Spike in Oil Prices

What is the issue?

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- Oil prices have risen dramatically in recent weeks.
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- While the Indian government had stressed a great deal about deregulating the sector, it has been largely inconsistent with its actions.
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What is the world-wide trend in oil prices?

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- Tensions in West Asia and the recent US attack on Syria have also added to the market uncertainty that has been pushing the prices upwards.
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- But it is important to separate short-term volatility in oil prices owing to geopolitical tensions from longer-term trends in the oil market.
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- Even without the recent uncertainties, the price of Brent crude has risen to $72 a barrel (highest since 2014) from about $62 just a month ago.
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- Through coordinated action – “Organisation of the Petroleum Exporting Countries” (OPEC) seems to have succeeded in ending the market surplus.
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- Notably, OPEC cut production by around “201 thousand barrels” a day in March compared to February.
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- But despite this, oil supply rose by “180 thousand barrels” a day in March, as non-OPEC countries (like US) have jacked up their output to meet demand.
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- Additionally, experts have stated that the persistent high in oil prices might usher in the next wave of shale explorations to enhance supply.
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How has India’s oil policies been?

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- **Buyer Cartel -** India had mooted the idea of allying with other Asian oil buyer countries like China to bargain better prices with the OPEC members.
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- But this wasn’t followed up with supporting actions by the government.
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- **Liberal Market -** Global oil prices came crashing in 2014, but the government increased tax rates to keep the prices high.
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- It was stated as a way to make up for the subsidies and under-recovering that the oil PSU endured during the times of peak prices.
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- Subsequently, a pro-market reformist aura was constructed around the oil pricing policy, and the government completely deregulated prices.
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- Recently, PM Modi had again stressed the need for more ‘responsible’ oil pricing to ensure smooth and sustainable businesses and markets.
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- **Inconsistency –** But the recent increase in international crude oil prices have failed to push local petrol and diesel prices upwards in equal measures.
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- There has in fact been minimal increase in prices, which is probably due to the political pressure due to the crucial elections in Karnataka.
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- Such dilly-dallying due to a short-sighted vision is beneficial to none, and has also impacted the credibility of the government’s commitment to reforms.
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- Notably, this lack of trust is visible from the fact that stocks of oil PSU haven’t gained despite they being granted autonomy in fixing oil prices.
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Source: The Hindu

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