Rising Oil Prices - Reasons and Impact

Why in news?

Crude oil prices have hit a two-year high with Brent crude rising above the $71 per barrel mark on 2nd June 2021.

Why are crude oil prices rising?

- In 2020, crude oil prices had reached a low of under $19 per barrel.
- So, key oil-producing countries made supply cuts to balance the prices.
- The Organisation of Petroleum Exporting Countries (OPEC) extended this supply cuts through the first 5 months of 2021.
- Saudi Arabia notably made an additional voluntary production cut of 1 million barrels per day between February and April 2021.
- There were also hopes of improving demand due to economic recoveries across geographies.
- With these, crude oil prices have been rising steadily since the beginning of 2021.
- In 2021 start, Brent Crude was trading at about $52 per barrel.

How will oil prices be in the coming days?

- Increased production and supply could lower the prices in the market.
- Saudi Arabia has started to reverse the voluntary supply cuts.
- Also, OPEC+ has announced that they would adhere to plans entailing a gradual increase in crude oil production.
- However, the gradual withdrawal of supply cuts is unlikely to have any significant impact on prices.
- This is because demand for petroleum products increases, spurred by increasing economic activity.
- Another expectation is the oil production in Iran, with hopeful removal of international sanctions.
- However, any increase in crude oil production from Iran would happen only gradually.
- And it may not destabilise crude oil prices.

How does high crude oil price impact India?

- Rising crude oil prices have contributed to petrol and diesel prices rising to

record high levels across the country.
- But oil marketing companies note that even current record-high prices are lower than what refiners should be charging in line with international prices.
- [The prices of petrol and diesel are benchmarked to a 15-day rolling average of the international prices of the petroleum products.]
- Also, prices are set to rise further unless there is a cut on levies on autofuels or a fall in crude oil prices.

- **Tax** - The central government had in 2020 hiked central excise duties on petrol by Rs 13 per litre and those on diesel by Rs 16 per litre.
- This was done to shore up revenues as economic activity fell due to the pandemic.
- Notably, state and central taxes account for about 58% of the pump price of petrol and 52% of that of diesel in Delhi presently (June 2021.)

Source: The Indian Express

