of 14 countries worldwide; its aim is to manage the supply of crude oil and to set the price of oil on the world market. Countries that belong to OPEC include IRAN, IRAQ, KUWAIT, SAUDI ARABIA AND VENEZUELA (the five founders) and the other includes UNITED ARAB EMIRATES, LIBYA, ALGERIA, NIGERIA and other five countries.

Last week OPEC Conducted Meeting with Saudi Arabia, Russia and other oil producing countries me in Vienna, Austria. The meeting is for the oil production crises, which they are, facing from last three years. Meeting is for reducing the oil production, because there is excess supply in the market and the demand is offset dented. Saudi Arabia, the led Organization of Petroleum Exporting Countries (OPEC) has continuously pressurized Russia, for cutting the oil production because of corona virus. But Moscow, Russia has refused the proposal. OPEC replied, that the removed all the limits on the cartel's Crude Production, this can cause flood, because already oversupplied of oil market at a time when demand is falling. The Russians, refused the proposal and this really ruin the alliance, if they kept the price up so long.

OPEC ministers quote agreed to cut the output by 1.5 million barrels per day (bpd) Or 1.5 million Barrels demand until the end of 2020. OPEC said it would hold another meeting between OPEC group members meeting on June 09. China, the worlds' biggest importer of oil, has cut with a wide, its crude oil in recent weeks as the whole country is

lockdown and implemented quarantine measures. The international Energy Agency, in February said the global oil demand in the Q1 of 2020 is expected to fall down by 435,000 bpd. That would be first in- demand drop since 2009, when global was in the grip of financial crisis.

### 3.4 Saudi Arabia has started a global crude price war

Corona virus affects the world economy very extensively. Due to this the usage of fuels is decreases because of lockdown and quarantine in many cities. The supply is overflowed in the market. So to maintain equilibrium point between supply and demand, the price of crude oil decreases. Saudi Arabia wanted to lead the OPEC and Russia by making deeper cuts in oil production to support crude oil prices in order to break the affect of corona virus which disturb the economy globally. Riyadh, Saudi Arabia (capital) responded by increasing the production and offering its crude at steep discounts. Analysts said that, it all has to be done to punish the Russians for abandoning the agreement. Saudi Arabia also has wished to stats its position as the world's top oil exporter.

### 3.5 Russia did not agree to cut production

Russia wanted to see the complete effect of corona virus on oil demand before taking any kind of action. They also aware about the policies of Saudi Arabia. But Moscow, has only want to test the US Shale industry. Russians believes that cutting output would only benefit to US shale producer, which would turns into the world largest oil producer. US Shale oil industry has struggled a lot to making profit despite of its growth over decade. And Russia thought that was a great opportunity to Russians to hurt the US oil industry. Russia said that from April 01 everyone can produce whatever they want and in which quantity they want to produce.

The crude oil market is about anticipation of supply and demand, and oil prices are very volatile which directly affect the economy of the countries. As all we know about the global effect Corona virus. The price of crude oil is extremely sensitive to geopolitical and weather events. Oil price are down about 20 percent, since the start of the year, i.e. very tough for the OPEC that strongly hit the financial budget of the OPEC countries. While, Mascow, Russia, has stated that they all trading in current price. The Saudis announced and officially agreed on cutting oil price and they will lead the way by cutting additional prices and Russia, will join because of immense amount. The pandemic is spread in more than 150 countries and the consumer buying behavior is too low. The oil usage is drastically decreases.

According to Margaret yang said, Singapore markets analyst that "A deeply imbalance supply and demand relationship will keep putting oil prices under pressure". The oil demand falls down due to spreading corona virus, this not only affect the domestic market but international market. The price war between the major oil producers Saudi Arabia and Russia continues and falls down the agreement proposed by OPEC. The Russia has continuously increasing the production, and the supply is overcrowded in the market, US have called for De-escalation.

**Impact of Corona virus on crude oil:** since, January the spread of corona virus is globally, as the virus spread beyond Asia. The oil market has continued to suffer the major loss. The biggest question is how deep and how long?

Corona virus affect the oil production market in major two ways- first way is to travel restriction due to contaminated issues, the peoples comes in contact the pandemic effects will increases. So for reducing the effects the government imposes strict restrictions on travelling. And these restrictions reduce the limits of usage of jet fuels, supply chain slows and industries and academic activities decline as they sent their workers to home, all started activities is work from home- means less usage of oil and these all directly affects on oil consumption. Secondly the major effect on stock market, as the whole market thrashes which effects global economy badly which is largely affects the global oil market over the long term.

The oil prices started reducing, the domestic price rate in India of petrol and diesel bring down about to Rs. 4 a liters In mid of January. Petrol is down Rs. 3.74 a liter and diesel is down Rs. 4.41 a lit. In Delhi, India Petrol was reached to prices Rs. 71.96 and Diesel is Rs. 64.65 a lit. Falling price are good for oil importer countries like India, that Imports 85% of oil. Lower oil price helps keep inflation balance, reduce oil subsidies, reduce

current account deficit and leave more resources in the hands of government for spending more on public welfare like on medicine, covid- 19 equipments, livelihood resources to poverty line etc.

But there are certain reasons which came out which is market politics. Oil price war is already started among countries which are Saudi Arabia, United States and Russia. The importer- India, Japan, china, Korea seen this opportunities. China is the biggest game player here because they started recovering. China oil imported rose by 4.5% in March and they started taking advantage of cheap oil by raising stock market. According to IMF- Demand of oil fell not because of only OPEC + Dealing up come in short span of time but also because of pandemic that spread all over globally. The IMF warned that the whole economic get shirked by this pandemic with 3% fall in global GDP.

**3.6 Will low oil prices will benefit the India economy**

It has two aspects one is positive and second is negative. The positive aspects are reducing the trade deficits, as India is the biggest importer of oil, the reduction in oil price helps in reduces in current deficit. According to a report of live mint- a fall in prices of oil by \$10 per barrel helps reduce the current account deficit by \$9.2 billion. Oil prices affect the entire economy, According to money control every \$10 per barrel fall in crude oil helps to reduce the inflation by 0.2% and total price inflation by 0.5%.

The government fixes the price oil subsidies rate, reducing oil price helps to narrow fiscal deficit. Another benefit is for the consumers, it provide benefit to the consumer by reducing price. When the oil price goes down, the product price also fall. Then the reduction in product price increases the disposable income. How India benefits from low crude oil prices- There are many countries in the world produces Crude oil. The top five crude oil producers and their international global market shares in 2018 are:

United States	Russia	Saudi Arabia	Iraq	Canada
13.2%	13.0%	12.6%	5.6%	5.2%

There were severe drop in oil price on April 20 is -\$37.63 per barrel, the United States produce the WTI grade oil. US are the biggest producer of crude oil and produce WTI. The world largest producer of crude oil is running out of storage capacity to store all the oils that were produced by oil refineries. Oil industries massively facing two major problems:

- First one is oil demand, which is hit by the nation lockdown
- Second is convincing other oil producer to reduce the output.

To maintain the stock they run by their own pockets. Oil is traded on its future price, means it is work on contract basis, the buying country have to place the order of next month in this month, which is helps the exporting company to decide the oil price. For example, if country but one million barrel oil in may than they have to place the order in April. On April the price of WTI is-(-\$37.63) is the price of May, 20<sup>th</sup> April was the last date of deciding the price of WTI. But the price of WTI in June is \$20.43 which is positive.

There could be some reasons, the traders expected that the demand goes up in June when the lockdown removes and they also get that the governments are taking steps and start making oil reserves for oil storage. But the situation is that all the National reserves are full, they all are running on full capacity there is no space to store. Therefore the prices of crude oil are negative. In economics the law of demand stated \s that, when the price of commodity increases the demand falls down and when the price of commodity decreases the demands increases. So the negative price of crude oil is to increase the demand.

**3.7 Does India benefit from crashing the oil price in US of WTI?**

The answer is No, India Imports oil from OPEC countries which is Brent Crude oil. The price of Brent is fallen by 5% and the price is still around \$25 to \$27 per barrel. So there is hardly change in the price of petrol and diesel in India. If the India buy the American crude oil(WTI) which is negative, even then shipping charges are not economical all are expensive, India SPR (strategic Petroleum Reserve) are running out of full capacity and all three SPR in India which are located in Vishakhapatnam, Mangalore and Padur all are full.

Total crude oil reserves of some countries are-

<b>Countries</b>	<b>Capacity</b>
China	550 million barrels
Japan	528 million barrels
South Korea	214 million barrels
India	39 million barrels

#### 4. CONCLUSIONS

Global economy is staring at another recession as the novel corona virus pandemic has forced businesses across the world to suspend operations. Sectors such as automobiles, real estate and banking seem to be having a difficult time ahead of them. Government has to create the SPR to store the maximum crude oil Government, have to invest more on medical facility by imposing more budgets on medications in India. The reasons for crude oil price war are many and discusses in this paper, but it is also true that the Corona virus has played a vital role in this regards.

Now, the world economy is in coma and tries to stabilize the current situation along with COVID -19. There is a economic crisis everywhere in the world and the GDP is also coming down because of the lockdown around the world. Presently the world first has to deal with the corona virus and only after that the crude oil price matter will be resolved. So again this entire hazardous situation is temporary for few months it is not permanent. Global demand of crude oil is not always same after the pandemic outbreak everything is comes to normal and the demand of oil again rises.

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