Reversing Trend in Oil Prices

What is the issue?

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- The declining trend in global crude oil prices has started to reverse.
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- It calls for the government to take notice and formulate appropriate energy policy in terms of price and energy options.
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What was the three year trend?

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- India witnessed a three-year oil bonanza starting from the 2014-15 period.
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- The average price of the Indian basket of crude oil was around $46 a barrel in the last year.
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- The resulting gains were substantial for the oil sector, the economy, and the government.
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- Oil companies began turning in higher profits and retail selling prices for petrol and diesel also relatively fell to an extent.
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- Resultantly, the Union government’s subsidy bill for petroleum products declined significantly.
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- It also used the opportunity to increase taxes on petroleum products to reap the benefits from falling crude oil prices.
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- Its excise duty collections during these three years saw a cumulative annual growth.
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- This in turn contributed to staying on the path of fiscal consolidation.
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What are the recent developments?

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- The declining trend in oil prices has started to take a turn from the beginning of 2017-18.
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- The average price of the Indian basket of crude oil has risen in the recent months.
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- The latest numbers crossed the $60-mark for the first time this year for two consecutive months.
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- Retail prices of petrol and diesel have also inched up compared to prices in the previous year.
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- In response, the government intervened recently to reduce excise duty on petrol and diesel, resulting in an annualised revenue loss.
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- As a consequence of higher crude oil prices, the government’s petroleum subsidy bill has also risen.
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How does the future look?

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- There are no signs of the international crude oil prices declining from their current elevated levels.
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- However, India’s energy demand in the next few decades is expected to increase faster than that of any other large country.
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- India's dependence on energy imports would also rise in the coming years.
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- Technological developments and sustainability issues are also getting to be considerable challenges.
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What should be done?

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- The challenges and limitations have to be considered in government's pricing of energy products and fiscal policy options.
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- The government should refocus its attention on an integrated energy policy.
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- The feasibility and scalability of the renewable energy sector should also be given enough focus in the energy policy.
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Source: Business Standard

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