

# **Understanding Oil Markets and the Global Impact of Falling Prices**

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## **ABSTRACT**

This research attempts to explain the complexity of oil markets and to present the most recent and current events that affect oil prices and global economic stability. This paper provides a comprehensive analysis of O&G industry by comparing major global oil producers that represent different industry segments, contrasting historical financial data and information about energy market events that can help to indicate the reasons for the recent decline in oil prices. Also this study will consider political influence of major oil producing countries and organizations such as OPEC that have an extensive impact on economic factors as demand and supply in oil industry.

*Keywords:* oil, petroleum, crude, gas, oil prices, industry, energy, OPEC

## **INTRODUCTION**

Oil has started defining our economic, political and social landscapes since 1859 after its first discovery at Oil Creek State Park in the state of Pennsylvania. The new industry has been unified and monopolized by one man, John D Rockefeller and his Standard Oil Company. The breaking point of Rockefeller's era has come in 1911 when Standard Oil has been split into 34 competing companies under Sherman Antitrust Act of 1890 (Downey, 2009). After the fall of Standard Oil there has been consistent rivalry and conflicts between petroleum producers. A number of regulations, agreements and state regulatory agencies were implemented to adjust a new industry. The Texas Railroad Commission (TRC), for instance, was largely responsible for setting the oil prices from the 1930s to the 1960s (Childs, 2005); few years after, the OPEC, due to its spare capacity and international impact on industry, took over control of pricing power. Yet a series of events has occurred to evolve the petroleum industry as new hydrocarbon fields and oil and gas reservoirs have been discovered in the number of countries that prior to that did not have much of authority in the energy market.

For the past 100 years, the oil industry has developed into one of the largest industries in the world. "Black gold" has always been a motive for the conflicts in the Middle East, political encounters and sanctions. Throughout the history, markets have endured many fluctuations in oil prices due to such factors as multiple wars, global financial crises and turmoil, and changes in economic factors.

The recent oil industry boom during a national recession was largely due to the emergence of new drilling technologies – horizontal drilling and hydraulic fracturing - and high oil prices (Wolla, 2015); and today's basis is very similar. At the present time, the energy market suffers from extremely unsteady oil prices that are dropping sharply since June of 2014. The major

reason for declining prices is that the US shale oil production has grown by roughly 4 million barrels per day (mbpd) since 2008 (Pedersen, 2014) and the country now rivals oil giants like Saudi Arabia and Russia for the title of the largest oil producer. As a result, China overtook the United States as the largest net importer of petroleum and other liquid fuels (IER, 2015) and now these countries represent the two world's largest oil consumers according to the International Energy Agency (IEA, 2015). The Organization of the Petroleum Exporting Countries (OPEC) have met twice for the past several months to discuss the state of play, once in November 27, 2014 and the second time in June 5, 2015. Both times the members of the cartel, under the pressure of Saudi Arabia, the founding member of organization and its largest oil producer, announced that there will be no changes in production quota. The Russian economy is being exposed to low oil prices more than ever. Russia's economy is highly dependent on its hydrocarbons. The revenues from oil – and – gas sector in Russia account for more than 50 % of the federal budget revenues (EIA, 2014). The reason for the deep financial crisis in the country is not just petroleum prices but also the EU – US sanctions that are being imposed after Russia's actions in Ukraine.

This research provides a wide-ranging analysis of the industry insights and presents the fundamental evidence justifying an importance of this tremendous global challenge.

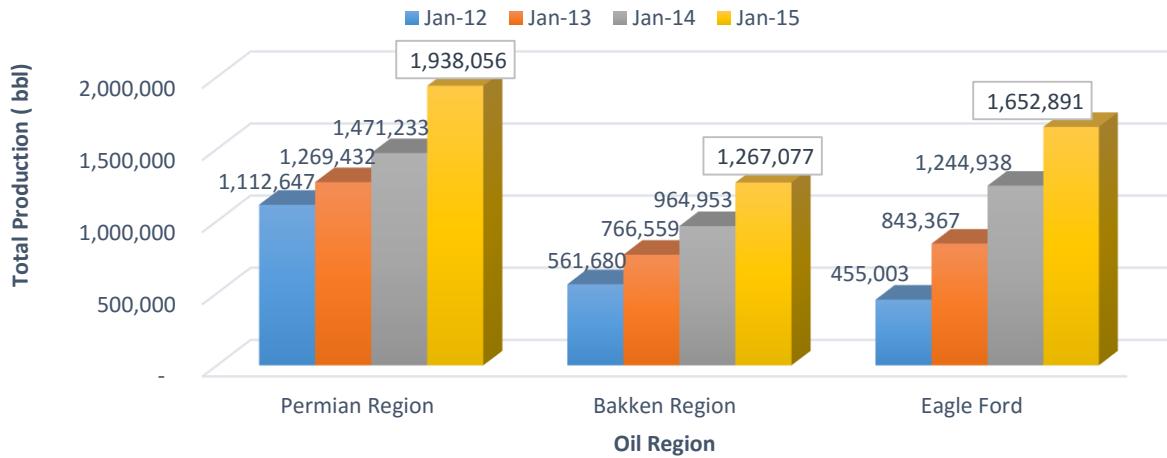
## **HYDRAULIC FRACTURING**

At the end of the second quarter of 2014, crude prices started plunging dramatically. It only took a several months before oil prices dropped as much as 60%. The major reason behind the oil price shock is an extremely oversupplied market due to the combination of hydraulic fracturing and horizontal drilling. With the development of new technologies and techniques, the US

producers have gotten access to hydrocarbons that were not obtainable before. The first time the new techniques of extracting oil were commercially applied was at the end of 1940s, according to the American Oil and Gas Historical Society. Halliburton, one of the world's largest oil field service companies, was the first US oil producer to launch a commercial fracking operation in 1947. It took a long time for US oil companies to advance the new technologies to make fracking efficient and profitable.

According to Clover Global Solutions, there are seven major oil plays in the United States that have the largest reserves of shale oil and gas. This study examines three oil plays that have the most substantial escalation in production of oil in the past several years.

Figure 1 below demonstrates a tremendous growth in oil production for the past several years. Total production capacity of Eagle Ford alone has almost quadrupled in only three years.



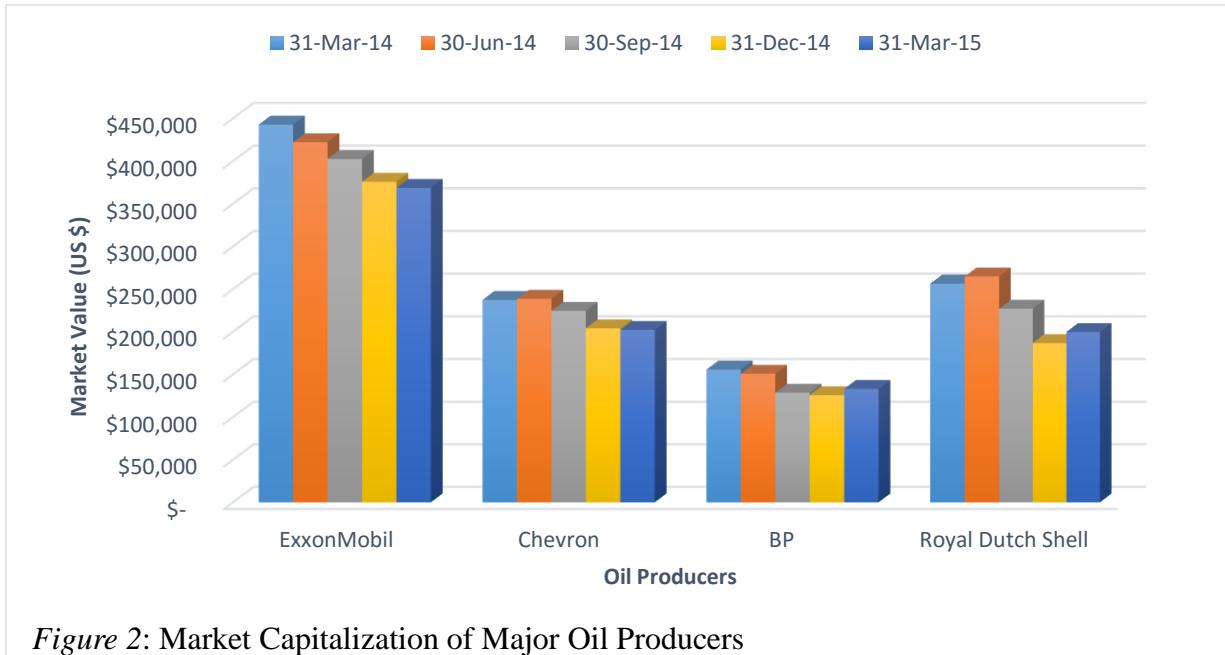
*Figure 1: US Largest Oil Plays*

Fracking allows shale producers to extract colossal quantities of oil in a short amount of time, but in comparison with conventional oil extraction methods, the decline in production rate from a single well occurs much faster when using hydraulic fracturing and horizontal drilling. Despite the rapid exploitation of wells when using unconventional extraction techniques, a substantial growth in efficiency allowed the US shale producers to reduce rig count. As reported by Baker Hughes, between July 24th of 2014 and July 24th of 2015 the number of working rigs in the United States went down by 1007 (Rig Count Overview & Summary Count, 2015).

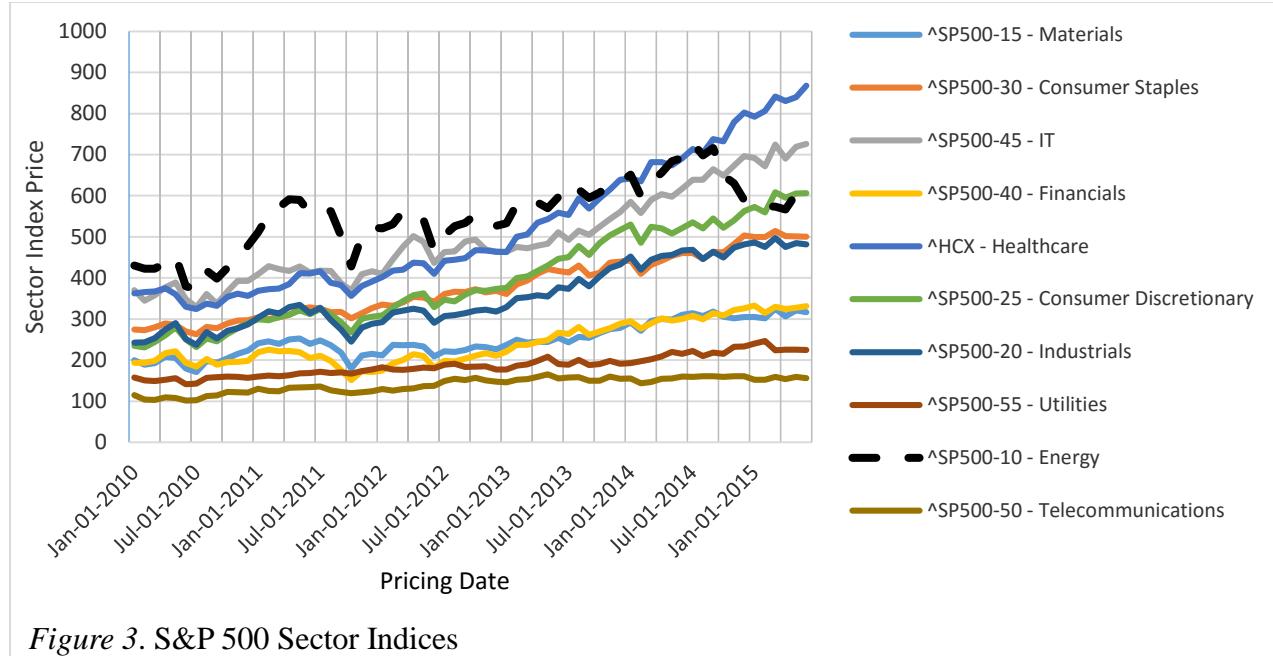
## STOCK ANALYSIS

To understand the reaction of a market associated with falling crude prices, an analysis of the major oil producing companies around the globe is performed. Some of the world's largest oil companies lost hundreds of billions of dollars in market value. Figure 2 below indicates that the

market capitalization of ExxonMobil, one of the six “supermajors” O&G producers and the second largest publicly traded company in the US, has dropped more than 74 billion dollars since the beginning of 2014.



Investors are pulling their money out of oil companies. Thus by taking a look at S&P 500 sector indices, energy sector was one of the worst – performing during 2014 and the beginning of 2015. (see Figure 3)



There are many reasons why investors may stop investing in the company. One of the main reasons is a decline in financial results. With crude oil prices decreasing by nearly 60% by the end of the first quarter of 2015, the profitability of oil producers became questionable. Financial statements of several of the largest international oil companies, collected from S&P Capital IQ, demonstrate the extent to which producers are being exposed to abrupt decline in crude prices. ExxonMobil, Lukoil, PetroChina, BP and Statoil will serve as an examples in this study. These oil companies were chosen because they represent a variety of geographic regions. The income statements of these companies provide slightly different results, but overall it becomes evident that total revenues and other income declined significantly in 2014. E&D expenditures, R&D expenditures and interest expenditures do not display any specific pattern, while some companies chose to reduce their expenditures, the others decided to spend more.

Table 1

*Income Statement Records*

		2012	2013	2014	*2015
Total Revenues & Other Income	<i>ExxonMobil</i>	\$ 480,681	\$ 438,255	\$ 411,939	\$ 334,387
	<i>BP</i>	\$ 388,074	\$ 396,217	\$ 358,678	\$ 316,054
	<i>Lukoil</i>	\$ 139,171	\$ 141,452	\$ 144,167	\$ 131,676
	<i>PetroChina</i>	\$ 352,188	\$ 372,997	\$ 368,101	\$ 349,117
	<i>Statoil</i>	\$ 89,980	\$ 79,202	\$ 77,944	\$ 69,052
Exploration & Drilling Expenditures	<i>ExxonMobil</i>	\$ 1,840	\$ 1,976	\$ 1,669	\$ 1,663
	<i>BP</i>	\$ 1,475	\$ 3,441	\$ 3,632	-
	<i>Lukoil</i>	\$ 364	\$ 602	\$ 1,014	\$ 978
	<i>PetroChina</i>	\$ 3,846	\$ 4,179	\$ 3,558	\$ 3,513
	<i>Statoil</i>	\$ 1,927	\$ 1,914	\$ 2,132	\$ 1,998
Research & Development Expenditures	<i>ExxonMobil</i>	\$ 1,404	\$ 2,342	\$ 2,677	-
	<i>BP</i>	\$ 674	\$ 707	\$ 663	-
	<i>Lukoil</i>	-	-	-	-
	<i>PetroChina</i>	\$ 2,294	\$ 2,305	\$ 2,121	-
	<i>Statoil</i>	\$ 360	\$ 411	\$ 385	-
Interest Expenditures	<i>ExxonMobil</i>	\$ 327	\$ 9	\$ 286	\$ 308
	<i>BP</i>	\$ 1,677	\$ 777	\$ 843	\$ 834
	<i>Lukoil</i>	\$ 538	\$ 488	\$ 637	\$ 666
	<i>PetroChina</i>	\$ 2,914	\$ 3,813	\$ 3,760	\$ 3,784
	<i>Statoil</i>	\$ 321	\$ 180	\$ 488	\$ 472

\*2015 represents trailing 12 months from June 2014.

With the low crude prices, it became more difficult for major O&G producers in the US and Europe to reach a break-even point. Table 1 shows that revenues have declined, therefore major oil companies are forced to borrow more in order to break-even. And due to low interest rates in Europe and the United States, balance sheets of oil companies reported by S&P Capital IQ indicate considerable raise in debt. (see Figure 4-5)

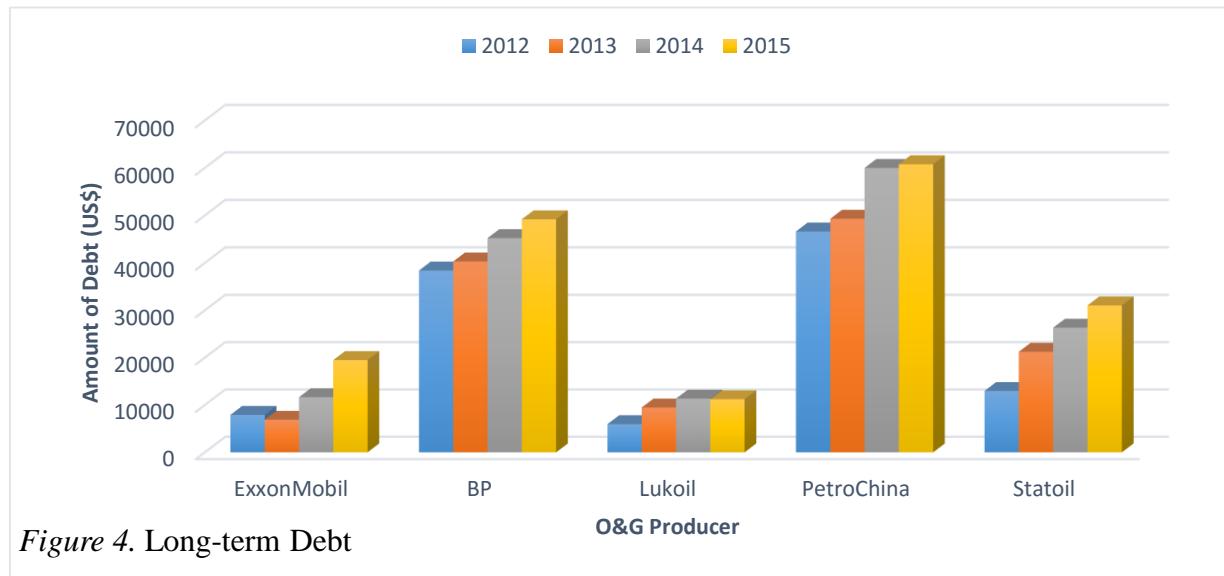


Figure 4. Long-term Debt

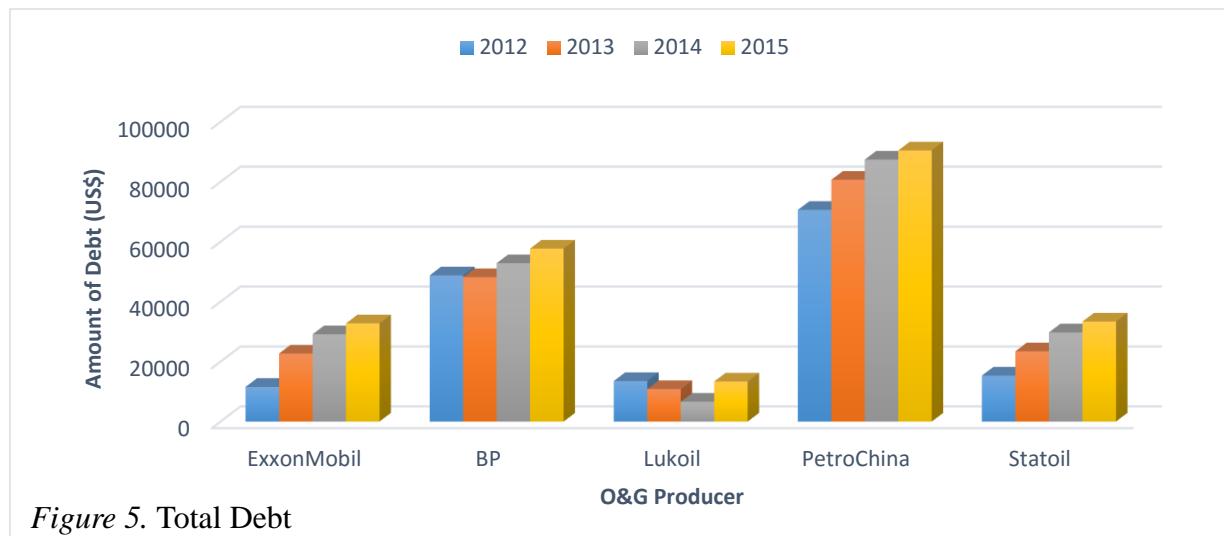


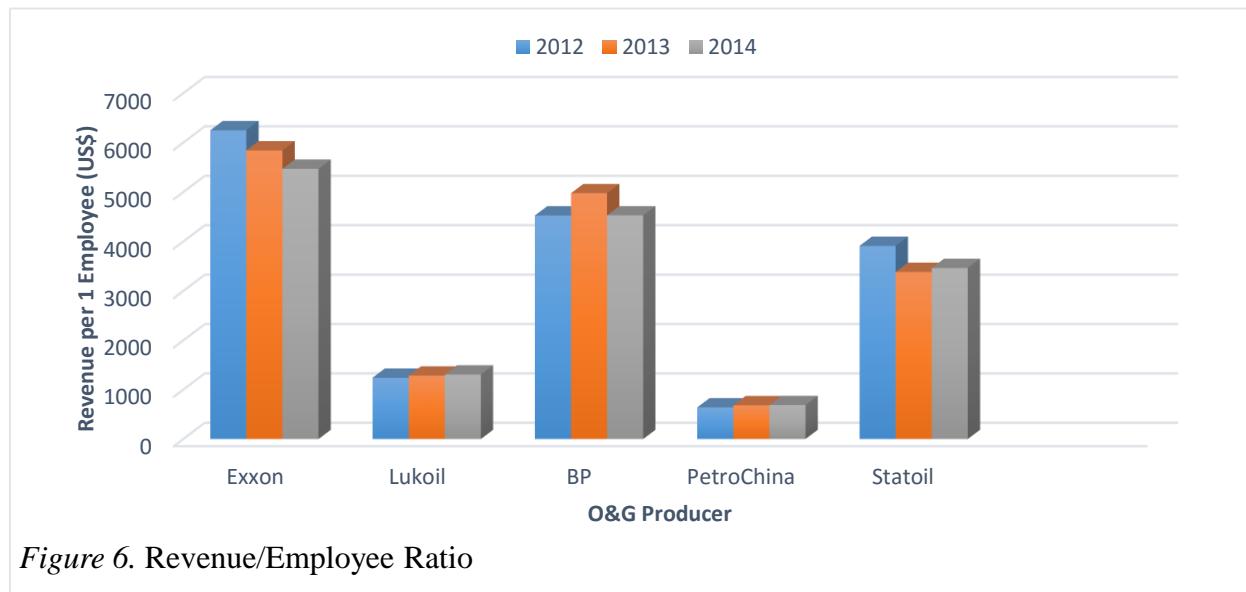
Figure 5. Total Debt

As mentioned earlier, the energy sector remains the worst performing industry for the past year. With an extremely oversupplied market, the average key statistics and ratios of energy sector

have gotten much worse according to S&P Capital IQ database. The total debt/equity ratio for the industry increased from 57.7% in 2011 to 67.4% by the end of July 2015; total liabilities/total assets ratio changed from 53.9% to 56.9% at the same time.

Against the background of declining oil prices and decreasing revenues, oil companies have announced major plans to lay off a significant amount of workers. According to WSJ and Bloomberg, the number of job cuts globally have exceeded 100,000 at the beginning of the first quarter of 2015 (Molinski, 2015; Olson, 2015). By the end of the second quarter of 2015, the actual number, confirmed by the industry experts, is over 150,000. Massive layoffs took place at the companies like Schlumberger, the world's largest oil - field service company, that laid off up to 20,000 employees or 15 percent of its workforce (Eaton, 2015); Weatherford International, another large oil – field service company, fired 8,000 workers (Molinski, 2015); Halliburton and Baker Hughes have announced that 9,000 and 10,500 of their employees, respectively, were let go (Eaton, 2015).

The oil companies in this study, maintained the revenue per employee ratio without radical changes by the end of 2014, which implies that the companies have remained their productivity despite oil crisis. (see Figure 6)



*Figure 6. Revenue/Employee Ratio*

Even though most of the oil – field service companies had massive layoffs in the past several months, certain E&P producers have managed to keep their workforce unchanged, despite the high production cost of shale oil. In accordance with the data provided by S&P Capital IQ, EOG Resources, one of the fastest growing shale oil producers in the US, has increased the number of its full – time employees from 2,290 in 2010 to 3000 in 2014. But regardless of the capability to save the jobs for its employees and relatively stable financial state, on February 20<sup>th</sup>, 2015 EOG Resources declared it will cut its 2015 capital expenditure budget by 40% from last year (Torres, 2015). The announcement has been made due to company's failure to meet analysts' expectations for the fourth quarter.

## MARKET MODEL

With oil prices plunging, the stocks of oil companies have become more volatile. To better understand the stock price reaction to the dramatic decline in oil prices, event study methodology is used to evaluate abnormal returns on the days of news releases concerning O&G industry. A

number of major events took place since the collapse of oil prices started in the second quarter of 2014. The abnormal returns on each of the news release days are analyzed for significance.

The estimation period of market model is January 3, 2007 to December 31, 2014.

$$R_t = a + b * RM_t + e_t$$

Where  $t = \text{estimation period days}$

$$N=1761$$

Using the market model alpha and beta, expected returns were calculated for two “supermajors” ExxonMobil and BP for January 2, 2014 to May 26, 2015. Abnormal returns for the event period were calculated as the actual return minus the expected return.

$$AR = R_h - (a + b * RM_h)$$

Where  $h = \text{event period days}$

Significance of abnormal returns was calculated using methodology presented in Corrado (2012).

$$N$$

$$Var(AR) = \sigma_e^2 * \{1 + 1/N + [(RM_h - \mu_1)^2 / \Sigma(RM_t - \mu_2)^2]\}$$

$$t=1$$

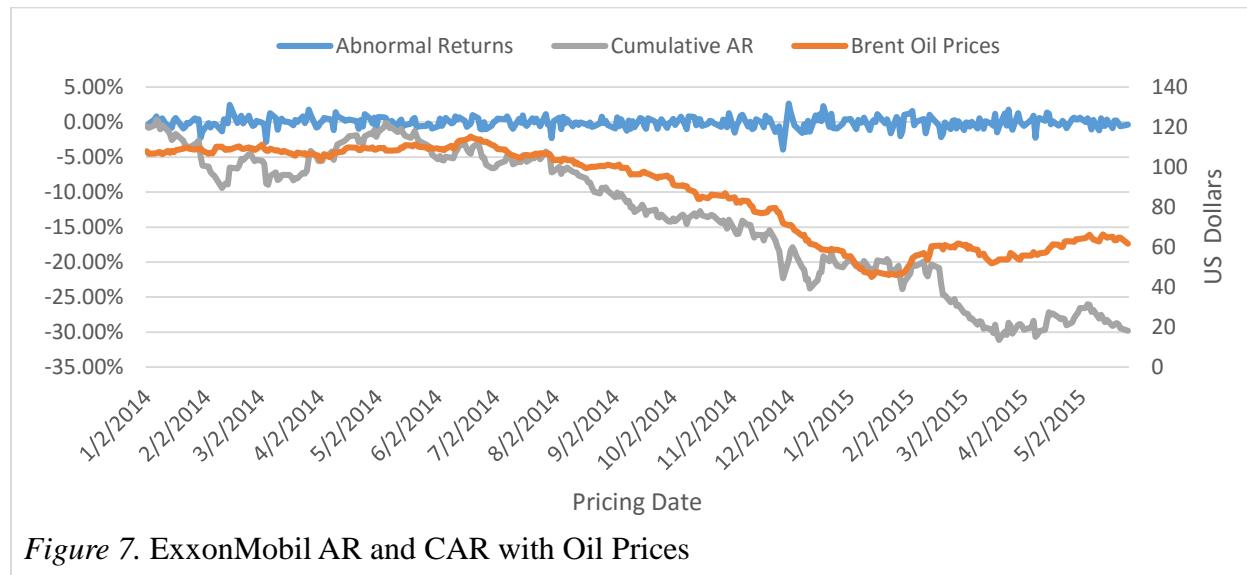
Where :  $\mu_1 = \text{mean return on market for event period}$

$\mu_2 = \text{mean return on market for estimation period}$

$\Sigma = \text{summation for estimation period}$

$AR / \text{Standard deviation (AR)} \sim t_{N-2}$

Abnormal and cumulative abnormal returns are presented in the Figure 6 below. Results confirmed that most days with significant news events also have substantial abnormal returns. Expected abnormal returns would be negative for “bad” news announcements and positive for “good” news events. Most abnormal returns are as anticipated. The study revealed that one of the largest significant negative abnormal returns -3.946% for ExxonMobil and -5.205% for BP occurred after the OPEC meeting took place on November 27, 2014 when organization has announced that it will remain its production rate. Figure 7 and Figure 8 also show a strong correlation between cumulative abnormal returns and Brent prices.



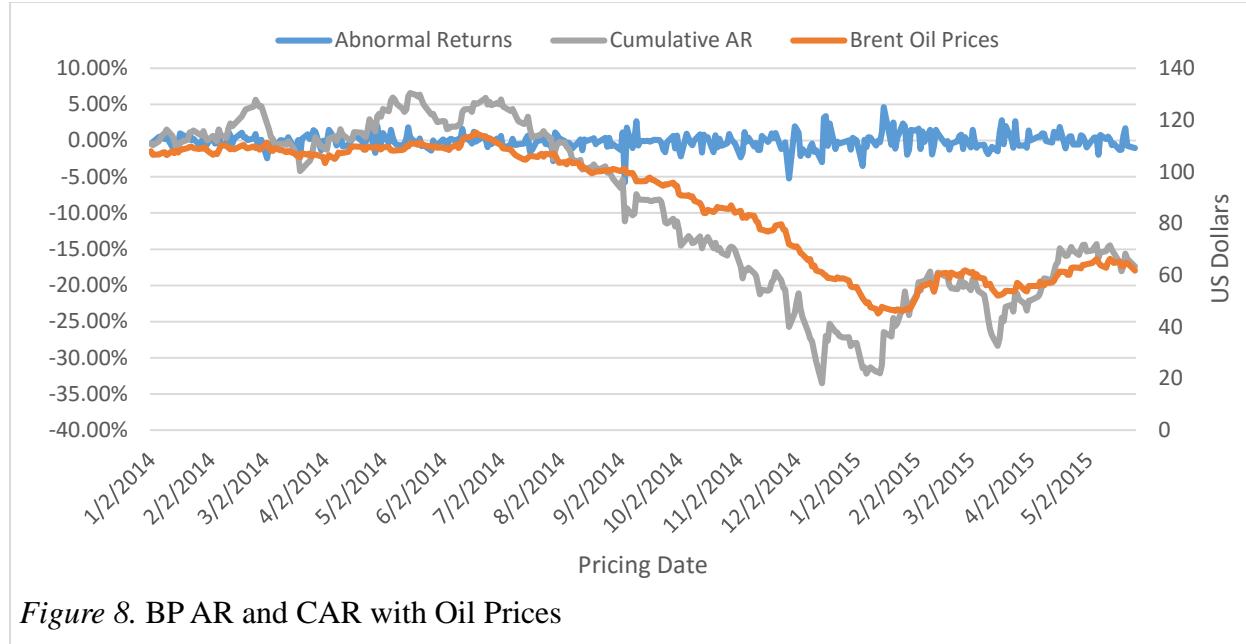


Figure 8. BP AR and CAR with Oil Prices

Presented model analysis was performed for numerous oil companies that participate in different industry segments. It helped to confirm that most of the news releases concerning crude oil had an effect on the entire oil market.

## POLITICAL TENSIONS

By taking a closer look at the current oil crisis and putting aside economic and financial factors, it is clear that the war for oil prices is also a matter of politics. While trying to reveal the real reasons for falling prices it is important to consider the current global political situation. The United States, Saudi Arabia and Russia are major participants of this contention. These three countries have the largest oil and gas production rates. For the last twenty years these industry giants have dominated the energy market with Saudi Arabia usually being on the top. But as Figure 9 below shows, the United States overtook Saudis as the largest oil producer due to

hydraulic fracturing techniques (EIA, 2014). The chart does not include the OPEC as a whole organization, but even though the cartel has the greatest impact on oil and gas industry, its actions are being dictated by its largest producing member, Saudi Arabia.

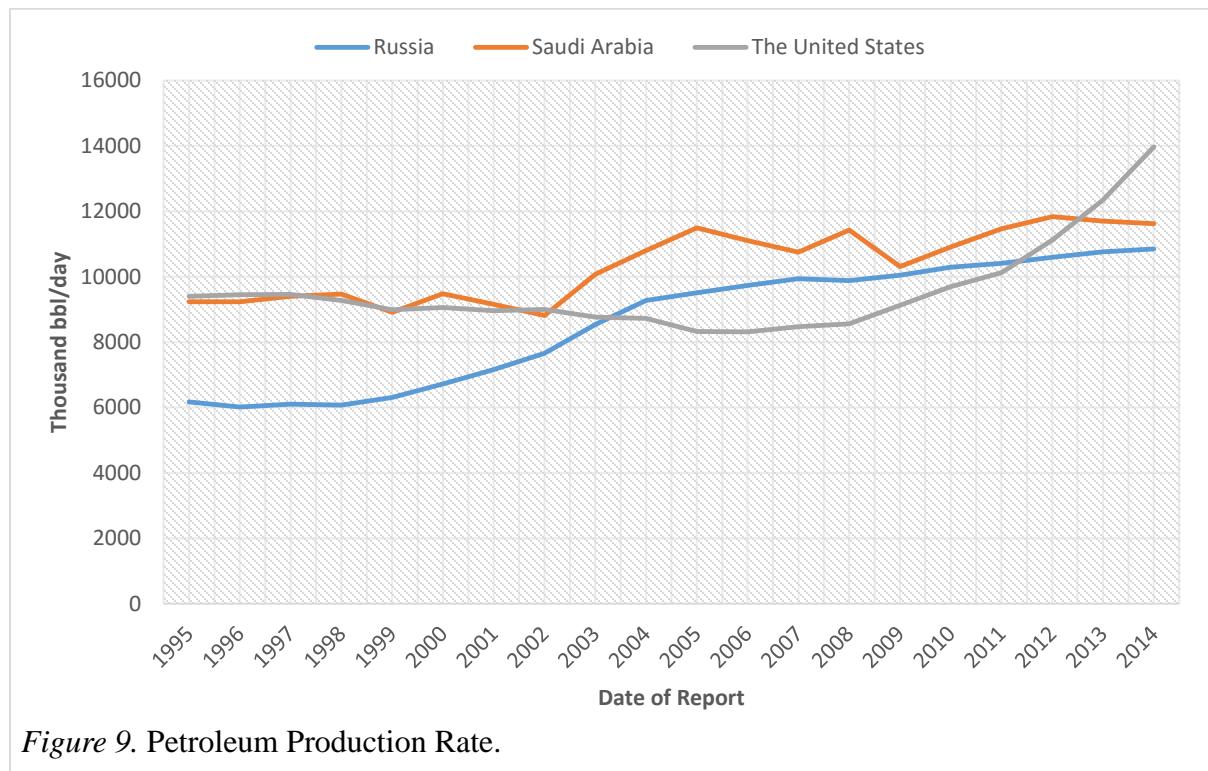


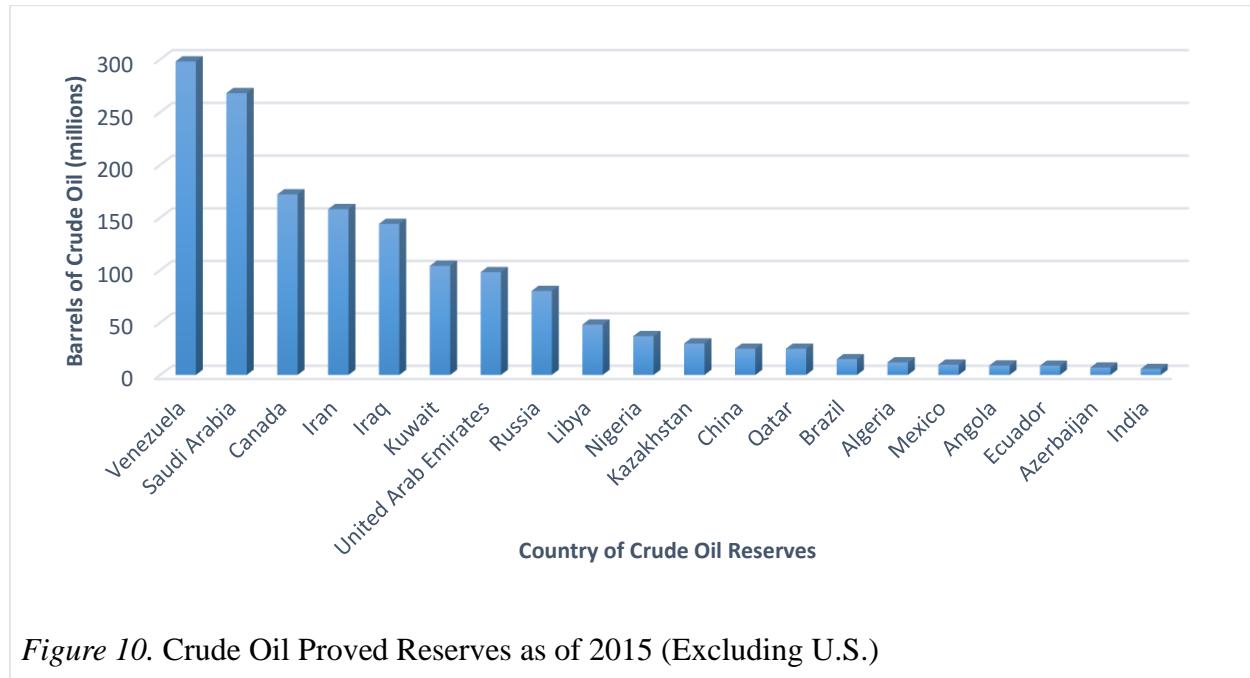
Figure 9. Petroleum Production Rate.

While the US has a significant amount of other large, global industries and its economic stability is not completely dependent on energy sector, the economies in the countries of OPEC and Russia are directly linked to energy production. As mentioned earlier, the OPEC members have met twice for the past several months and both times the verdict under the pressure of Saudi Arabia was the same: no production cut. Even if non – OPEC producers would step forward and offer to cut production, Saudi Arabia's Oil Minister Ali Al-Naimi declared: "If they want to cut production, they are welcome, Saudi Arabia will not cut production" (CNN, 2014). There is no doubt that Saudi Arabia, the country that is known to have one of the lowest production costs (approximately \$10 a barrel) on the market, is willing to let other members of cartel, like

Venezuela, suffer by keeping OPEC's production rate unchanged, therefore keeping the oil prices low. But it raises the questions about OPEC's real motives. The most obvious one that comes to mind is that Saudi Arabia is simply trying to eliminate the competition by forcing high – cost oil producers out of business which should naturally decrease global oil supply and drive the prices up. But the problem with that theory is that there is no disclosed public information revealing the real production cost of oil in Saudi Arabia. Most of the financial information about any member of OPEC that is being shown publicly is estimates from industry experts. But even if provided production cost does not reflect the reality, it is still significantly lower than the production cost of shale oil, and Saudi Arabia and its allies would still be better off. Shale producers have developed technologies that help to retrench on shale oil extraction, such as water recycling, which is significantly reducing the cost of hydraulic fracturing; however the production cost is still around \$35 according to industry sources. Despite the new techniques, in the long run, if shale producers do not find more efficient and even cheaper ways to extract oil, most of them will be forced to abandon the oil market.

For the past several years OPEC members along with Russia and Canada have been major exporters of oil and petroleum products to the US. With relatively high crude prices, the cartel has made a fortune on its exports and now has cash reserves to produce oil and make profits even under such catastrophic circumstances. It should be noted that not all OPEC members can tolerate low oil prices any longer. The organization's weakest links, like Venezuela, a country that lost billions because of the oil crisis and is currently on the verge of default, or Nigeria along with few other members of OPEC require immediate intervention by OPEC. Although OPEC's weakest links may have a hard time during current oil crisis, those countries possess some of largest crude oil proven reserves according to EIA (EIA, 2015). Venezuela is on the top of the

list with 298 billion barrels followed by Saudi Arabia with 268 billion. Again, the reliability of data provided by OPEC is questionable.



*Figure 10. Crude Oil Proved Reserves as of 2015 (Excluding U.S.)*

Figure 10 above does not display the proved crude reserves of the United States for 2015, but the US Energy Information Administration reported more than 33 billion barrels of crude oil and according to multiple sources, the US reserves keep increasing rapidly. In comparison to 2008 the proved reserves have almost doubled as country had 19 billion (EIA, 2014).

Due to shale oil revolution in the United States, the country is becoming less dependent on its energy competitors. Figures 11 and 12 below demonstrate the decline in the US oil imports from its major competitors.

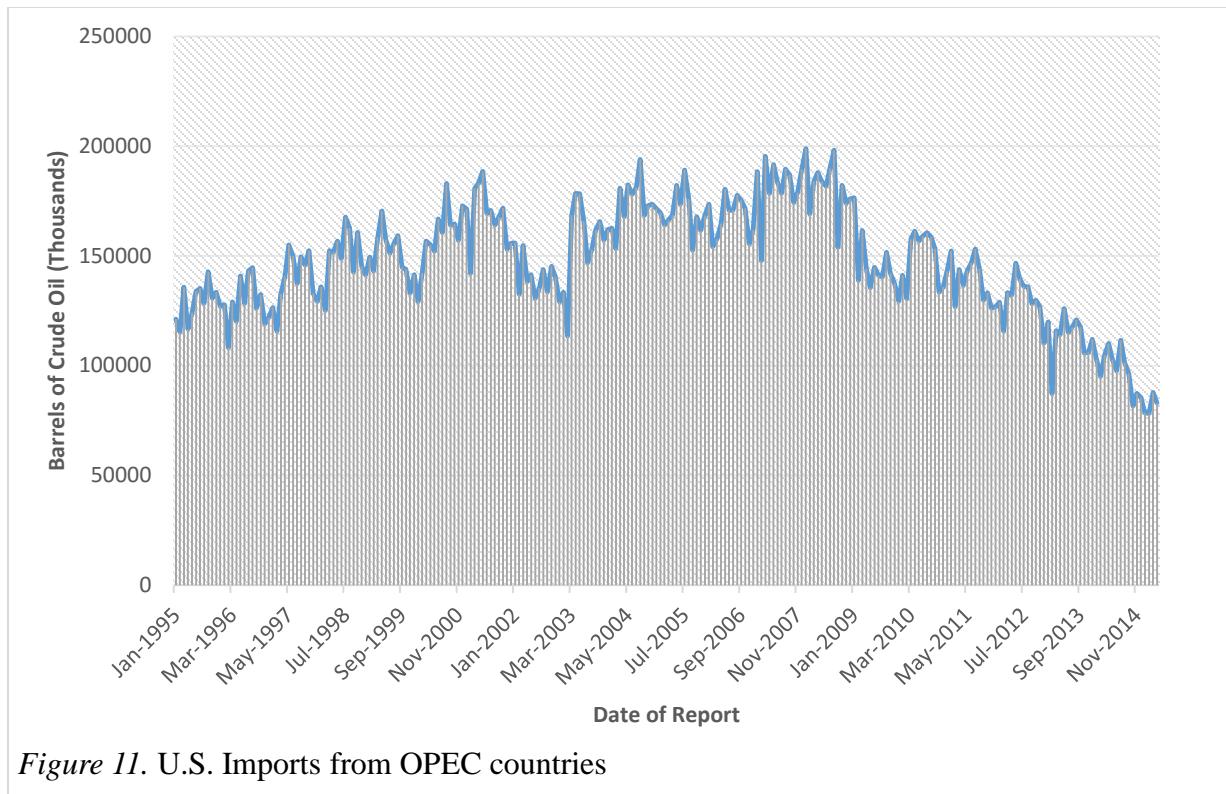


Figure 11. U.S. Imports from OPEC countries

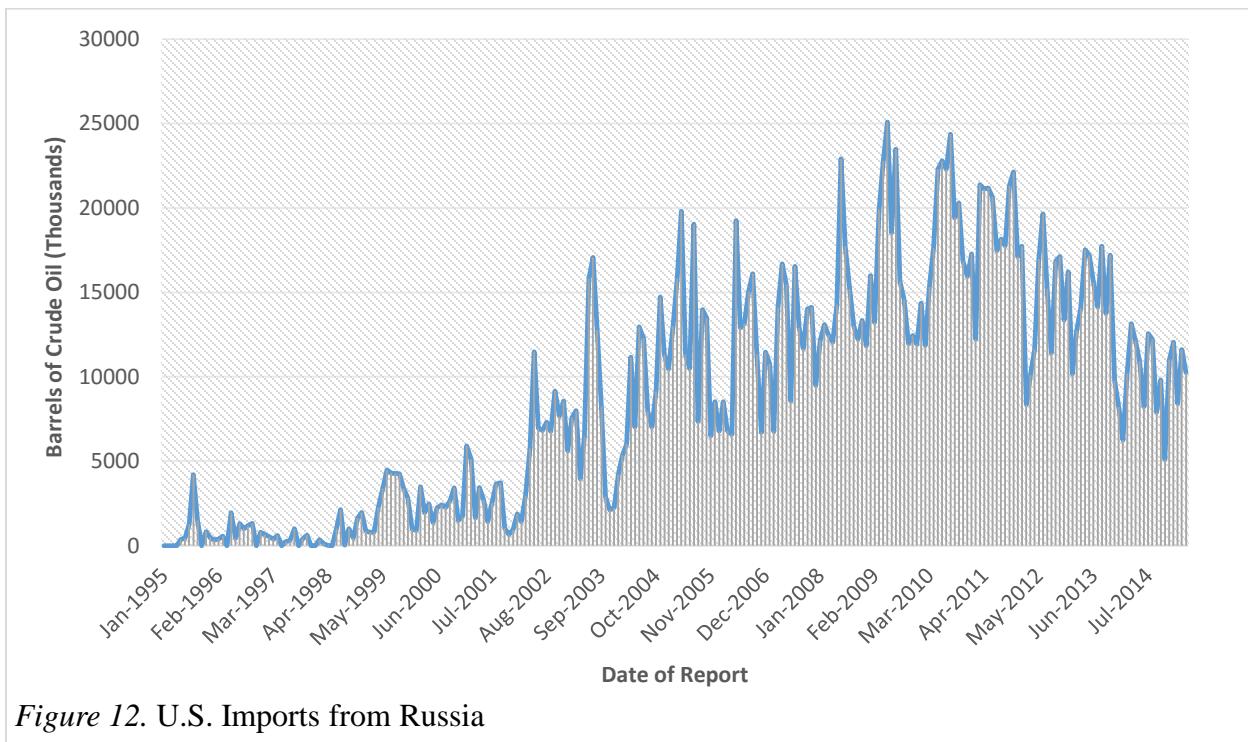


Figure 12. U.S. Imports from Russia

The Organization of Petroleum Exporting Countries have controlled oil prices since 1971 after Texas Railroad Commission lost its global pricing ability when US oil production peaked and declined (Downey, 2009). Now with the US shale oil and Canadian oil sands boom, the cartel cannot allow other countries to take its place. Saudi Arabia is attempting to remind other OPEC members of the power and influence that cartel has; however if the OPEC concedes under the pressure from its competitors, it will no longer be able to demonstrate its leadership.

## **US OIL EXPORT BAN**

Since the start of the shale boom in the United States, oil export restrictions have become a topic of a current interest. The United States oil production rate keeps soaring, but US oil companies cannot obtain a desirable profits. The reason for producers' discontent is that despite growing crude oil reservoirs, oil companies in the US are not allowed to sell it overseas. Since the Arab oil embargo that took place in 1970s, the United States has had anxiety about the scarcity of the country's energy resources. But today the question about relaxing export restrictions is one of the most discussed issues by energy experts. The US is the only major oil producer having a ban on its oil exports. The restraint does not only harm US oil producers, but the US economy in general. According to Exxon Mobil Corporation, lifting the ban on crude oil exports will stimulate the economy growth by:

- Creating between 394,000 to 859,000 new jobs every year nationwide
- Improving annual GDP by additional \$86 billion to \$170 billion ( Cohen, 2015)

Several attempts have been taken to put a pressure on the US Congress to end oil ban. Rex W. Tillerson, chairman and CEO of Exxon Mobil Corporation called for US policy reform (World

Oil, 2015). A Texas congressional delegation is leading the charge to eliminate a 40-year-old ban (Livingston, 2015) along with other US senators Lisa Murkowski (R-Alaska), John Hoeven (R-N.D.) and Senate Majority Leader Mitch McConnell of Kentucky (Dlouhy, 2015). But representatives of the US Congress are not the only supporters and pursuers of the reform. The European Union is also pressuring the American government by explicitly asking the U. S. to consider not just the end of oil export ban, but possible reform regarding exports of liquefied natural gas which will help the EU to become less dependent on Russia, especially in the time of political sanctions that the European Union imposed on Russia (Lowe, 2015).

The United States Secretary of Energy, Ernest Moniz also supports the reconsidering of reforms regarding the crude oil exports: “Those restrictions on exports deserve some new analysis and examination in the context of what is now an energy world that is no longer like the 1970s” (Krauss, 2013).

Figure 13 below demonstrates US exports of crude oil since 1970s (EIA, 2015). It indicates that the United States has been exporting almost 350,000 thousand barrels of crude oil daily in 2015. As of today the major importers of the US crude oil are Canada and Mexico.

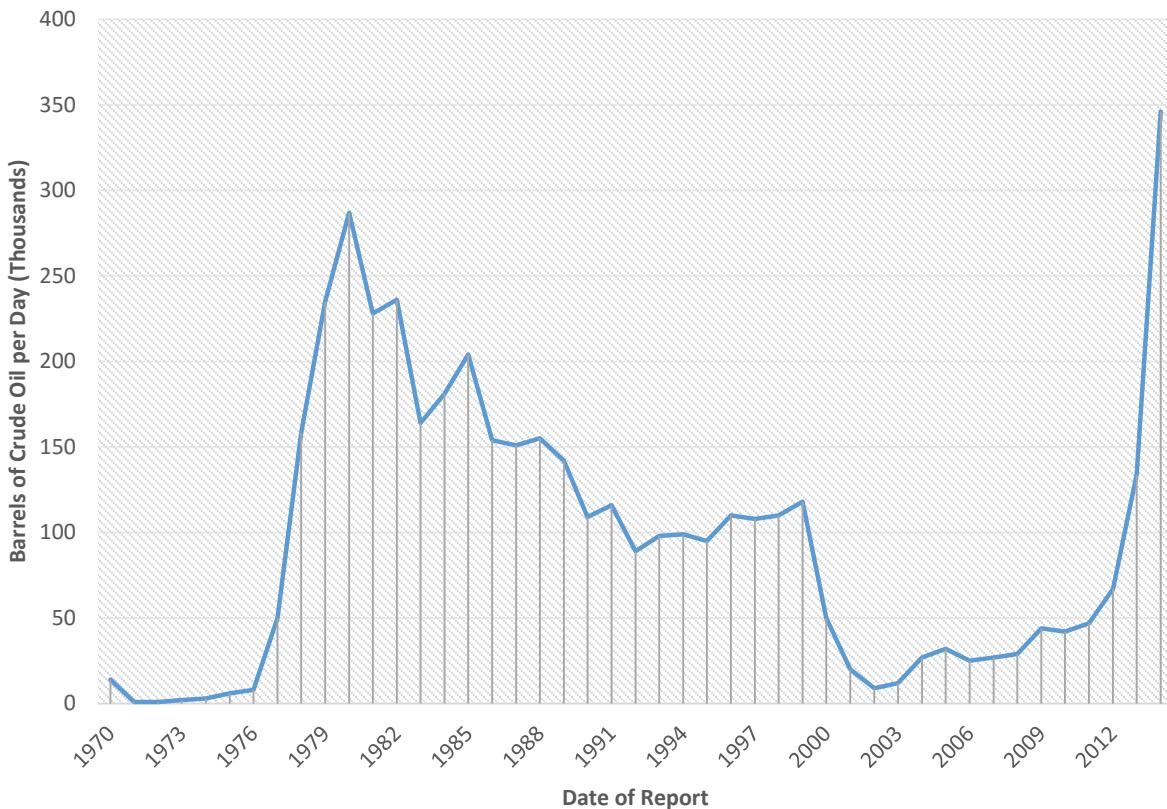


Figure 13. U.S. Exports of Crude Oil

For comparison, according to the OPEC's annual statistical bulletin, Saudi Arabia alone was exporting 7,571,000 barrels of crude oil daily in 2013, while OPEC's total crude oil exports were equal to 24,054,000 barrels a day (OPEC, 2014).

## IRAN NUCLEAR DEAL

Iran is another industry giant along with Saudi Arabia, Russia and the United States. On July 14, 2015, Iran and six major world powers reached a historic nuclear deal. The negotiations with Tehran have continued for over a decade and today it appears to be a topic of a current interest. Industry experts dispute whether Iran Nuclear Deal will have a significant impact on already oversupplied oil market. Iran contains world's fifth largest proven crude oil reserves as reported

by the US Energy Information Administration, which raises a concern that Iran could flood an already oversupplied global oil market upon agreement ratification. Due to imposed economic sanctions, the country has been under a very severe export restrictions. With the agreement entering into force, Iran will no longer be abandoned by investors, which in theory should stimulate crude production rate even further. Mohsen Qamsari, director of international affairs at National Iranian Oil Company made a statement claiming that Iran will try to maximize its crude export capacity to Europe and restore 42 to 43 percent share in the European market before the sanctions were imposed (Kharpal, 2015). The US congress still has 60 days to review the deal and the vote is expected to be held in September.

Most analysts expressed opinions that the agreement will have no significant impact on oil prices. This research examines a market reaction on crude prices after the meeting between the foreign ministers took place in Vienna. Despite the analysts' anticipations, the Figure 14 below proves opposite. Since July 14, 2015, the date of the nuclear agreement, WTI and Brent crude benchmarks have been steadily declining.

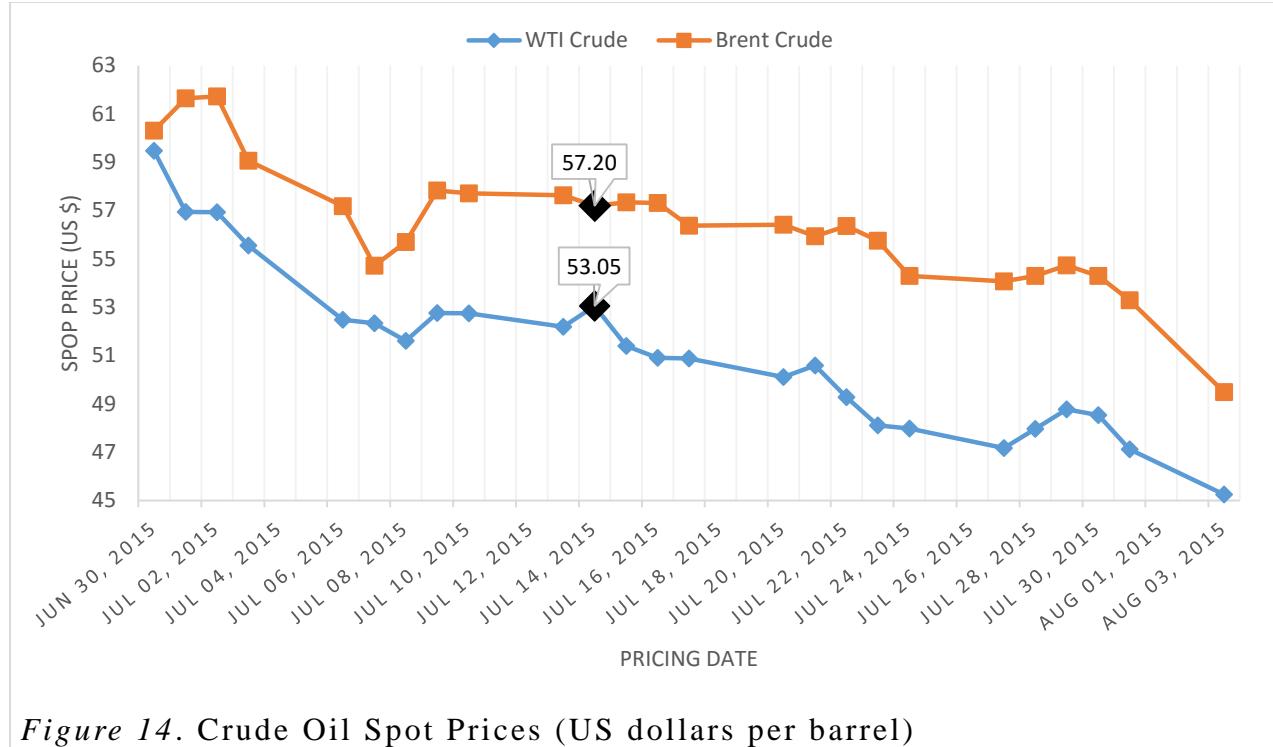
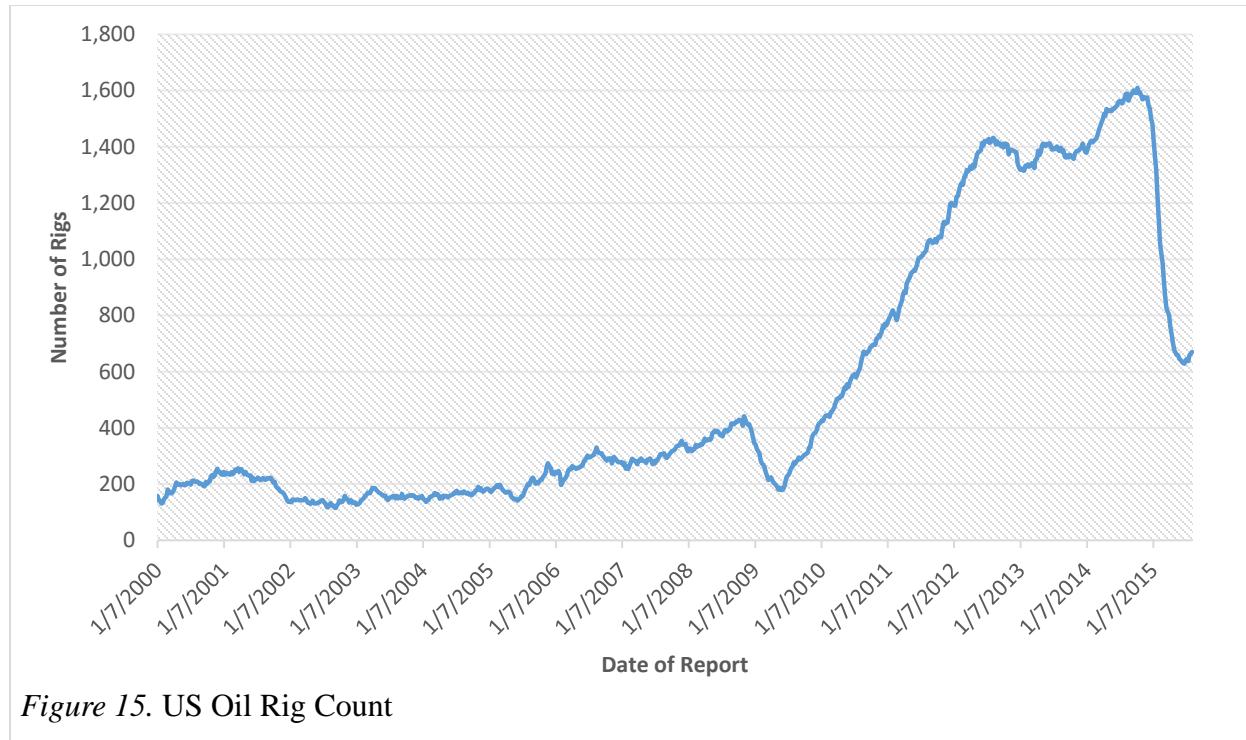


Figure 14. Crude Oil Spot Prices (US dollars per barrel)

There is another imperative factor that should be taken into account. According to rotary rig count issued weekly by Baker Hughes, the number of rigs in the United States have been growing for the past few weeks. Industry experts believe that increasing the amount of working rigs launched a second wave of crude price declines and has nothing to do with Iran Nuclear Deal. The Figure 15 below demonstrates how the oil rig count in the US started rising again after several consecutive months of declines. Since the end of June, 2015 the number of oil rigs increased by 42, reaching the mark of 670, compared with 1,588 in the same time last year.



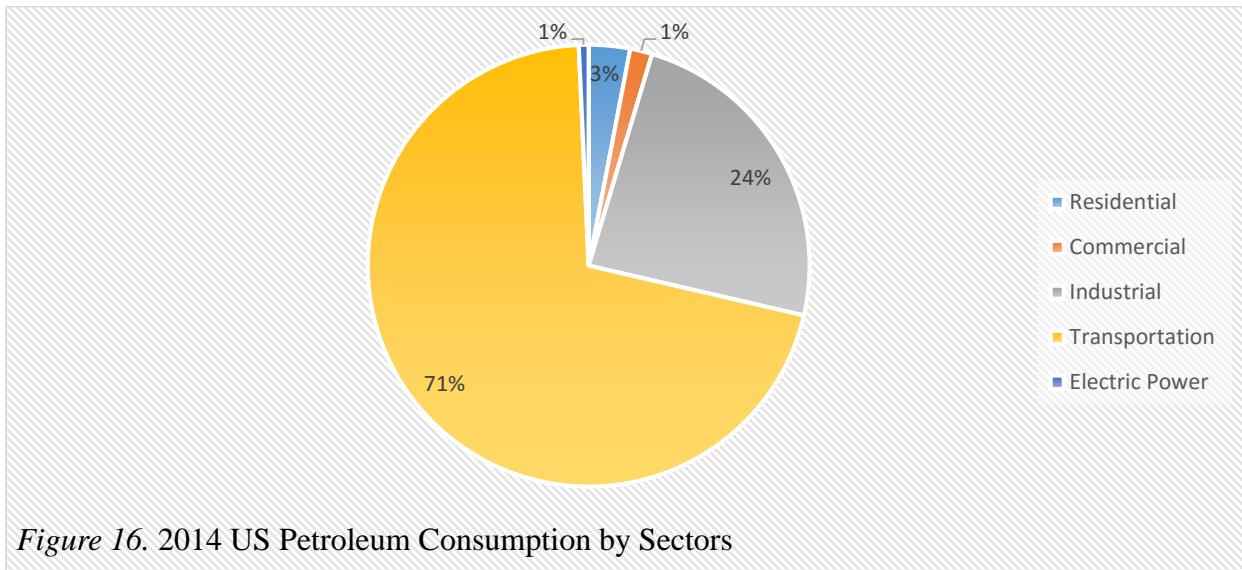
## RENEWABLE ENERGY

Sliding oil prices raised concerns regarding the future of renewable energy. The impact of low crude prices on downstream petrochemical sector is well defined. However, the extent to which oil prices affect alternative energy is not entirely verified. The industry experts provide a different opinions in that regard. Most analysts are inclined to believe that fluctuations in crude prices have no significant impact on the prices of solar, wind, hydro and other renewable energy. This study attempts to analyze the relation between oil prices and alternative energy. The major arguments, offered by industry experts, proving there is no connection between conventional and unconventional energy sources conclude that:

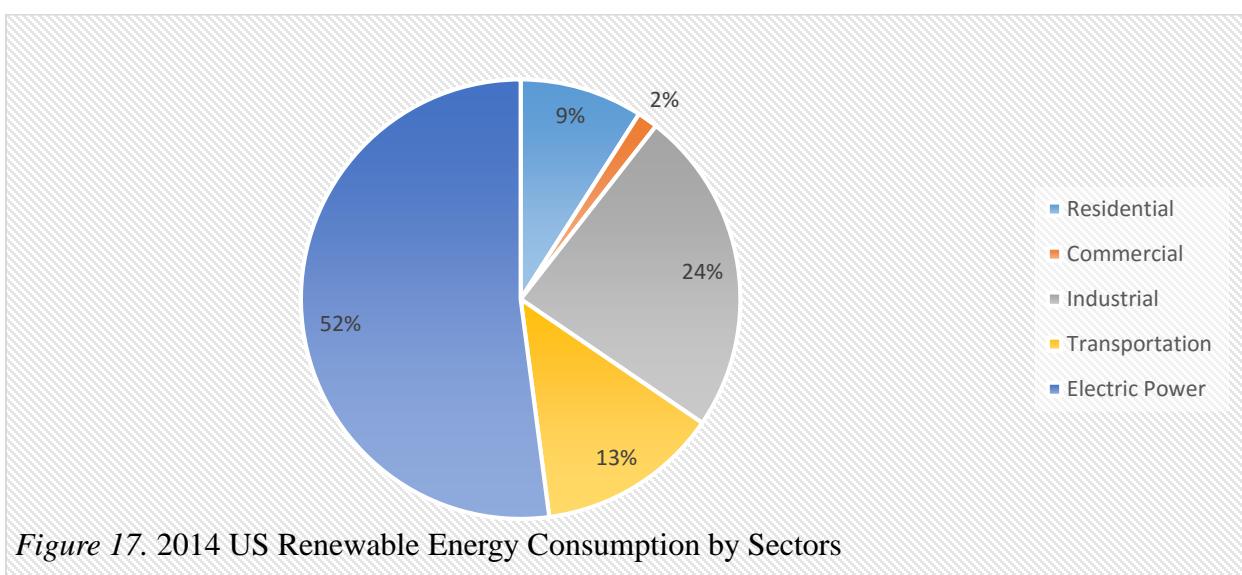
- Crude oil and renewable energy exist to fulfil various global energy demands
- The attractiveness of alternative energy is only growing due to extremely volatile oil market

- The dependency of renewable energy on crude oil keeps decreasing as a result of constant dropping renewable technology capital costs

Fossil fuels remain to be a primary energy source. However, it is mainly being used to satisfy transportation needs, while alternative energy serves more as a power generator (e.g. electricity). (see Figures 16-17)



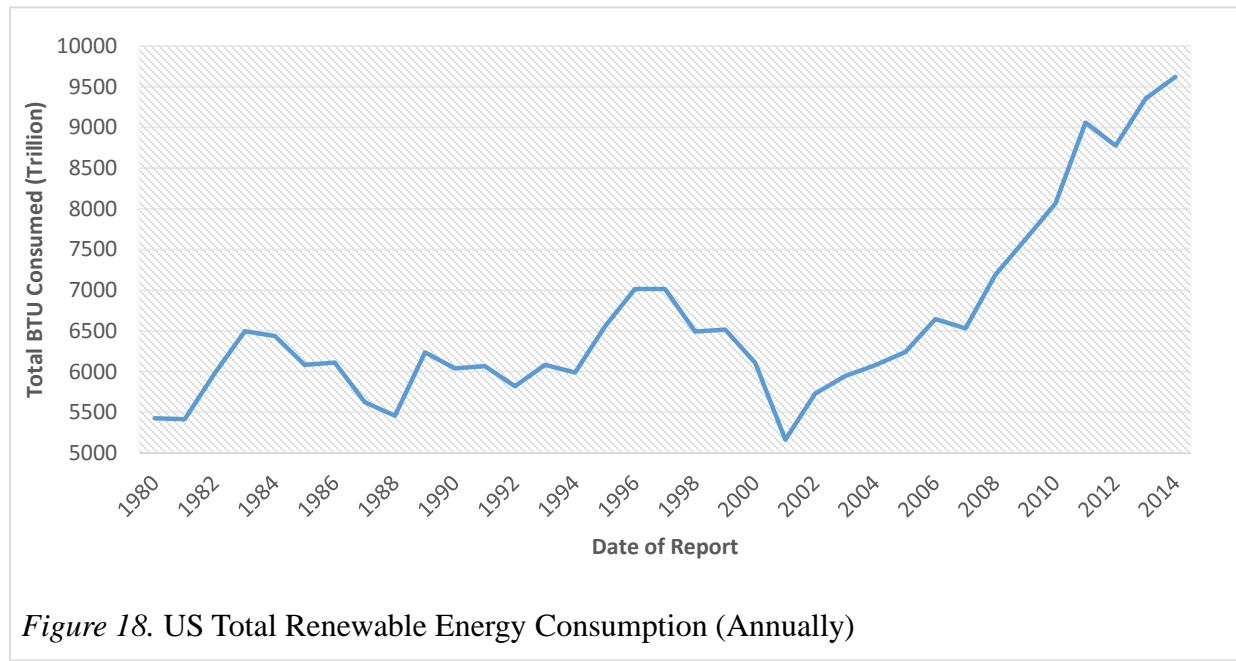
*Figure 16. 2014 US Petroleum Consumption by Sectors*



*Figure 17. 2014 US Renewable Energy Consumption by Sectors*

In theory, dropping crude prices should induce a drop in the prices of renewable energy as well, because there is no need to pay for more expensive energy source. But since alternative energy targets different objectives, the crude oil and renewable energy are not substitutes; therefore, an increase in demand for one does not stimulate a direct increase in demand for another.

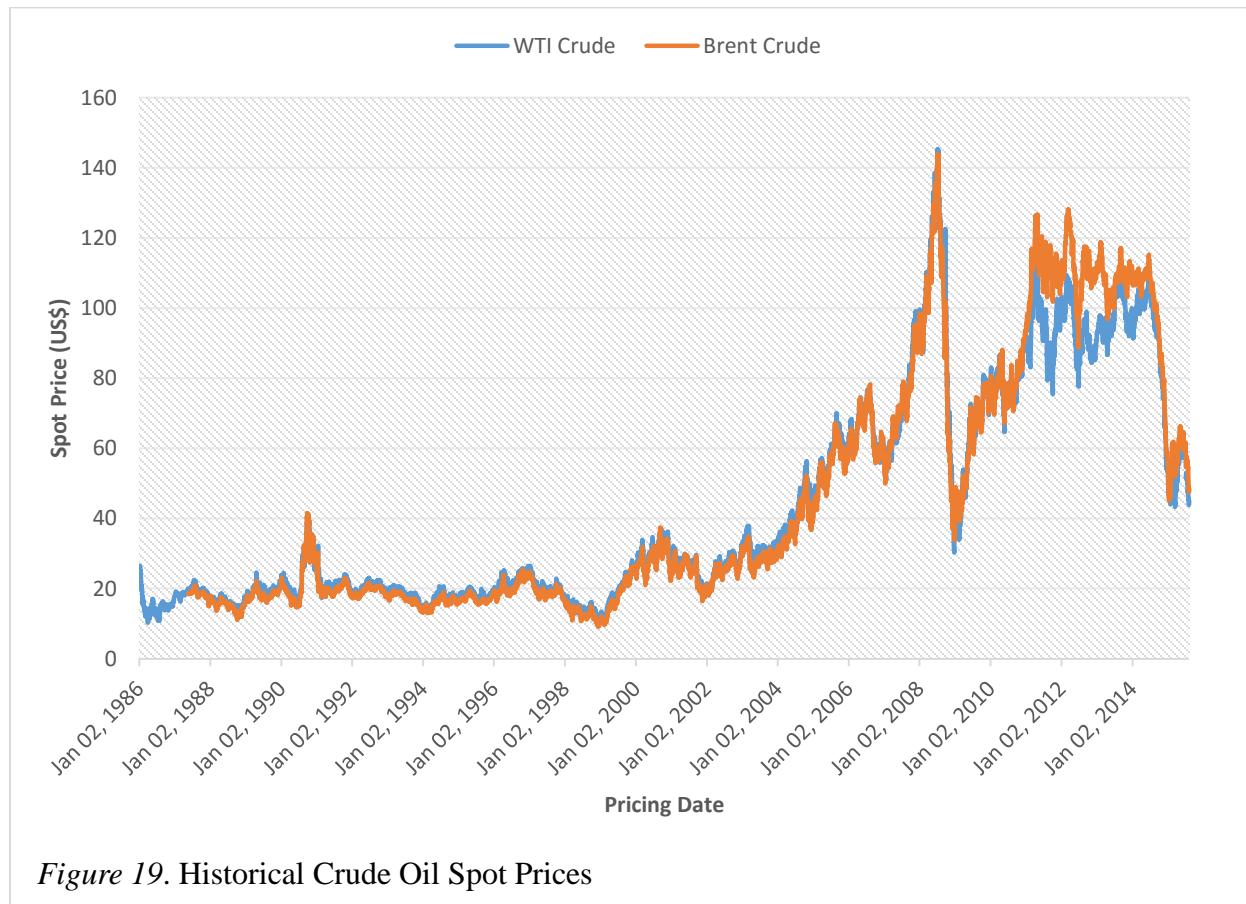
Global consumption of renewable and alternative energy has been rapidly growing in the last 15 years due to implementations of new technologies. The figure 18 below displays the increase in renewable energy consumption in the United States. It is worth noting that there are several other factors affecting price level of renewable energy that should be considered, such as regional impact or economic stability, for instance.



## CONCLUSIONS

In 1950s, Dr. Marion King Hubbert, originated the Peak Oil Theory. The basic idea behind the theory is that there is a point in time when crude oil production rate reaches its maximum capacity and subsequently the extraction rate enters a terminal decline. Ever since O&G industry

experts have been attempting to anticipate the peak oil for an individual oil-producing region as well as a global peak. Hubbert believed that the United States has reached its peak in the beginning of 1970s. That anticipation had a justification due to the Arab oil embargo imposed on the US in 1973 by OAPEC. At that time the US crude production rate reached the new record mark of 9,637,000 barrels a day (EIA, 2015). In subsequent years production rate has been declining dramatically, until in 2008 it dropped to nearly 5,000,000 barrels a day according to the US Energy Information Administration. That year oil producers experienced one of the most severe crises in the history of the industry with WTI crude prices declining from US\$145.31 a barrel in July 3 to US\$30.28 a barrel in December 23. (see Figure 19)



The predicted dates of peak oil made by Dr. Marion King Hubbert and other industry analysts fell shortly at the end of 2008, due to rapid growth of hydraulic fracturing and horizontal drilling in the United States, the country's production rate started increasing abruptly. By the end of the first quarter 2015, in accordance with EIA report, the US oil producers have set a new record of nearly 9,700,000 barrels a day. Number of predictions were made in regard of global production rate. The energy tycoon T. Boone Pickens claimed that the world crude oil production reached its peak in 2005; however, global oil production rate has been consistently increasing. At the end of 2014 the total production rate of crude oil in the world was equal to 88,672,000 barrels a day compare to 48,056,000 in 1970 and 81,963,000 in 2005 (BP, 2014).

The current oil price collapse is one of the major global issues. O&G industry has a substantial effect on the economic stability and prosperity of a numerous countries. The history has seen a very similar situation in 1980s. During that time oil market has suffered from a declining oil demand and growing production capacity by non-OPEC countries. The cartel has sacrificed its output in order to prevent a downfall of the oil prices (EIA, 2002). Saudi Arabia was playing the role of a swing producer within the organization and as a consequence has carried the most significant production cuts. But in 1985 oil market became extremely oversupplied as a result of a decision made by Saudi Arabia and its allies to increase their oil market shares as OPEC members were no longer desired to bear losses. (Gately, 1986). That decision led to a sudden drop in crude oil prices.

The primary reasons for the current oil crisis are very similar to the events of 1980s. Due to the US shale boom, the oil market became extremely oversupplied again. Despite growing world oil demand and energy consumption, the crude prices remain exceptionally low. In addition, the number of different global events have contributed to the current state of play. When in the

beginning of 2015 industry experts and analysts were attempting to anticipate the oil price recovery, they could have taken into account the Iran Nuclear Deal, since it has been agitated for a long time, however, none of them could have predicted the crash of Chinese market and deliberate devaluation of yuan. China is the world's largest net importer of petroleum and one of the world's largest crude oil consumers along with the United States. The devaluation of national currency makes exports cheaper whereas imports become more expensive which, in theory, could jeopardize oil demand by China. As a consequence, already dramatically oversupplied oil market could become even worse. However, there is no certain information regarding the effect of yuan devaluation on Chinese oil demand due to recency of the event. In addition, all major oil producing countries maintain their production rates. A global battle for the market share keeps evolving. Instead of cutting production volumes under such circumstances, oil producing countries are fighting for the title of the world's largest oil producer. Thus, in July 28, 2015, Russia has become the largest oil producing country and the second largest natural gas producer, as reported by the US EIA. Saudi Arabia's oil production grew to a record level. Certain members of the cartel keep extraction of hydrocarbons at the maximum capacity. However, global oil production boom also threatens several countries' welfare. Norway's oil industry is a major contributor to the country GDP. Low crude prices have a significant impact on the economic exposure of Norway. The country's production rate has been declining since July of 2000 when Norway reached all time high rate of 3,417 barrels per day, in April 2015 that number declined by more than half and was equal to 1,622 barrels per day (Trading Economics, 2015). The economy of Venezuela, another large oil exporter and the country with the largest crude proven reserves, relies on crude prices above 100 dollars a barrel (Coppola, 2015). Due to economic mismanagement and rapidly growing inflation, the country was on the verge of default

even before oil prices started declining. Current energy crisis pushes Venezuela towards economic collapse (Sohail, 2015).

Major global oil producers that possess a power to resolve the current energy crisis remain inactive. Each country expects for its competitors to make the first step towards cutting production output. However, industry experts inclined to believe that low oil prices should stimulate a higher growth in demand, helping the oil market to recover itself. Nonetheless a lack of unified opinion and uncertainty among analysts of due dates makes the current oil crisis more frightening. And as history proves, predictions often appear to be mistaken.

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