Oil Production in United Kingdom

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**Introduction**

The United Kingdom remains one of the major importers of Oil from the Gulf areas. Countries in the Gulf Asia have higher production rates of oil and other oil related products. As a result of most countries from the other parts and especially from Europe and the rest of America solely depend on oil exported from countries such as Saudi Arabia and other countries in Africa like Nigeria (Obstfeld, Arezki, & Milesi-Ferretti, 2016). Recently, most the oil prices have been on the decrease since the beginning of the year. This decrease in prices has a significant effect on the oil prices across the world, and more the effect has been in countries importing and exporting the associated product (Blanchard & Arezki, 2014).

Current supply and demand factors show that given time the price of oil-related products will stabilise though will never hit the previous target, which was quite high. Additionally, no two countries are expected to feel the same effect even if they have the similar characteristics when it comes to oil importation (Blanchard & Arezki, 2014). Therefore the United Kingdom will be affected differently by the slump oil prices, but this will also largely depend on how they control their oil prices within and outside the country and how they engage with other parties in the oil business (Obstfeld, Arezki, & Milesi-Ferretti, 2016).

Due to the decrease in oil prices, oil exporting countries are expected to take in less revenue in the process making their budgets be under pressure. The case is different for oil importers who stand to benefit from the slump in prices. In essence, this is because of several factors including improved external conditions and lower input costs. Therefore, countries like the United Kingdom, which are importers of oil serve to benefit while their counterparts, the major exporters suffer in silence (Obstfeld, Arezki, & Milesi-Ferretti, 2016). Nonetheless, the rise in oil prices will have a negative effect in the traditional oil-producing countries, and the process increases the risks of a global financial crisis since risks to financial stability increased due to the close dependence on their economies to run on the oil exportation and products (Obstfeld, Arezki, & Milesi-Ferretti, 2016). If these countries are not carefully monitored then, there is a risk of oil prices affecting importing countries such as the United Kingdom. Therefore, the United Kingdom and other importers need to carefully monitor the effect of the slumped oil prices on the above economies. For this to happen, it will depend solely on how they manage oil prices within and outside the country and how they handle other parties also in the oil business. But the oil industry has changed a lot compared to 20years from now. The following paragraph explains how;

**History of oil production in the last 20 years up to date**

For over 20 years the oil industry in the United Kingdom has changed there has been a volume of growth and taking control of market and resources. With each change, some element does disappear. United Kingdom companies still use the same structure that first originated from the breakup of standard oil in 1911. New businesses that emerged wholly or partly in the private sector after the breakup of the United Kingdom Department justice. When the leading oil exporting, companies took back control from the United Kingdom and European they also encouraged the National Oil Companies (NOCs) to take back their control. The final change ruptured all integrated structures of the major companies and this lead to the opening of international trade of oil from all corners of the country

**Effect of reduction in oil prices**

Different oil exporters may react differently to the current crisis. Some will opt to adjust their fiscal spending without necessarily considering the other factors and in the process they may pressure the exchange rates (Blanchard & Arezki, 2014). Nonetheless, those having strong fiscal rules, saving funds and budgetary allocations many not be affected by the changes. These remedies taken by different oil exporters have a direct effect on the oil importing countries such as the United Kingdom. Impromptu measures have the ability to affect the prices present in the market including the price of oil in importing countries (Obstfeld, Arezki, & Milesi-Ferretti, 2016). In case these decisions are made abruptly there is a high risk of inflation setting in and the effect will be felt overboard since countries such as the United Kingdom also depend on oil products in running some aspects of its economies.

Most oil producing countries have an absolute advantage in the production of the product, and the cost of producing oil in countries such as the United Kingdom is higher compared to the price in oil producing countries (Obstfeld, Arezki, & Milesi-Ferretti, 2016). This is the major reason the United Kingdom has to import oil and not export oil. Nonetheless, the effects of inflation do not discriminate any economy as the effect is felt across the board. The decrease in oil prices provides an excellent opportunity for different countries to decrease subsidies present in the energy sectors and utilise the savings in more targeted transfers. It also offers an opportunity for countries to increase energy taxes and decrease the other form of taxes. In case the conventional monetary policy and demand is still weak, central banks in the United Kingdom have the option to anchor all aspects of medium-term inflation especially when the oil prices are still decreasing (Obstfeld, Arezki, & Milesi-Ferretti, 2016). This could cushion the entire economic system.

**Natural Gas Production**

Oil prices have decreased for close to one and a half year since the start of 2015. This provides countries such as the United Kingdom to export more refined oil products since the price of importation is low. Although the prices of oil may be down, oil related products depend on the markets and may not necessarily be affected by the slump in the oil prices (Obstfeld, Arezki, & Milesi-Ferretti, 2016). Nonetheless greater benefits will only be acquired immediately the price of the product is recovered. Advanced economies like the United Kingdom are making more progress in surmounting the current low interests rates present in their environments (Obstfeld, Arezki, & Milesi-Ferretti, 2016). It is only a moment before the oil prices return to the normal level.

Natural gas a major product of refined oil has hit the market and more so the new economies of the world. This has significant been influenced by three main factors including the reduction in the use of atomic power after the Fukushima catastrophe in Japan, the United States shale revolution and geopolitical tensions between Ukraine and Russia (Arezki, 2014). The United Kingdom could utilise the use of natural gas as it has emerged as one of the most globally used product to run the economy. The United Kingdom, just like the United States could opt to utilise natural gas after importing crude oil from the Gulf state countries (Arezki, 2014). Presently, natural gas is deliberated to be the cleanest fossil fuel from petroleum products (Arezki, 2014). The United Kingdom could become the major exporter of natural gas if it follows the same path followed by the United States.

**Environmental effects of fuel production and consumption**

There have been several arguments claiming that price of fossil fuel is likely to stay in the currents rate for long periods meaning that countries exporting oil may be the greatest benefactors. Nonetheless, other issues have a direct impact on the use of oil products in the current economy. Countries like the United Kingdom have international commitments to meet especially in the climate change. Though the decrease in the oil prices provides one of the greatest opportunity for the country to increase its revenue by exporting its oil related products to different countries, specific innovations related to climate change should also be applied in meeting the country’s international commitments especially those related to climate change (Arezki & Obstfeld, 2015). Low prices fuel prices have the higher likelihood of reducing innovation on cleaner energy technologies.

The consequence would be an increase of carbon dioxide and other greenhouse gases. Policymakers have a key role in guaranteeing that the low energy prices in oil exporting countries do not become the major stumbling block in reducing carbon emissions. More actions should be taken on to restore the all the appropriate incentives. The most notable method of controlling these emissions will be to introduce carbon taxing to avoid the devastating effects on the environment (Arezki & Obstfeld, 2015). Nonetheless, such actions may substantially affect industrial development through industries may opt for recycling procedures as a way to beat off the new tax measures. This approach will be better for the country as it will be able to meet its international obligations and at the same time utilise the presented opportunity.

**Conclusion**

The shift in the oil prices affects other areas in the market. One affected area in the current market is the price of available metals. Similar to the oil prices, metals such as copper, aluminium and iron ore shift basing on the supply and demand curves (Matsumoto & Arezki, 2015). These metals play a crucial role in industrial production. The recent slump in oil prices has also seen the decrease in the price of metals in different markets (Matsumoto & Arezki, 2015). The decrease in metal and oil price means that some parts of the economy of any country are being stalled due to the different supply and demand shifts in the market. The unpredicted shifts in the price of metals and oil may be there for quite some time, and therefore it is wise for many countries to be aware of the effects of decreased oil and metal prices. If the prices continue slumping at the same rate, then there will be a sharp increase at a given time.

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