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Happy holiday gift for petrol users!

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Consumers always welcome fall in the prices of goods of their daily consumption!

Nothing gladdens the hearts of auto users in America during the holiday season as the decline in price of petrol. Travelers crisscross the nation during these holidays with families, thanking the Organization of the Petroleum Exporting Countries (OPEC) as price for Brent crude, the global benchmark fell to US$ 36.04 per barrel.

It was a 11-year low. It was lower than what it was during the financial crisis of 2008 –09.

This week, gasoline price fell too, with the average prices dipping below US$ 2 a gallon.

The fall in oil price in 2015 was substantial. The oil price, for both Brent and West Texas Intermediate crude, a US benchmark, has fallen now from US$100 a barrel last year and US$ 60 a barrel in June this year to US$ 36 a barrel.

What is happening?

The strategy of OPEC has worked well.

The leader of OPEC, Saudi Arabia wants the United States to quit producing oil. It wants to dominate the market as the major seller.

The only way open to them is to bring down the price of oil, so the entrants in the US to the new shale gas fracking technology, when price was higher than US$100 a barrel, would no longer find it worth the effort. If they find the price has fallen, they will automatically be forced to exit the market. The selling price is ridiculously low.

The Arabian trick did work. Many shale gas drilling rigs closed down in the US. In 2015, the number of rigs went down from 1536 to 524. Most of the OPEC members do not like the fall in oil price, as they depend on oil revenues to finance their budgets.

The shale oil producers in the US have gained a new lease of life. The recent U.S. budget compromise has provided an outlet for their exports. The lifting of the ban on oil exports now enables some big time producers to break even.

However, there are new, ominous reports for all oil producers, including Indonesia. This time, the threat comes from another corner: Iranian oil exports would be flooding the market following the nuclear agreement. There would be yet another rise in world supply of oil.

So it is a great time for oil guzzlers.

The Washington Post reports consumers have saved more than US$115 billion on gasoline during 2015.

How about demand?

The demand juggernaut is not likely to move faster any more. The major importer of oil all these ten years, China, emerging as the second largest economy of the world, is not doing well.

The *El Niño* too seems to favour the consumers. The US and the European nations will be kept warm as well. The demand for heating oil this winter in the northern hemisphere will be low.

So, prices will be low for a while.

Eventually, excess supply will lead to force cuts in production. The market will rebalance. The International Energy Agency (IEA) in its latest *World Energy Outlook* predicts a "low oil price scenario": prices would hover around US$ 50 to US$ 60 per barrel well into the 2020s.

Losers and winners

The cleaner climate protagonists are unhappy. Cheaper energy price will hurt all efforts. The IEA says all proposed investments in energy efficiency and search for new, alternative fuels will slow down. The US Energy Information Administration says cheaper gasoline price has actually raised gasoline consumption by 3 percent in the first nine months of 2015.

The winners are businesses using oil. Cheaper oil price means cheaper transport costs. The fertilizer industry, synthetic fabrics, plastic industry and electricity generation companies using oil will be happy if oil price remains low. The agricultural farmers in poor countries are also happy if fertilizer price remains low.

Above all countries which were not doing well such as the Eurozone and the United Kingdom themselves are happy about low oil price. In fact they have done better this year than previously. Japan which is totally dependent on oil imports is well poised for fiscal expansion under the assumption that low oil prices will continue for a while.

A latest study by Price Waterhouse reveals that an oil price settling at about US$50 a barrel for five years would add about 1 percent to GDP of UK. It is largely true for all countries including Fiji.