Oil Prices Rise

What is the issue?

\n\n

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

\n\n

What is the recent development?

\n\n

\n
- Brent crude oil is the international benchmark price for oil.
\n
- It was priced around $27 a barrel as late as January 2015.
\n
- It has recently breached $75 per barrel.
\n
- 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

\n\n

Why is it a concern for India?

\n\n

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

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

\n\n

How is the domestic fuel pricing regime?

\n\n

\n
- The Centre introduced the dynamic fuel pricing mechanism in June last year (2017).
  \n
- This allowed oil marketing companies (OMCs) to revise fuel prices daily.
  \n
- State-owned fuel retailers were revising the prices in tune with changes in international prices.
  \n
- Notably, the price of Brent crude oil has increased by more than 50% since June last year.
  \n
- 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

\n\n

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

\n\n

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

\n\n

What are the implications?

\n\n

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

sector oil companies.
\n

- The average marketing margin has considerably gone down by about 45%.
\n
- This would impact the oil companies as they may face a capital crunch.
\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.
\n
- **Policy** - The government has discretionarily stopped a market-linked pricing regime.
\n
- Regardless of the reason, such an intervention undermines the credibility of its own policy decision.
\n
- Worryingly, the decisions are largely influenced by political considerations such as elections.
\n
- 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.
\n
- For now, the government could bring down prices by reducing excise duties on oil.
\n

\n\n

\n\n

Source: Business Standard, The Hindu

\n