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Gist of **RStv** Debate
RAJYA SABHA

ENERGY SECURITY

The 'crude' reality

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**WEEKEND
BATCH**

**29
SEPTEMBER**

ENERGY SECURITY

The 'Crude' Reality

INTRODUCTION

Global oil prices surged the most on record after a strike on a Saudi Arabian oil facility removed about 5% of global supplies, an attack the US has blamed on Iran. In an extraordinary start to trading, Brent futures jumped almost \$12 a barrel in the seconds after the open on Monday, the biggest intraday advance in dollar terms since they were launched in 1988. State energy producer Saudi Aramco lost about 5.7 million barrels per day of output on Saturday after 10 unmanned aerial vehicles struck the world's biggest crude-processing facility in Ab-qaiq and the kingdom's second-biggest oil field in Khurais. Meanwhile, The United States has issued satellite images and cited intelligence to back its claim that Iran was behind attacks on the oil facilities. Iran denies involvement in the air attacks, which were claimed by Iran-aligned Houthi rebels in Yemen.

EDITED EXCERPTS FROM THE DEBATE



What is the significance of Saudi Arabia in world's oil market?

- Saudi Arabia is the largest oil exporter in the world and produces more than 10 million barrels per day. It supplies 10% of the global oil requirement.
- Saudi Arabia is also the largest oil producer country in the Organization of the Petroleum Exporting Countries (OPEC). So the decisions taken by the OPEC are generally influenced by Saudi Arabia.
- **Khurais oil field** in Saudi Arabia produces 1 million barrels per day and the refined oil is stored in **Ab – qaiq facility** in large quantities.



How extensive is the latest attack and what are its major impacts?

- This is not the first attack on the Saudi Arabia's oil infrastructure. Last four years since the war has been started in the Yemen from 2015 the Houthi rebels used drones and other weapons to attack Trans Arabian pipeline and other terminals. At that time also the oil supply was disrupted but that was marginal. This attack seems to be the largest one.
- The strikes forced Saudi Arabia to shut down half its oil production capacity, or 5.7 million barrels per day of crude — 5% of the world's global daily oil production.

Impacts:

- Health impact: Since Plumes of black smoke contains Carbon monoxide, sulfur dioxide, toluene, naphtha and other toxic chemicals, so it could have major health ramifications for residents and workers in the vicinity of the refinery.
- Air quality: According to the Air Quality Index which is measured through satellites and data from the tens of thousands of air quality monitoring stations around the world — the air pollution levels around Abqaiq jumped from low-moderate to high-moderate levels after the attack. Forecasts also project the air quality to reach "unhealthy" levels in the following days.
- Temporary disruptions in Oil supply: There might be possibility that the oil quantity required will temporarily not available for supply. But the Saudis over the years had built large number of tanks to store crude oil as well as refined oil. So there is not so much impact for some weeks, as we can see the prices become stable after initial increase of 12\$ per barrel.

What is the geopolitics over the attack?

- The USA has pointed towards Iran for the attack though Houthis in the region has claimed the attack.

- Iran threatened to close the passage through Strait of Hamruz through which more than 20% of world oil flows if its supplies get hindered.
- The timing of the Israel election might also have some interlinking's.
- Another angle is that the Saudi Arabia's budget and developmental plans are prepared by keeping in mind the prices of oil would remain at 65\$ per barrel. But as in recent years crude oil prices are decreasing on an average, so it might be the possibility that Saudi Arabia wanted to surge the oil prices to fulfil their own interests taking support of recent damages done.
- The region where the oil fields are located is dominant by the population of Shias and the Houthis are claiming that they have local support. So there might be some regional issues that lead to the recent damage.



What is India's oil status?

- India is the 3rd largest consumer of oil in the world, after the United States & China, as per 2018.
- Estimated reserves of crude oil in India stood at 604.10 mn tonnes (MMT).
- India is 2nd largest refiner in Asia after China.
- India imports more than 83% of its crude oil requirement out of which 70% is imported from Middle East in which Saudi Arabia is the number one supplier.
- • Saudi Arabia has traditionally been India's top oil source, but it was for the first time dethroned by Iraq in 2017-18 fiscal year.
- India has built some strategic oil reserves but they are only 10 million tonnes when the requirement is of 20 million tonnes per month.



What are the major Concerns to India?

Supply side:

- The refineries in India like Reliance petroleum, Bharat petroleum, or other public sector refineries take oil from Saudi Arabia and as Saudi Arabia assured India that India's needs will be met hence there will not be any major disruptions for short term.
- But for long term it could hamper oil supply of India because of complex geopolitics over the region. As due to Saudis influence OPEC has agreed to cut down the production. Therefore any disturbance and dislocation will affect India's supply adversely.

Pricing concerns: Because of global as well as Indian economy is in recession so there will be some chain impacts.

- A 10\$ per barrel increase will push inflation in India by 0.5-1 percent.
- Increased pricing could lead to social discontent.

Way forward for India:

■ Reduce dependence on crude oil:

- ▶ India cannot fight geology and geography, so like some other countries which are similarly placed India needs to reduce its dependence on crude oil and should increase renewable energy sources like nuclear energy and clean coal technology.

- ▶ India is critically dependent on imports of crude oil therefore there has to be a medium term and a long term strategy.
- ▶ Diversify crude oil sources: India should look towards countries like USA and Russia for oil imports as Middle East region is always under turmoil.
- **Increase energy consumption:** India's consumption of energy is 40% of global average which china has two times the world average and USA has five times the global average. So there is need to increase our energy consumption by harnessing the benefits of new technology.
- **Review Iranian Policy:**
 - ▶ As Houthi - Saudi Arabia conflict has been going on for long time, it is a good opportunity for India to review its Iranian policy as far as oil imports are concerned which India has brought down to zero.
 - ▶ As Iran is offering concessions in terms of credit facility, insurance and also deferred payment, India should deal with USA so that we could import oil from Iran as an option to Saudi Arabia.



PRACTICE QUESTION

- **Describe the impact of recent drone attack on Saudi Arabia's oil facilities over India. What India should do to fulfil its oil requirements?**
