Reducing dependency on Oil

What is the issue?

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India’s economic fortunes continue to be tied to the sharply fluctuating price of oil, warranting a proper policy response.

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What are the problems?

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- **Volume -** India has well over 80% of its oil demand being met through imports.
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- India thus clearly has a lot at stake as oil prices have risen by as much as 70% in rupee terms in the last one year.
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- India urged oil-producing countries to reduce the cost of energy in order to aid the global economy in its path towards recovery.
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- But countries like Saudi Arabia refused to openly commit to lower oil prices.
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- **Dollar Dependency -** India also called for a review of payment terms, demanding the partial use of the rupee instead of the U.S. dollar to pay for oil.
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- This is not happening given the absence of significant rival suppliers in the global oil market willing to help out India.
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- **Fall of rupee -** The current account deficit widened to 2.4% of GDP in the first quarter of 2018-19 and is expected to reach 3% for the full year.
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- The rupee, which is down about 16% since the beginning of the year, doesn’t seem to be showing any signs of recovery either.
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- All this will likely weigh negatively on the prospects of the Indian economy, the world’s fastest-growing, in the coming quarters.

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What are the measures taken?

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- The government had set a target in 2015 to reduce India's oil dependence by 10% to 67% (based on import dependence of 77% in 2014-15) by 2022.
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- Import dependence has only increased since then and the government is now looking for ways to raise domestic output.
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- Reforms initiated in the last four years in the oil and gas sector, including open acreage policy, pricing reforms and liberalised licensing policy was towards achieving this measure.
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- The government is looking at private investment to raise domestic oil and gas production, which has stagnated for the last few years while fuel demand has been rising by 5-6% annually.
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- Also, the recent decision to marginally cut taxes imposed on domestic fuels is unlikely to be of any significant help to consumers.
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What should be done?

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- There should be a steep cut in Central and State taxes for the benefit to carry through to the consumers. Click here to understand about Petrol Pricing Mechanism
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- Another long-term solution to the oil problem will be to increasingly tap into domestic sources of energy supply.
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- India should also simultaneously involve in encouraging consumers to switch to green alternatives.
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- In the short term, the government could look to **diversifying its international supplier base** to manage shocks better.
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Source: The Hindu

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