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*By Betsey Piette*
*26.04.2020*

# Longterm impact of historic oil price plunge

For the first time in history, on April 20 the price of U.S. oil fell to **minus** $38 per barrel. This was an almost $100 drop per barrel from January 2020 when oil was $60 per barrel.


On April 21, oil prices fell even further, sinking U.S. stocks to their worst loss since April 1. Treasury yields also fell, further increasing market concerns. The negative price drop impacts futures contracts on oil due to be delivered in May. “Futures contracts” refers to the price of oil delivered on a later date. “Treasury yield” is the interest percentage of return on investment in the U.S. government’s debt obligation.

The glut, particularly in crude oil, is so serious that traders are finding themselves with oil reserves, no place to put them, and few buyers. Adding to the expense, after oil has been pumped from the ground, it needs to be stored in anticipation of future sales. Storage facilities could hit maximum capacity within three weeks. The alternative, shutting down oil production, risks damaging expensive drilling equipment.

What is behind oil's drastic drop in price, how long will that last, and what does this historic moment reveal about capitalist overproduction?

**Giving oil away?**

With very few people driving or flying, and with factories shut down, it is anticipated that the global demand for oil will fall to levels last seen in the mid-1990s. Currently the anticipated price of U.S. oil to be delivered in June and July fell to $11.57 per barrel. After President Trump made new war threats against Iran on April 22, the futures price jumped to $13.78.

But if the price actually stays negative, oil producers will be faced with the dilemma of either giving oil away or paying someone to take it.

In a socialist world, producers would distribute oil to countries most in need. In 2005, for example, when IMF-debt-ridden Argentina faced a fuel shortage, socialist-leaning, oil-producing Venezuela — facing its own shortage of milk and dairy products — arranged a commodity exchange.

The drop in oil prices should mean that people in the U.S. and other capitalist countries could pay less to heat their homes or fill up their cars. But do not expect anything like that to happen under profit-driven capitalism.

**Why the drop in oil price?**

Much of the blame for this crisis has been placed on the COVID-19 pandemic. Yet the impact of overproduction of natural gas and oil from hydraulic fracturing (fracking) was felt long before the pandemic hit. Even before the coronavirus struck, a global oil glut, due to overproduction, was impacting investment markets.

In early March, OPEC and Russia agreed to lower the oil price per barrel. Both entities enjoy low production costs that make this possible. OPEC announced it would also reduce production. OPEC member Saudi Arabia saw a possible advantage as lower prices were likely to hurt shale oil production in the U.S., now a major oil-export competitor.

Russia, already hard hit by U.S. sanctions, announced it would keep production at current levels because it needs the revenue. With production impacted by U.S. sanctions, Russia had no incentive to carry the burden of U.S. energy debt.

Recently over 12 of the top oil-producing countries have agreed to limit production to between 10 million to 15 million barrels per day, beginning in May. Yet even that was not enough to stop the historic price plunge.

**'Sea change in economic outlook'**

Much of the oil and natural gas produced in the U.S. depends on fracking shale formations. The U.S. production cost per barrel is considerably higher than in the major oil- and gas-producing competitors. For well over a decade U.S. shale oil and gas relied on two factors — steady investments from oil company giants, banks and investment firms, and a growing global market demand for U.S. oil and gas. The U.S. also uses sanctions against major oil exporters like Venezuela, Iran and Russia to boost its market advantage.

From inception, fracking has relied on deep-pocket investors willing to bet on future sales. But to cover the cost of investments from shale gas and oil production required a return of at least $48 per barrel. By contrast, current oil production costs in Saudi Arabia are around $2.80 a barrel.

In April, U.S. energy giant Halliburton, a major shale oil producer, reported a $1.1 billion first quarter 2020 loss. It has drastically reduced production costs, laid off hundreds and furloughed thousands of workers. It expects a further decline in revenue and profitability for the rest of 2020.

Chris Rupkey, chief financial economist at MUFG Union Bank, has declared: "The oil market is trading as if we're in a new Great Depression and demand is not going to come back for not months, but years. There has been a sea change in the economic outlook." (NewYork Post, April 20)

However, some oil-consuming countries may benefit from this oil price crisis. For decades, oil importers have paid exporters $60 to $70 per barrel or more. Currently, because of the lack of demand, oil prices have been $27 to $30 per barrel.

So even though oil usage has dropped recently in China and India due to COVID-19 quarantine restrictions, the oil glut price crisis could mean billions in annual savings for India and China.

With an uncertain future for global production in the aftermath of the COVID-19 pandemic, this transfer of wealth from oil-producing countries to oil-consuming countries could be an economic and political factor for some time to come.

***Workers World 24.04.2020***