The Correlation Between Covid-19 and The Surge In Cost of Petroleum Products

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Abstract

This paper aims to dive deeper into the causes for the petroleum product price spikes and drops before and after the COVID-19 pandemic by examining OPEC (Organization of the Petroleum Exporting Countries) policies and the long-term impact OPEC decisions have on the petroleum economy. The COVID-19 lockdown restricted millions of people to their homes, resulting in a decreased need for gasoline. Eventually, this led to a decrease in demand for the product, therefore leading to an oversupply of petroleum. With the decline in demand, oil exporters were subject to decreasing their supply of petroleum. Once the lockdown was lifted, petroleum demand suddenly increased, but oil exporters couldn't meet the demand. Despite the limited supply, the gasoline demand surged. This eventually led to a spike in the price of petroleum products worldwide. These extreme price fluctuations signify OPEC's role in shaping the global petroleum market, as well as the economic stability of many nations.

Introduction

Because of the COVID-19 outbreak and subsequent nationwide lockdown, the global economy underwent a sudden transformation unlike anything ever seen before. As the global population stayed in their homes, the sudden alteration of the supply and demand chain across all products affected countless people and companies alike. The petroleum product company noticed one of the biggest demand declines, which later led to economic catastrophe and caused the fluctuation of global gas prices. This crisis had a severe impact on the economies of countries that rely on tourism and even triggered a significant oil price war between Saudi Arabia and Russia. This research paper aims to dive more in-depth into the process of gas inflation caused by COVID-19. Overall, this paper will examine the question, in what ways did COVID-19 impact the fluctuation of petroleum prices worldwide?

Gas prices in Tourism reliant countries

The COVID-19 pandemic has affected the price of automobile fuels in European countries, especially those of well-known tourist destinations. Following the United States, European countries experienced the second-highest mortality per capita rate. The hardest-hit countries in Europe, with the highest number of confirmed COVID-19 cases, are Spain, Germany, Italy, and France. This has resulted in a severe economic downturn. These countries, being major tourist attractions, saw the spread of the disease more rapidly than non-tourist-reliant countries. Unfortunately, these countries were slow to implement lockdown restrictions in efforts to maintain tourism, which exacerbated the impact of the pandemic on businesses, residents, and the country's economy. With travel and tourism coming to a sudden stop, the demand for gasoline to fuel vehicles virtually disappeared. Tourism-heavy countries such as France were notably very late in declaring their countries' lockdowns, which caused their demand for gasoline to have a delayed reaction compared to countries such as China, who imposed the lockdown in the early stages. China's early lockdown allowed them to keep a stronger grasp on the growing COVID-19 cases, which therefore helped them reopen their country more quickly with less economic turmoil. Since China was the first country to declare the lockdown, they set the standard for the quick decline in demand for gasoline as compared to China's vast population and reliance on gasoline products. Prices of gasoline in China stabilized much more quickly because they could reopen their country faster, which resulted in the increased demand for gasoline within the country. On the other hand, France experienced a high number of deaths, leading them to impose multiple lockdowns at different periods of time to reduce the rising number of COVID-19 cases. France relies on tourism to support their economy, leading government officials to delay the lockdown as much as possible. In addition, local region measures may also affect the gasoline prices for particular regions, depending on the country's lockdown measures. France had multiple cases where they ended a lockdown, then later started another one. This unusual situation led to fluctuations in gasoline demand, resulting in a prolonged decline, which later proved to be most harmful to France's overall economic recovery. As China reopened its economy, the gasoline demand quickly surged. This was in response to the approaching measures taken to combat the COVID-19 disease and ensure a smooth reopening of the country with minimal restrictions. While China was in a state of prosperity, France was still in a state of decline, as their COVID-19 cases were not lessening. The price of petroleum drastically falls and mortality rates are continuously increasing, prompting the government to take more serious actions by keeping a stronger force on maintaining proper quarantine, practicing social distancing, and avoiding large gatherings, further causing the decline in demand for gasoline daily. The late implementation of lockdowns in these countries caused a delayed decrease in oil demand compared to other countries, leading to a more pronounced economic spiral and challenging recovery. These countries faced a surge in COVID-19 cases, leading to implementing stricter lockdowns, which caused a decrease in demand for and distribution of gasoline. This conflicted the supply and demand chain exponentially, further causing difficulties in managing the economy once the lockdown permanently ended. Because these countries did not take the lockdown seriously at the start, they had higher mortality rates and little change in oil prices at the start of the pandemic. Once this became clearer, authorities implemented stricter lockdown measures, halted tourism, and witnessed the rapid disappearance of gasoline demand, leading to faster drops in prices because of the increase in deaths. Late lockdown implementation in these tourism-dependent countries resulted in severe economic hardship, further compounded by extended lockdowns and struggles to recover gasoline prices. The pandemic's impact on these tourism-dependent nations was particularly profound.

Saudi-Russia Oil Price War

The lockdown held in European countries decimated the gasoline demand and lowered the prices in local regions. The rapid decline in demand from consumers struck the global oil companies as Europe and other continents experienced a decrease in demand during the COVID-19 lockdown. Naturally, this caused a decline in oil prices on the global level. Local gasoline prices decreased as a result of the global decline in demand. Because consumers lacked the need for gasoline during the lockdown, prices also dropped. Therefore, local gasoline chains no longer needed supply from the global market. Oil-producing countries like Saudi Arabia almost completely depend on oil for the stabilization of their economy. The COVID-19 lockdown severely affected oil-dependent countries, as their primary source of income was halted. Not only were countries themselves taking the struggle, but shareholders of oil industries felt a massive loss, leading them to displaced financial security and bankruptcy. Local gas stations were in tough times as the gasoline demand quickly plummeted, making it harder for these local businesses to stay afloat. Many gasoline consumers benefited as they did not need to purchase gasoline to fuel their automobile vehicles anymore, and cut down their spending nature. The COVID-19 lockdown proved to cause exponential harm to many companies, countries, and people, though it also benefited others.

The fluctuation of gas prices caused by COVID-19 led to the Saudi-Russia oil price war, which therefore led to an imbalance of the oil supply-demand chain. The price war in 2020 between Russia and Saudi Arabia further pushed the decrease in oil prices. During an OPEC meeting called by Saudi Arabia, they aimed to cut down on oil production because of the decline in demand caused by COVID-19. However, Russia declined to cut down its supply, hoping to increase its market share in oil. In response to Russia's uncooperativeness, Saudi Arabia, along with the UAE and Kuwait, began increasing their oil production as well, and began selling oil at cheaper prices. This led to a major oversupply of oil, and nowhere to store it. Though Russia did not increase its supply, it did not agree to decrease it either. Due to decreased demand and excessive oil production, the oil industry faced a significant supply and demand imbalance during the COVID-19 pandemic. Over time, OPEC members could not deny that the demand for oil during the COVID-19 pandemic was not likely to improve, causing Saudi Arabia and Russia to agree to minimize oil production. Once the lockdown declared its end and countries reopened, the oil demand quickly skyrocketed. OPEC began slowly increasing their supply after the large decrease and the oil price war hoping to maintain the oil market after the damages caused to it by the Saudi-Russia oil price war. As the COVID-19 lockdown continued, economists expected there to be a decline in demand for gasoline. However, the effects of the lockdown showcased a massive turnaround, as the global oil market was severely affected because of the virus spreading worldwide. The decline in demand for gasoline was further exacerbated by travel restrictions, which eliminated the need for petroleum products. Economic activity slowed down across the globe. The need for major production cuts forced OPEC to take unprecedented action. The severity of the lockdown exceeded expectations, making the post-COVID recovery especially difficult to navigate. Competition for market share instigated the Saudi-Russia Price war and caused rifts within the oil industry, further leading to the spike in demand prices, along with the COVID-19 virus outbreak. Russia’s agreement to cut oil production at the first OPEC meeting about this issue would have prevented the price war and not resulted in Saudi Arabia and other countries having to make drastic decisions to keep Russia from overstepping the oil market. Avoiding this would have let OPEC better control the oil industry during the pandemic, mitigating the price spike after the lockdowns. Society may not have seen such drastic changes in the petroleum market if it were not for such an impactful dispute within OPEC, known as the Saudi-Russia oil price war.

OPEC measures

In the paper titled “From the Barrel to the Pump: The Impact of the COVID-19 Pandemic on Prices for Petroleum Products” by Kevin Camp, David Mead, Stephen Reed, Christopher Sitter, and Derek Wasiliweski, the authors analyze OPEC’s measures to handle the decline in demand and stabilize gasoline prices after the COVID-19 lockdown, as well as their efforts to recover from the impact of the lockdown. As the COVID-19 lockdown further causes the imbalance in demand for gasoline, the Saudi-Russia oil price war further illustrates how rapidly gasoline prices during the COVID-19 lockdown can drop. The COVID-19 pandemic had a major impact on the oil market, causing significant setbacks for OPEC because of reduced demand for petroleum products. With stay-at-home orders in place, the need for gasoline disappeared, creating major challenges for OPEC and other oil-producing countries. The lack of demand for petroleum products left them without consumers and no means of managing their oil-producing economy. Despite this, oil-producing countries continued to produce oil, resulting in an excess supply and nowhere to store it. OPEC had to make tough decisions and reduce oil production temporarily. However, Russia refused to cut down on its oil production to gain market share. In response, other OPEC countries increased their oil supply to prevent Russia from gaining more market share, leading to the Saudi-Russia oil price war, and a further decline in oil prices. In April 2020, crude petroleum prices even fell into negative territory, with oil producers having to pay buyers to take the oil instead of the other way around. This was an unprecedented low for oil-producing countries, causing them to incur losses instead of making profits. Realizing the gravity of the situation, Saudi Arabia called an emergency meeting to address the crisis. All OPEC members, including Russia, agreed to an agreement that involved a record production cut of 9.7 million barrels per day until the end of June. The COVID-19 pandemic presented OPEC with a challenging situation, forcing them to make tough decisions in order to maintain stability in the oil market.

As the COVID-19 lockdowns ended, countries around the world started reopening and lifting travel restrictions. The demand for gasoline quickly surged after OPEC implemented significant production cuts. As the market reopened to buyers, oil-producing nations initially viewed this increase in demand as a positive development. However, it soon became clear that the surge in gasoline demand was overwhelming, especially right after the production cuts, resulting in a shortage of supply. The COVID-19 pandemic was still ongoing in many countries, with some experiencing delayed lockdowns while others had swift ones. This variation in demand across different countries added to the instability in the markets. As oil-producing countries struggled to meet the rising demand for gasoline from a population emerging from lockdown, they found themselves unable to keep up. The price of gasoline increased after the lockdowns. Producers faced difficulty keeping up with the rising demand for gasoline from a population emerging from lockdown. They could not meet the rising demand for gasoline from a population emerging from lockdown, leading to a scarcity of gasoline and an increase in local gasoline prices. The COVID-19 pandemic served as a learning experience for OPEC, prompting them to hold more meetings and devise strategies that would benefit everyone. As demand gradually recovered post-pandemic, OPEC cautiously reversed the production cuts and avoided making impulsive decisions to ensure market stability. Through collective strategies, OPEC successfully maintained market balance and stabilized oil prices to the best of their abilities.

Conclusion

The COVID-19 pandemic proved to be a significant period, not only for the disease itself, though also for its impact on the global gas market. Following the pandemic, there has been a noticeable rise then fall in gas prices worldwide. The COVID-19 gas price crisis, which was fueled by the Saudi-Russia oil price war, led to extreme volatility in global energy markets, significantly affecting economies that rely on tourism. Although lower fuel prices briefly helped consumers, travel restrictions and economic downturns outweighed any benefits, severely affecting the tourism industry. A good deal of may be concerned about the possibility of a similar situation arising during another global crisis, though countries, nations and most especially OPEC have learned from past mistakes and have become more cautious to prevent a recurrence of such an event. The economy is vulnerable and can collapse when hit with sudden changes, making it more important to have multiple safety measures to prevent or lessen the impact in the future. This crisis turned out to be a long-lasting event that also paved the way for changes and improvements within OPEC and society.

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