Petroleum and its impact on the contemporary economy found in a process of globalization

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Abstract: - The paper represents a major alarm signal regarding the more and more irrational exploitation of the petroleum resources. OPEC and other major petroleum corporations continue the expansionist policy started last year, regardless of the market tendencies, a market involved at present in a globalization process. The growth of the petroleum barrel on the main stock markets affects all the economic branches, the most important of which is the transportation branch, on which the globalization process is mainly based. Also the growth influences the consumption market and its consumers (after the inflation growth on the food products by 18% China has imposed control in 2008 on oil, flour, meat, milk and egg prices). Annually in the petroleum field approx. 3.800 billion $ are ran, money mostly invested in development projects, in the health field, infrastructures or in the military domain. 85% of the thermal energy obtained worldwide is due to petroleum utilization, which shows our growing dependence on it.

Key-Words: - petroleum, barrel, dollar, OPEC, stock, economic globalization, economic crisis, demand and supply, petroleum price

1 Introduction
Globalization is the term used to describe a multicausal process which has a result in events that take place on one side of the globe with wider and wider repercussions on societies and problems from other parts of the globe.

Trying to look at the world map with the obvious purpose of orientation on one area which would save the Occident from a possible energetic crisis, our attention would be immediately drawn by the importance of the Persian Gulf and Central Asia, regions where planet’s present largest petroleum resources are concentrated: Saudi Arabia alone has 25% which is 261.500 million barrels, 12.6% of the global daily production [1].

Petroleum, noted Eduard Ward in 1960, became “universal and international”. All countries have frenetically started searching for it in their soils, for it brings economic independence and wealth. This is how multinational companies appeared, and a good example is Exxon International, with its headquarters in New York the company has been active in the petroleum field for almost 125 years and in 2008 has reported a turnover of 443 billion $, an 11% growth compared to the previous year. Exxon is in 2008 the leader (occupies the 1st place) of “Top 10 Fortune”, being followed by another petroleum company, on the 3rd position, Chevron, with a turnover of 263 billion $, with a 24% growth, compared to the previous year.

Exxon International has expanded its activity in 65 countries, like the United Kingdom, Australia, Malaysia, Norway, and in smaller amounts, France, Germany, Holland, Indonesia, Columbia and South America, even smaller quantities [2].

2 Market Forces Are Not the Only Ones to Affect the Petroleum Price Level
The first factor that determines petroleum price growth is the demand increase on the global market (not only in China and India, but also in the USA). Moreover, the price was increased mostly because, on one hand, it takes years for the production and distribution capacity investments to keep up with an increasing demand, and on the other hand, because the enhancement of the production capacity implies exploitation of more expensive resources.
Even tough, the increase of production costs cannot explain unilaterally the level of 130$/barrel (see Fig. 1), considering the fact that there is enough petroleum that can be produced at a price of only 50$/barrel (Canada’s case), but years shall pass until that becomes completely available. Alongside the demand growth level (related to the investment rate in production), the second factor is the dollar value decrease (see Fig. 2). Petroleum dollar price, if monitored – and each dollar values less – then the number reported as price must register increase, just to maintain at the same level the real petroleum cost.

Saudi Arabia is the country that has the control and influence capacity over the global petroleum market. As an example to sustain this, we have this country’s intervention in 1992, which decided to increase production in order to bring equilibrium between supply and demand, so that the events that could negatively mark the global petroleum and petroleum products market should be counteracted.

In 2005, Middle East started the petrol production expansion program by building a pipeline that bounds Qatar and the Arab Emirates. This 4 billion $ project was financed by the “Dolphine” project. It ended at the end of 2006. “Dolphine” project is a 15 years limited term contract. During this period 275 million barrels of petrol will be transferred, of which 20,000-66,000 are transferred daily [4].

Fig. 1 Weekly evolution of petroleum barrel price in 2008
Source: [6]

Fig. 2 Medium monthly dollar exchange rate on the Romanian exchange market in 2008
Source: [7]
At the end of 2008, USA imports were of 4,713,246 million barrels, of which more than half came from NON-OPEC countries (2,532,496 million barrels). This shows a decline of the countries of exportation to the world’s main consumer of petroleum resources: they have exported only 2,182,758 million barrels.

An answer can be found in the main stock markets where price fluctuations are registered between Asian markets, on the one hand, and European markets, on the other.

3 The Influence of Petroleum Barrel Price and Its Effect on Macroeconomic Indicators

The existence of price is related to the exchange process, the market being the sine-qua-non condition of price formation. Essential for market economic category are: the existence of autonomous economic units, independent of the others, direct retail connections between these units, the existence of free price, vital in the exchange process - where there is always a confrontation between supply and demand - the free manifestation of loyal economic competition [3].

As previously stated, the most important use of petroleum products is in the transportation field. World economy, especially globalization, depends on transportation.

Trying to fight this subject, it has been noted that on the American market the gas pump price (see Fig. 4) is lower than the one in the European Union, implicitly in Romania (see Fig. 3).

This is mainly due to the value added tax, which differs from state to state; VAT is 7.5 % in the United Kingdom and reaches up to 19 % in countries like Greece, Bulgaria, Romania. Between these countries the difference is of only a few eurocents, at present the pump price indicating approx. 0.85 €.

Comparing the USA price to the one in Romania during the last year, one can observe that, despite the plummet of the price by 150 percents of the value it registered in the first week of 2008 – that being 92.98$/barrel – Diesel oil and gas price maintains the same value in Fig. 4, while in Fig. d we can observe a reduction by half of Diesel oil and gas pump price.

On another note, the rapid increase of petroleum price and produce has negative consequences on the global economic situation, leading to a rapid inflation growth. The price rise of crude oil at previously enriched values has brought increase in foodstuff and gold.
Record prices have led to an 18% inflation in China, on the foodstuff segment, 13% in Indonesia and Pakistan and 10% in Latin America, Russia and India, according to FAO. Flour has doubled its price, the price of corn has increased by almost 73% and the price of rice has increased by over 20%.

In Norway petroleum has a percentage of 58, according to statistics in 2005. The country owns an oil rig with a monthly capacity of 500 million $. They have created since 1995 a special fund, where 75% of petroleum incomes are deposited. It is not due to economical refreshment. The fund is for the next generations which will have to deal with an energetic crisis.

Venezuela’s Government spends each year 6-8 billion $ on social programs (education, health, but also funds for the food trade and household appliances).

4 How Petroleum Price Affects Global Power Proportions

In Khartaoum, once the “sleepy” capital of Sudan, now skyscrapers rise along the Nile, as the petroleum resources attract investors from Asia and the Persian Gulf.

At the same time, the existing situation also determines an enhancement of the competition between petroleum producing companies, state companies from Russia, China and India, developing an aggressive expansion while fighting for resources out of their border lines.

An example consists of the territorial disagreement between Russia and Norway, regarding some important areas of the Arctic Ocean. Both countries have documentation at the UNO headquarters regarding their solicitation of economic areas expansion by a new demarcation of the continental plateau (the recent Haga case in which Romania took back the Snakes Island can be reminded).

The UNO Convention from 10th of December 1982 allows the country members which have sea openings to expand their rights on natural, mineral, energetic and biological resources exploitation starting from 200 miles to 350 miles, if they bring proof by scientific studies that this extension constitutes a natural prolongation of their continental plateau.

The base of this conflict consists of the enormous petroleum resources located in the Arctic Ocean plateau. The rise of the petroleum has determined spectacular changes in the Middle East where important producers like Saudi Arabia or the United Arab Emirates use their billion $ profits to modify all their internal infrastructure from building roads, schools and airports, to building entire new cities.

The best example is the world’s biggest
ecological city: Masdar. Construction has officially begun seven months ago. Situated in the desert, at the outskirts of Abu Dhabi capital, it will cost approx. 22 billion $ and will be built on the concept of the “un polluting city”.

The city will host 50,000 inhabitants and 1500 businessmen, and the city traffic will be realized without the use of vehicles. The welfare of Middle east countries determined financial crisis affected bankers to run towards them, closing an important series of transactions.

McKinsey &Co research company estimates an amount of 3.800 billion $ worldwide investment with funds from petroleum industry. Investment Authority from Abu Dhabi which beholds approx. 900 billion $ in assets is amongst the most important actors on the financial international market, having the same size as the Bank of Japan.

References: