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EYE ON OIL: ON OIL PRICES AND INDIA

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

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The world's largest grouping of crude oil producers, commonly known as OPEC+, agreed on Sunday to extend ongoing production cuts into 2024 as it seeks to keep oil prices from falling amid concerns about a global economic slowdown. OPEC major and leading producer Saudi Arabia also voluntarily vowed to reduce output by an extra 1 million barrels per day (bpd) in July, sending international oil future contracts higher on Monday. The more than 20-nation OPEC+ bloc, which has been striving to curtail supply in order to support prices in the face of flagging demand, had in a surprise move in April announced additional output cuts amounting to 1.66 million bpd. That move's impact on prices was, however, shortlived and benchmark Brent crude futures have largely remained below $80 a barrel, after briefly rising above $87 in the wake of the surprise output cut in April. For India, which imports more than 80% of its crude oil requirements, the combined Saudi-cum-OPEC+ announcements of supply curtailment are a cause for some concern given the potential they have to push up global oil prices. Still, with India having sharply increased its purchase of crude from Russia since Moscow's invasion of Ukraine and the consequent western sanctions against Russian energy exports, the price India pays for an imported barrel of oil has been steadily declining.

As of last week's close, the average monthly price of India's crude oil basket had declined by as much as 38% from its June 2022 peak of $116.01 a barrel to $72.39. While there is a good likelihood for some near-term uptrend in global oil prices as a result of the latest OPEC+ move, India has through its stepped-up imports of Russian crude — it bought a third of its oil from the sanctions-hit country in March — substantially buffered itself from any appreciable adverse impact. Still, the softening in crude purchase prices has not percolated to the Indian consumer. Pump prices of petrol and diesel have remained unchanged since May 22, 2022, with the governments at the Centre and the States, and the oil marketing companies unwilling to forego any revenue, possibly as a way of insulating themselves from any rise in costs in the future. With retail inflation showing signs of easing in recent months and private consumption spending data showing a distinct lack of vigour as a result of the inflationary erosion in consumptive capacity, policymakers must reassess their stand on fuel prices. While the demand for bringing oil products under the ambit of GST so as to help rationalise fuel prices is unlikely to be met any time soon, especially given the revenue implications for States, the Centre can take the lead and provide a fiscal fillip to the economy by cutting its levies on the key transport fuels.

oil and gas - upstream activities / Saudi Arabia / India / taxes and duties

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