Oil Prices Rise

What is the issue?

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- Crude oil prices have risen to their highest level since late-2014.
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- 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.
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- It was priced around $27 a barrel as late as January 2015.
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- It has recently breached $75 per barrel.
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- The price rise is driven by a deepening economic crisis in Venezuela.
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- 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.
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- Worryingly, India primarily meets its **energy needs** through **imports**.
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- 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**.
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- 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).
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- This allowed oil marketing companies (OMCs) to revise fuel prices daily.
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- 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.
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- 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%.
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- This would impact the oil companies as they may face a capital crunch.
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- India’s oil exploration and refinery upgradation efforts could slow down.
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- The performance of OMC stocks in the last few weeks also suggests that the markets are not convinced.
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- **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.
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- Worryingly, the decisions are largely influenced by political considerations such as elections.
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- The policy of transferring the burden to the OMCs by offloading the burden on consumers is unsustainable in the long run.
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- The government should opt to ease the burden of fuel taxes.
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- 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

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