

Oil Prices Rise

What is the issue?

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- Crude oil prices have risen to their highest level since late-2014.
- In this backdrop, changes to the domestic fuel pricing regime have raised some concerns.

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What is the recent development?

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- Brent crude oil is the international benchmark price for oil.
- It was priced around \$27 a barrel as late as January 2015.
- It has recently breached \$75 per barrel.
- The price rise is driven by a deepening economic crisis in Venezuela.
- It is also a result of the fear of US's consideration on reimposing sanctions against Iran.

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Why is it a concern for India?

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- The price of the Indian basket of imported crude oil, too, has risen sharply.
- Worryingly, India primarily meets its **energy needs** through **imports**.
- Oil imports rose by over 25% in 2017-18 to \$109 billion from a year ago.

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- Elevated oil prices could affect India's **trade deficit**.
- Consequently, the **current account deficit** could also increase.

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How is the domestic fuel pricing regime?

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- The Centre introduced the dynamic fuel pricing mechanism in June last year (2017).
- This allowed oil marketing companies (OMCs) to revise fuel prices daily.
- State-owned fuel retailers were revising the prices in tune with changes in international prices.
- Notably, the price of Brent crude oil has increased by more than 50% since June last year.
- It has risen to the highest level since late-2014.
- Responding to this, the government has recently asked public sector oil companies to pause their daily retail price revision.

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- The oil companies have thus kept petrol and diesel prices unchanged for nearly two weeks.

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- This is despite the rise in average price of the Indian basket of crude oil.

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What are the implications?

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- **Oil companies** - It has exerted pressure on the marketing margins of public

sector oil companies.

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- The average marketing margin has considerably gone down by about 45%.
- This would impact the oil companies as they may face a capital crunch.
- India's oil exploration and refinery upgradation efforts could slow down.
- The performance of OMC stocks in the last few weeks also suggests that the markets are not convinced.
- **Policy** - The government has discretionarily stopped a market-linked pricing regime.
- Regardless of the reason, such an intervention undermines the credibility of its own policy decision.
- Worryingly, the decisions are largely influenced by political considerations such as elections.
- The policy of transferring the burden to the OMCs by offloading the burden on consumers is unsustainable in the long run.
- The government should opt to ease the burden of fuel taxes.
- A possible option is to bring domestic fuels under the purview of the goods and services tax.
- For now, the government could bring down prices by reducing excise duties on oil.

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Source: Business Standard, The Hindu

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