# RISING OIL PRICES AND IMPACT ON INDIAN ECONOMY.

Prof. Deshpande

The crude oil prices have crossed $125 per barrel in global markets. We in India (read the Government) have steadfastly refused to revise retail oil and gas prices. The last revision by official fiat took place when the oil prices were $67 per barrel! Thus, even after the price have nearly doubled, we continue to sell iol and it's products at hugely subsidised prices. This has, inevitably, resulted in huge under-recoveries for the public sector oil marketing companies. The private sector oil retailing firms have closed down for being in no position to compete with the PSU firms.

That the international price rise in petroleum has been sudden and rapid is no excuse to leave the PSU oil marketing companies to fend for themselves. True, much of the increase in oil price has come about with in a year. But the policy-dithering on the part of the center has resulted in huge under recoveries for oil distribution companies. Their losses from retail sales are estimated for the last fiscal at a mammoth $40 billion dollars or more than Rs.70,000 Crores of ruppees. Time is running out for the Government to put an end to this wholly unnecessary largesse being given out on a commodity so volatile as oil globally. There is no mistaking the fact that high oil prices have come to stay. On the contrary, there are international experts such as Goldman and Sach who have predicted that the oil prices will soon cross the $150 per barrel mark and then go on to crash even the $200 perbarrel level. The demand for oil is rising and is inelastic to a great extent. Just one example, there are around 700 million automobiles in the world; this figure will cross the 1.5 billion before the year 2015. With rising incomes in developing nations incuding India and China, you can expect them to contribute to a larger share in the incremental demand for fuel. High growth rates also push up industrial demand for oil in these nations.

India is hugely dependent on imported oil; more than 70% of our needs are met by global supplies. Home production of oil has hardly increased over the years. New oil and gas discoveries are few and far in between and by that time demand would have picked up to continue the supply mis-match. Typically, the Government which is in an election mode, has been shying away from taking 'harsh' decisions. It has also been busy tackling enemy number one- inflation. Apparently, it has' done every thing it could to reign in rising prices. But due to a combination of domestic and international factors, inflation is going up and is now hovering around 8%.

This time the culprits for causing higher rate of inflation are the PSU oil marketing companies. They have started buying dollars in a big way as oil prices have risen sharply in recent times. This has resulted in ruppee losing ground after fairly long gap. Rising dollar value is disastrous for iol marketing companies which are already under sever strain due to huge under recoveries. The Government had promised to support them by bearing 57% of under recoveries ( by issuing oil bonds). Now the FM is reported to have accepted to reimburse only 50% of the shortfall. Left with no option, oil companies have decided to stop new LPG connections. Though this may help in a small way temporarily, it will drive gas connections to black market and hoarding. Similarly, oil companies have also decided to sell only the premium petrol and diesel in metros. As the prices of these products are slightly higher, it would help to reduce the losses. A domestic cylinder is sold at Rs.295 in Delhi and subsidy which the company gets from the Union budget is a paltry Rs.22.58. As against this, at current prices of gas, the price of a cylinder is to be in the region of Rs.630!

There simply is no option except to revise the prices of petroleum products in line with global prices. Revenue losses for the fiscal 2008-09 are estimated at a staggering Rs. 1,80,000 Crores! It is not just the successive petroleum Ministers who are responsible for the mess in the carbon sector, Governments including the cabinet are reponsible for this sorry state of fairs. Sooner we let the oil companies fix the retail oil prices, better it would be for all stake holders. Otherwise, it will continue to be a drain on the exchequer and a wholly avoidable 'tax' on the poor.