

Falling Oil Prices - Impact on India

What is the issue?

- The prices of West Texas Intermediate (WTI), the best quality of crude oil in the world, fell to “minus” \$40.32 a barrel in New York, US. Click [here](#) to know more
- In this backdrop, here is a look at the impact this would have on the Indian oil market.

How will this impact India?

- The Indian crude oil basket does not comprise WTI.
- It only has *Brent* and oil from some of the Gulf countries.
- So, technically, there is no direct impact on India.
- However, oil is traded globally, and weakness in WTI gets reflected in the falling prices of the Indian basket as well.



What concerns does this pose?

- India has wisely been using the sharp fall in both crude prices and domestic demand to accelerate the build-up of its strategic oil reserve.
- The sliding oil prices would help significantly cut India’s energy import bill.
- However, a prolonged demand drought would end up hurting the government’s tax revenues severely.
- This is especially impactful at a time when the government badly needs every additional rupee it can garner.
- Also, such low oil prices risk damaging the economies of producer countries including those in West Asia.
- This would, in turn, hurt the inward remittances for India.

What options does India have?

- There are two ways in which this lower price can help India.
- The government can pass on the lower prices to consumers.
- In this case, whenever the economic recovery starts in India, individual consumption will be boosted.
- The other option is for the governments (both at the Centre and the states) to

decide to levy higher taxes on oil.

- This can work to boost the government revenues.
- If it chooses to cut retail fuel prices by foregoing some excise revenue for a while, the wider economy could get the much-needed momentum.

Source: The Hindu, Indian Express

Quick Facts

Brent Crude

- When it comes to physical oil, there are different grades.
- The most popular traded grades are:
 1. Brent North Sea Crude (commonly known as Brent Crude)
 2. West Texas Intermediate (commonly known as WTI)
- Brent refers to oil that is produced in the Brent oil fields and other sites in the North Sea.
- Brent Crude's price is the benchmark for African, European, and Middle Eastern crude oil.
- The pricing mechanism for Brent dictates the value of roughly two-thirds of the world's crude oil production.

