



Surge in Oil and Natural Gas Prices

For Prelims: Natural gas, International Energy Agency, Urals crude, Organisation for Economic Co-operation and Development.

For Mains: Surge in Oil and Natural Gas Prices and its impact on India, Effect of Policies & Politics of Countries on India's Interests

Why in News?

Recently, the U.S. announced the **banning the import of Russian oil, liquefied [natural gas](#), and coal to the country.**

- The move is aimed at **depriving Russia of the economic resources** needed to continue its [war in Ukraine](#).
- In the run up to the U.S. announcement, **international oil prices surged to a 14-year high** with [Brent crude](#) futures hitting **USD139.13** intraday.

What are the Reasons for Targeting Russia's Energy Exports?

- **Largest Oil Producer:**
 - Russia is the **world's third-largest oil producer**, trailing **only Saudi Arabia and the United States**.
 - In January 2022, **Russia's total oil production was 11.3 million barrels per day (mb/d)**, of which 10 mb/d was crude oil, according to the Paris-based intergovernmental [International Energy Agency \(IEA\)](#).
- **World's Largest Exporter of Crude and Oil Products:**
 - Russia is the **world's largest exporter of crude and oil products**, having shipped 7.8 mb/d in December 2021, and the **second largest supplier of crude to the world** with only Saudi Arabia exporting more crude than it.
- **Major Exporter of Natural Gas:**
 - Russia is also a **major exporter of natural gas** and supplied almost a third, or 32%, of the gas consumed in Europe (and the U.K.) in 2021.
 - The revenue it made from the sales of oil and gas in 2021 accounted for **36% of Russia's total revenue of 25.29 trillion rubles last year**.

PYQ

In the context of global oil prices, "Brent crude oil" is frequently referred to in the news. What does this term imply? (2011)

1. It is a major classification of crude oil.
2. It is sourced from North Sea.

3. It does not contain sulphur.

Which of the statements given above is/are correct?

- (a) 2 only
- (b) 1 and 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (b)

What will be the impact of the Move on Russia and on Global Crude Prices?

- Given that Russia exported substantially more than **7 million barrels per day of crude and oil products** in 2021 the U.S. ban would **impact about one-tenth of Russia's oil exports**.
 - Also not all of its allies and partners around the world were currently in a position to join in its import ban.
 - Among its allies, the U.K. announced that it would phase out the import of Russian oil and oil products by the end of 2022.
- Still, **without the rest of Europe and China joining the import ban on Russian oil and gas**, the impact would **not be as severe on Russia's economy**.
 - China, which is the **world's largest importer of crude oil**, is Russia's single-biggest buyer.
 - OECD **Europe (or European members of the [Organisation for Economic Co-operation and Development](#))** collectively accounted for **60% of Russia's oil exports**.
- An already tight oil market had been **pushed over the edge with the loss of Russian supply** of about 1.5 mb/d (Millions of Barrels per Day) of its benchmark **Urals crude** and about 1 mb/d of refined products.
 - **Urals** is the most common **export grade of crude oil from Russia** and an important benchmark for the medium sour crude market in Europe.

PYQ

How much is one barrel of oil approximately equal to? (2008)

- (a) 131 litres
- (b) 159 litres
- (c) 257 litres
- (d) 321 litres

Ans: (b)

How can it impact India?

- India is the **world's third-largest oil consumer at 5.5 million barrels a day**, behind the US and China.
 - The oil demand is growing at **3-4% a year in the country**.

- By this estimate, in a decade, **India could be consuming about 7 million barrels a day.**
- **India imports 85% of its oil** from about 40 countries, the bulk coming from the Middle East and the US.
- From Russia, **India imports 2% of its supplies**, including oil which it converts to petroleum products after refining. So, it's not Russian oil but oil in general and its rising prices that have India worried.

Way Forward

- Currently, **oil prices are trading water as investors worldwide** await the outcome of the **U.S. Federal Reserve**, and energy traders keep an eye on demand in China, where a recent upsurge in [Covid-19 cases](#) has triggered targeted [lockdowns](#) in some parts of the country.
- If the U.S. Federal Reserve raises interest rates, as is widely expected, the dollar is likely to strengthen, thereby **making imports of oil costlier for net energy importers such as India.**
- India, the world's third-largest energy-consuming and importing nation, is pinning hope on **resumption of crude oil supplies from Venezuela and Iran** as well as higher production from [OPEC nations](#) to help cool international oil prices that have hit multi-year highs.
- It will also **evaluate the Russian offer to sell crude oil at discounted prices** after considering aspects such as insurance and freight required to move the fuel from the non-traditional supplier.

PYQ

The term 'West Texas Intermediate', sometimes found in news, refers to a grade of (2020)

- (a) Crude oil
- (b) Bullion
- (c) Rare earth elements
- (d) Uranium

Ans: (a)

[Source: TH](#)

PDF Reference URL: <https://www.drishtias.com/printpdf/surge-in-oil-and-natural-gas-prices>