



## On price shocks and supply uncertainty in India

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We often hear that the rising petroleum consumption of China and India will heavily influence the availability of oil in the next several years. However, we don't necessarily apprise ourselves of the Chinese and Indian points of view on this issue. Are they worried? Do they expect to be able to increase their consumption?

An [article from the Business Standard](#), an Indian newspaper, makes some relevant observations. First, the reporter recognizes that oil security is about supply, not about prices:

Getting prices right is always desirable. But oil security is better looked at as an issue about quantity uncertainties rather than price uncertainties, about availability rather than the cost of oil. One could measure it in terms of four factors--the role of oil in the domestic energy mix, the dependence on imports, the diversity of foreign supply sources, and the alternatives available if there is supply disruption.

He does note that securing supply by investing in the projects of more oil-rich countries does not necessarily guarantee that the supply is protected:

But does ownership stake reduce supply uncertainties? The major source of uncertainty in West Asia and the Caspian is the risk of political disruption and great power geopolitics. If there is a political upheaval or great power intervention in these regions, then an ownership stake will not necessarily help. It may however make sense as a business proposition if oil is expected to become increasingly scarce.

Perhaps most interesting, he even uses the phrase "peak oil", and he does it in a very matter-of-fact way.

On the demand side, it has been estimated that the current global consumption of 30 billion barrels per year will rise four-fold by 2025, mainly because of growth in China and India. In fact by 2025, the share of developing countries in oil consumption will be more or less the same as that of the developed countries.

The dependence of the world on West Asian OPEC oil will increase. Even now, one of the better predictors of oil price behaviour is the extent of excess production capacity available in the Gulf, which is very low at present.

The IEA projects a nearly three-fold increase in production in this region in the next 25

With tight supplies, risks of supply shocks and rising demands, the oil market may become even more unpredictable and volatile than at present. If the peak oil theorists are right prices will ratchet up. More than that, geo-political rivalries will surface between major consumers like the US, China, and India.

I don't know anything about this newspaper, but I'm impressed at how straight-forwardly this topic is presented. No sensationalism—just the dry observation that peak oil may be coming within the next five years, and the world should probably be prepared.

Still, I'd be interested in finding out how the rest of the Indian press addresses this topic.



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