Addressing the Concerns with Rising Fuel Prices

Why in news?

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The prices of petrol and diesel in Indian cities have risen to their highest level since late 2013.

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What are the concerns with increasing fuel prices in India?

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- The Brent crude oil was trading at over $100 a barrel in 2013, compared to its current price of $75.
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- Even when international crude oil prices fell steeply in 2014 and 2015 as low as $30 domestic fuel prices failed to come down as much.
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- Whenever crude oil prices have increased, the prices of domestic fuels have been raised steadfastly.
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- The rising prices of petrol and diesel increase the burden on citizens, affecting to some extent the government’s popularity.
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What are the reasons behind increasing fuel prices?

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- Under a free pricing regime, petrol and diesel are priced according to what consumers are willing to pay rather than based on input costs.
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- At the same time, there are other ways in which input costs can indirectly influence the retail price.
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- When the price of crude oil is high, oil companies are forced to cut down on their supply to the retail market in order to drive up the prices to competitive

levels.
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- The agreement between members of the Organisation of the Petroleum Exporting Countries (OPEC) to cut down production in late 2016 has added to its momentum.
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- High taxes are another factor that can discourage producers from bringing enough supply to the retail market, leading to higher prices.
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- While this increased the amount of revenue collected by the government, it prevented retail fuel prices from falling as much as international crude oil prices.
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What is way forward?

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- The price of domestic petrol and diesel going forward is likely to depend on the price of crude oil in the international market.
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- It also depends on the policy preferences of the government as it heads into a series of elections in 2018 and 2019.
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- While rising geopolitical tensions have been used to explain the recent rise in crude oil prices, it’s hard to predict the further of the oil prices.
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- There are speculations that OPEC countries would drive oil prices even higher in order to meet their increasing revenue needs.
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- Thus government may decide to look at either reducing taxes on fuels or forcing OMCs to incur losses by selling at lower prices.
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Source: The Hindu

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