

# **Oil Prices Rise**

### What is the issue?

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- Crude oil prices have risen to their highest level since late-2014.  $\ensuremath{\sc vn}$
- 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.  $\n$
- It was priced around \$27 a barrel as late as January 2015.  $\normalfont{\carcel{lambda}}$
- It has recently breached \$75 per barrel.  $\normalizes \normalizes \normali normali \normalizes \normalizes \normalizes \nor$
- The price rise is driven by a deepening economic crisis in Venezuela.  $\n$
- It is also a result of the fear of US's consideration on reimposing sanctions against Iran.  $\n$

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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.  $\slashn$
- Worryingly, India primarily meets its **energy needs** through **imports**.  $\^{n}$

• Elevated oil prices could affect India's **trade deficit**.

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- Consequently, the current account deficit could also increase.  $\slashn$ 

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

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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.  $\n$ 

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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%.  $\ensuremath{\sc vn}$
- This would impact the oil companies as they may face a capital crunch.  $\slash n$
- India's oil exploration and refinery upgradation efforts could slow down.  $\^{n}$
- 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.

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- Regardless of the reason, such an intervention undermines the credibility of its own policy decision.  $\gamman$
- 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. n
- The government should opt to ease the burden of fuel taxes. n
- A possible option is to bring domestic fuels under the purview of the goods and services tax.
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- For now, the government could bring down prices by reducing excise duties on oil.

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#### Source: Business Standard, The Hindu

