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Oil Price Slump: Investigating the Market Dynamics of the Role of the Oil Titans and its Global Impact

David Alaigba Richard O. Afolabi* Ifeanyi Seteyeobot Charles Onuh Zainab Titus
Department of Petroleum Engineering, Covenant University
P.M.B 1023, Ota, Ogun State, Nigeria

Abstract
The oil price decline has been the subject of major captions in the last months and has been outlined virtually in terms of the economics of oil market with a number of media outlets accusing Saudi Arabia and its OPEC Trojan horse of deliberately bringing low the price of crude oil. The widely reported aim of this oil price slump brought about by Saudi Arabia and OPEC is to initiate severe harm to the world's major oil exporters – particularly Russia. Also, Saudi Arabia and its OPEC cartel have a vested desire in getting rid of higher-cost competitors, such as US shale oil producers, who will definitely be hurt by the slump in oil price. High prices spurred companies in North America to begin production of *"difficult to produce crude"* in the shale formation of North Dakota and oil sand of Alberta. Before the price slump, Saudi Arabia was selling its oil to China at a rebate. OPEC's rejection to reduce production looked like the plainest evidence yet that the oil price decline was indeed an oil price battle between Saudi Arabia and the US. This paper looked at the role of the various oil titans in the current oil price decline and investigates if the reasoning behind it goes beyond OPEC simply driving down the price of crude oil to gain back lost market share and get rid of US shale oil competition.
Keywords: Crude Oil Price, OPEC, Shale Oil

1. Introduction

After nearly five years of stability, the price of Brent crude has tumbled about 60% since June 2014 when the price was $115 per barrel. The price of crude oil has dropped over 55% from mid-2014 to early 2015. The sharpest decline occurred in November 2014 after an OPEC meeting which resulted in a 10% drop in the price of crude oil [1]. The apparent being that the Saudis had chosen to allow the market play out for the time being by refusing to decrease production as suggested by some OPEC members. This has largely affected countries that export oil like Nigeria, Venezuela, Iran and even Non-OPEC countries like Russia. For example, revenue from the export of oil by Nigeria has plunged due to the drop in the price of crude oil. It has been reported that Nigeria's unsold crude oil barrels stood at 35 million in the international oil market in December 2014. Also, Nigeria's crude oil output plunged by 17,300 barrels per day in November 2014. Disappointingly, Asian countries, who are the country's major customers, have shifted their attention to Angola grades. A decrease in the demand for crude in European refineries is due largely to fragile gasoline and naphtha margins which has seen much pressure on crudes of West African states, particularly, the light sweet crude from Nigeria. There was a drop in the Asian refining margins for Nigerian crude in December 2014. This sprang out from the demand being met by supplies from countries within the region. The price of the Bonny Light from Nigeria plunged by 21.2% to $62.53 per barrel in December 2014 which account for about $49 loss from June 2014 [1], [2]. It is therefore pertinent to understand the veritable causes of this current condition in a bid to propose solutions.

There are various issues affecting the world's oil prices resulting in a progressive decline, these include: the reluctance of OPEC to cut production; decrease in demand due to frail economic output, improved efficiency, and a rising shift from oil to renewable sources of fuels particularly in regions such as Europe, Japan and China; chaos in Libya and Iraq [3] - two large producers of oil with almost four million barrels a day collectively—has not affected their output.

The conflict in Syria and Iraq has enabled the Islamic State, to capture oil wells. It has been projected that the Islamic State makes revenue of about $3 million in a day through sales on the black market - and weakening prices in the market by selling at a substantial reduction - about $30-60 per barrel; America has become the world's biggest producer of oil. Although it is not an exporter of crude oil, America imports far less, generating extra supply. The main driving force behind the plunge in the oil prices has been a boost in the US energy production arising from production of oil and gas from shale formations. Improved U.S. local production of crude oil is as a result of considerable development in *'shale oil'* or what is commonly referred to as *'tight oil'* [4].

Domestic U.S. *'tight oil'* production has increased due to the successful development of new technologies such as 'horizontal drilling', and 'hydraulic fracturing'. Besides the discovery of new and state-of-the-art technology for the production of shale or tight oil, a major enabler to enlarged local U.S. production of crude oil is as a result of the high prices in the market and contact to State and Private ownership of oil reserves in shale formations. The major potential risk to further tight oil development could be a large and long-term decline in crude oil market prices; The Saudis and its Gulf partners are against restoring the market price by

forfeiting their own share of the oil market. The main benefits of sacrificing their own market share would go to countries like Russia and Iran. Saudi Arabia as a country can bear lesser oil prices very easily. It is known to have $900 billion in foreign reserves. Also, the cost of extracting oil from the ground in Saudi Arabia is very low (about $5-6/bbl.) [5].

From the above issues considered, the United States and OPEC are the major players that largely affect the world oil prices. The paper looks at the role of the major oil players in the current oil price decline and investigates if the reasoning behind it goes beyond OPEC simply driving down the price of crude oil to gain back lost market share and get rid of US shale oil competition. Just as for every commodity, the price of oil is partially estimated by forces of demand and supply as the request for energy is directly related to the extent of economic activities in any region of the world.

2. Role of the Oil Titans

The United States and OPEC are the major players that largely affect the world oil prices. Hence, the Role of these two groups is considered in more details below:

2.1. The Role of the United States of America

The overall oil price levels in USA are falling by about two percent slowly from a much larger scale [6]. The "positive growth" case for the USA may generally not apply due to certain reasons which are specific to the USA. These reasons comprises of the following:

The rising cost of certain necessities of life like healthcare, rents and education tend to take away the gains accruing to consumers as savings due to lower gasoline and oil price.

Another issue stems from the fact that the increasing worth of the US dollar, which is connected with international oil price deflation and growing interest rates in the US, will virtually reduce the exports of the US and consequently the economic development of the US. The US economic progress would also be harmfully influenced by falling prices of crude oil due to the fact that deflation would bring about a stop to the robust investment and development of Shale exploration for gas and oil. Shale gas and oil production has been observed to be less competitive with traditional oil production at an oil price of $60 a barrel. This would affect the US economic growth in terms of the contribution of shale gas and oil [5]. The shakeout in Shale oil and gas production that is advancing would not happen easily. This is due to the fact that it would mean far reaching business defaults in that regard. Also, since a great part of the oil and gas search in shale formations has been financed with risky high return corporate securities, the shale shake out could result into a financial related calamity for the US corporate security market, which is currently over-amplified. At the end of the day, another financial related turmoil could inevitably result from the worldwide oil price collapse.

2.2. The Role of OPEC.

Worldwide oil price flattening cut across a limit of sorts with the OPEC gathering of 28th November 2014 in Vienna, Austria. Saudi Arabia chose a choice by OPEC not to decrease generation of unrefined petroleum and hence let the cost of oil to keep on dropping. The inquiry quickly emerges, why this choice by the Saudis and OPEC? Absolutely business rationale would contend that OPEC ought to have chosen to slice petroleum generation to back the falling price of crude oil worldwide but they did not. So one would ask, what is the reason for their choice? This is possibly a mix of a few reasons. First and foremost, OPEC and the Saudis realize that worldwide shale generation of oil and gas represents a generally close term existential risk to its benefits. Saudi Arabia has chosen to drive the smaller and more obligation galloped shale drillers and producers bankrupt. Furthermore, together with the Saudis on this, doubtlessly, are the giant USA oil organizations who might want to see the same. Be that as it may, there could be significantly more to the story. Saudi Arabia together with its neocon companions in the USA are focusing on both Iran and Russia with their new strategy of bring down the cost of oil. The effect of oil price reduction is as of now seriously influencing the Russian and Iranian economies. At the end of the day, this strategy of advancing worldwide oil price decline induces support with huge political attention in the USA, who needs to produce a more profound disturbance of Russian and Iranian economies for reasons of worldwide political goals. It won't be the first occasion when that oil price is utilized as a worldwide political weapon; neither would it be the last [6].

2.3. The Stock Market View/Analysis

From the Stock Market Analysts Perspective, the most straightforward clarification for the drop in oil costs is that it falls in accordance with a built up multi-year design that is being driven by demand and supply [1]. The oil price fall of 2014 was the latest sign of a tidal recurring pattern in oil price value unpredictability that has happened like every three years or somewhere in that vicinity since the mid-2000s. In the event that one acknowledges that we are seeing the fourth affirming spike in a long haul example of oil value unpredictability, what then is bringing about it and what can be next?

3. Global Impact

This is considered in two different perspectives since the global impact varies from region to region as some gain while most lose in the current glut in the oil prices. Also, the countries with the most significant impacts are addressed in the following subsections:

3.1. The Gainers

The United States: Simply put, at the country level, fall in oil prices will benefit net importers, while exporters would be worse off. However, at the aggregate level, fall in oil prices is said to be a positive for the global economy. Recently, the managing director of the International Monetary Fund, on the issue of decline in oil prices was quoted as saying: "Accepting we have a 30% decrease (in oil costs), its liable to be an extra 0.8% (in monetary development) for most progressive economies, on the grounds that every one of them are merchants of oil." [7]

India: India is additionally profiting by the decrease in oil costs as it has quickened the disinflationary process. Additionally, the appropriation load for the administration of India will decline essentially due to fall in raw petroleum costs, which will help contain financial deficit. Falling oil prices also helped the government loosen diesel prices. Furthermore, the reduction in oil prices will reduce the import bill for India and have a favorable impact on the external account.

3.2. The Losers

Venezuela: There are countries where falling oil prices are having an adverse effect. For example, Venezuela, one of the world's biggest oil exporters, is stated to be cutting government expenditure by 20% to contain its deficit and shore up confidence [7]. Oil constitutes about 95% of exports for the country and falling prices have added complications to its existing difficult economic conditions. Inflation is rampant with widespread shortage of basic consumption goods.

Russia: Similarly, Russia, which is facing economic sanctions from the western world, is in a difficult spot as an oil exporter. Its currency is in a free-fall; prices are rising; and the economy is expected to slip into a recession. Russia tend to lose about $2bn in incomes for each dollar fall in the cost of oil, also the World Bank has cautioned that the economy of Russia would shrink by no less than 0.7% in 2015 if oil prices don't recover.

Nigeria: Nigeria, which is Africa's chief oil producer, has seen development in other parts of its economy yet notwithstanding this; it remains vigorously oil-subordinate. Oil deals represent up to 80% of all administration income and more than 90% of the nation's revenues.

3.3. The Indifferent

Saudi Arabia: Saudi Arabia, the world's biggest oil exporter and OPEC's most persuasive part, could bolster worldwide oil prices by reducing its own particular production, yet there is minimal sign it needs to engage in this. This may be due to two reasons - to attempt to impart some control among individual OPEC oil makers, and maybe to put the US's blossoming shale oil and gas industry under-weight. In spite of the fact that Saudi Arabia needs oil costs to be around $85 in the more drawn out term, it has pro-found pockets with a store trust of some $700bn - so it can endure lower costs for quite a while. Together with Saudi Arabia, Gulf oil manufacturers, for example, the United Arab Emirates and Kuwait have likewise accumulated an impressive currency savings, which implies that they could run shortfalls for quite a while if important. Other OPEC individuals, for example, Iran, Iraq and Nigeria, with more prominent household budgetary requests as a result of their expansive populace sizes in connection to their oil incomes, have less space for maneuver.

China: A 10% fall in oil price ought to prompt a 0.1% increment in financial yield, say some. As a rule purchasers are at an advantage through lower energy costs, however inevitably low oil price do dissolve the conditions that realized them. China, which is situated to turn into the biggest net dealer of oil, ought to pick up from falling costs. On the other hand, lower oil costs won't completely counter-balance the far more extensive impacts of a moderating economy. Japan imports about the majority of the oil it employs. Yet, lower costs are a blended gift on the grounds that high energy costs had served to push inflation higher [6].

3.3. The Effect of the Oil Price Glut in Summary

First, a more quick valuation for the US dollar, and the comparing relative decrease in the monetary standards of various emerging market economies (EMEs) — specifically those reliant on exports and particularly those for whom oil fares make up a huge percent of aggregate exports like Brazil, Chile, Argentina and South Africa, and even Australia and various economies in southeast Asia. Oil price collapse has had a considerably and extreme effect on those EMEs profoundly reliant on oil exports as an extensive percentage of their export blend — like Venezuela, Russia and Nigeria. There is a long, recorded and archived relationship between dwindling oil costs and a rising US dollar. This implies that a worldwide oil price collapse implies an increasing US dollar.

Second, an undermining effect from falling oil costs will be to contribute towards general flattening in

Europe and Japan. Economies there have officially entered subsidence. Regardless of trillions of dollars of liquidity infusions by their national banks as of late, value levels have still tumbled to zero or less. Oil price collapse will augment essentially to a general deflationary drift in both Japan and Europe.

Third, decrease in budgetary resources attached to oil could build the propensity toward worldwide monetary shakiness. Oil price decline may prompt boundless insolvencies and defaults for different non-budgetary organizations, which will thusly hasten money related shakiness occasions in banks attached to those organizations. The breakdown of budgetary resources connected with oil could likewise have a further *'chain impact'* on different types of money related resources, in this way spreading the financial fragility to other credit markets. All products, not simply oil, would take a noteworthy hit when supported oil price flattening sets in. A sharp and supported decrease in oil price is by and large connected with declining deals and costs of different products. The whole worldwide product sector may be affected adversely. That has as of now started to happen with products like copper, gold, and other modern metals, that have started to fall too in the wake of the present oil value decrease.

Fourth, having excessively high market prices for most commodity can encourage wasteful production operations and allow inefficient companies to develop into a business sector that otherwise would only support the most innovative and efficient businesses. Today most of these inefficient companies are found in Developing Countries, particularly OPEC. Saudi Arabia is likely the largest beneficiary since their production costs are well under $35 per barrel and they probably have some of the most efficient production operations compared to other Developing Countries. On the other extreme we have Venezuela, which has primarily unconventional heavy oil production.

In other words, if the crude oil price drops down to $40 per barrel (2009 levels) and stays there for multiple months continuously, most higher cost crude oil production will be possibly idled or delayed until profit margins are reasonably positive and for at least 6-12 months. The unfortunate consequence will also be that the economics of alternative non-petroleum fuels will be impacted since their actual production costs are generally not directly associated to the crude oil markets and most consumers tend to buy lower cost fuels. The same impacts can also affect sales of higher cost and efficiency technology equipment/vehicles

4. The Way Forward

With accurate analysis of market dynamics, countries like Nigeria can take advantage of the low oil prices to generate electricity that can be used to power other sectors of the economy. For example, influential and wealthy individuals can form partnerships with the government to cease the opportunity of low oil prices to “resurrect” industries which were shut-down due to high energy demand which was costly. Also, the decrease in oil prices, which results in the decrease in the pump price of oil is favorable to Nigerian citizens and this can improve standard of living in the short-term so that Nigerians can engage in Entrepreneurial activities that will boost the economy and sustain increasing standard of living in the long run. This is a wakeup call to Nigeria to explore other options and discover and maximize untapped potentials as the Nigerian Economy which is based mainly on the exportation of crude oil should diversify or expect upheaval. It is an opportunity for other sectors of the economy, which have been ignored in the past due to our over-dependency on oil, to be looked into and uncover the opportunities that lie in them.

The reserves of crude oil are limited and higher manufacturing than required by OPEC nations is not just prompting abatement in WTI unrefined price but on the other hand is a potential danger to World/Earth natural framework [8]. On one hand, reduction in the production of crude oil due to excess demand will decrease negative impacts of the operations of the industry on the environment. Also, the fossil fuel will be produced and used prudently so that we save these resources for future generations and also maintain the earth's ecosystem. This will discourage wasteful behavior as those who have or currently live off-the-grid/utilities generally have a much greater appreciation for the importance conserving and not wasting water, heat and limited access to power.

The fall in oil costs gives a chance to numerous nations, for example, Nigeria to abate energy appropriations and utilizes the investment funds toward more focused exchanges, and for some to build energy assessments and lower other duties. Since Nigeria values positive effects of high oil prices more than the positive effects of low oil prices, large taxes (e.g. Europe) can be deployed or even subsidize more expensive alternative fuels. Generally speaking, oil should be a significantly cheap healthy global economic development.

Although a decrease in oil price has some negative outcomes for specific gatherings, the net impact on the world overall is doubtlessly positive. All in all, higher oil price progressively tilt the tremendous financial advantages of oil towards producers, prompting inefficient abundance and general financial inefficiencies in a couple of nations while general worldwide financial improvement is undermined [9].

5. Conclusion

While no two nations will encounter the drop in the same way, they share some normal attributes: oil exporters among cutting edge economies of the world, and much all the more so developing markets, stand to profit by

higher family wage, lower data costs, and enhanced outer positions. We discover both supply and demand elements have assumed a part in the sharp oil price decline subsequent to June. Future markets recommend that oil price will bounce back but yet stay underneath the level of late years. There is however significant unpredictability about the development of supply and demand elements as the story develops.

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