Uncertain times: On India’s oil imports

This article is related to General Studies Paper-III- (Indian Economy)

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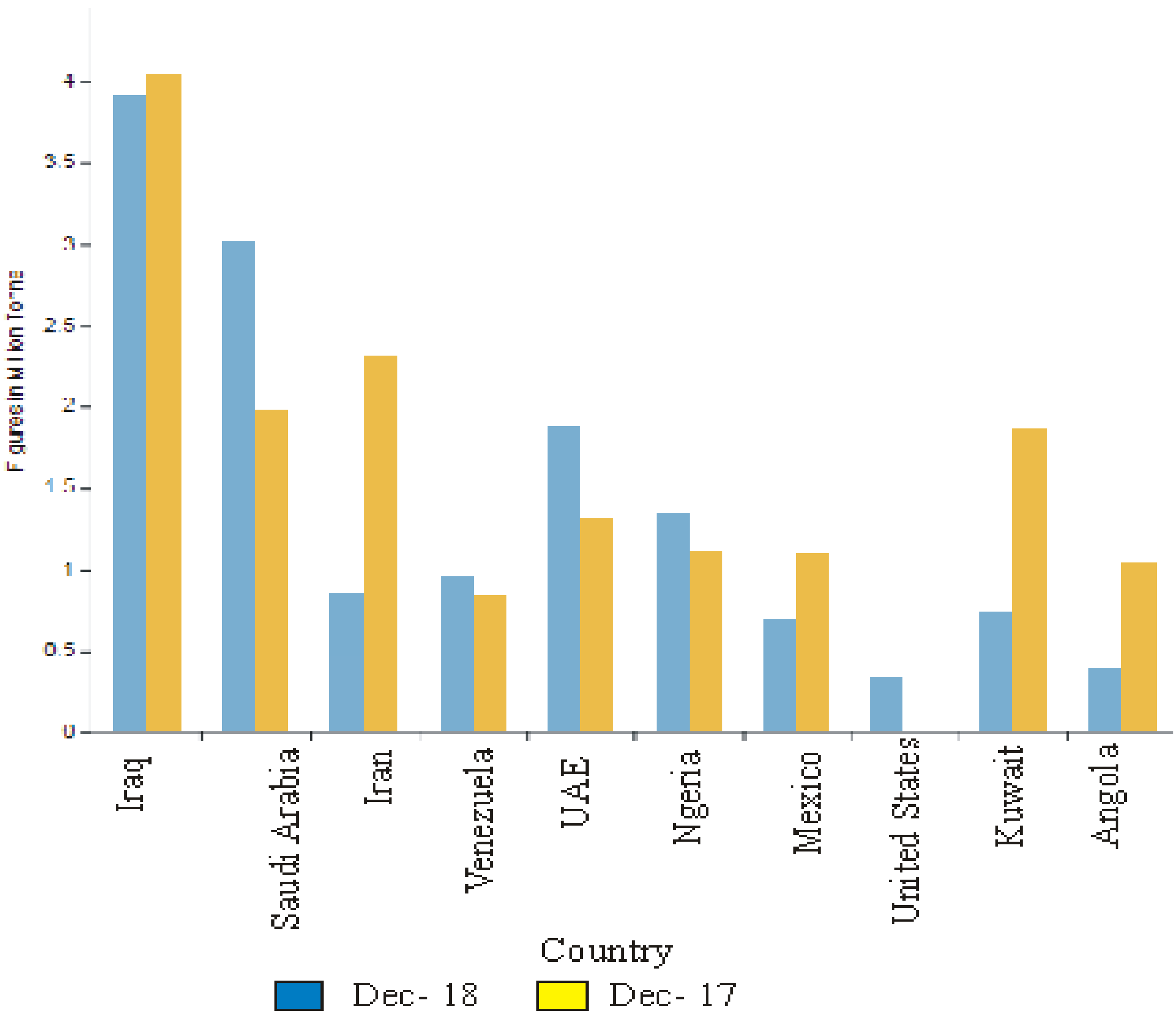
"India needs to diversify its oil supplier base and increase domestic sources of energy."

The oil market is in ferment once again with a great deal of uncertainty over supplies. On Monday the United States announced that it would not extend beyond May 1 the 180-day waiver it had granted to eight countries, including India, to purchase oil from Iran. This caused the price of Brent crude oil to witness a sudden jump to more than $75, from last week’s close of $71.97, as traders expected the withdrawal of the

India's oil imports in December 2018 (Source-wise)



waivers to adversely affect the supply of oil in the market.

The price of Brent crude, it is worth noting, has been rising steadily in the last few months, and has increased by almost 50% since it hit a low of about \$50 in December, as a result of the decision of the Organisation of the Petroleum Exporting Countries (OPEC) to restrict their output to boost prices. India imports more than 10% of its crude oil from Iran, so the government faces the immediate challenge of having to find alternative suppliers to meet its huge energy needs.

Even more worrying is the likely negative impact higher oil prices will have on India's current account deficit, fiscal deficit and inflation in the wider economy. The current account deficit, which narrowed to 2.5% of GDP in the December quarter thanks to lower oil prices, will likely worsen going forward. The fiscal deficit, which has been widening in advance of the elections, is also likely to get increasingly out of control. While inflation is relatively benign at the moment, any further acceleration in price gains will tie the hands of the Reserve Bank of India.

It may, however, be hard to say for sure that the jump in the price of oil this week, and over the last few months, marks a secular rise in the price of the commodity. The entry of U.S. shale producers into the oil market has put a lid on the price of oil as freely competing shale suppliers have been happy to increase their output whenever oil prices rise significantly.

Even this week, the oil market has been torn between the news of the end to the waivers granted to oil imports from Iran and competing news of the increased supply of oil pouring into the market from the U.S. Higher oil prices also make it lucrative each time for members of OPEC to cheat on their commitments to restrict supply.

If India is to protect its interests in the ever-volatile global oil market, the government will need to take steps to diversify its supplier base and also work towards increasing domestic sources of energy supplies. Opening up the renewable energy sector for more investments will also help avoid over-dependence on oil from the global market to meet the country's ever-increasing energy needs.

GS World Team...

Rising oil prices

Why in the discussion?

- Recently, the US has decided to discontinue the relation to the restriction of oil import restrictions, the Significant Reduction Exceptions (SREs) from Iran. Due to which the possibility of increasing the prices of crude oil has increased significantly.

key points

- In November last year, the US had given a concession to India and seven other countries for importing oil from Iran for a period of 180 days, which will end on May 2.
- India, China, Japan, South Korea and Turkey will be most affected by this decision.
- Italy, Greece and Taiwan (the countries currently discounted) are the three countries that have already zeroed their imports.

Effect of restriction

- The main source of Iran's revenue is the oil export which will be in crisis due to restrictions.
- In 2018 Iran's share in global oil production was 4%. There is likely to be an impact on global oil supply chains after Iran's sanctions.
- There may be significant increase in oil prices due to interruption in supply.
- The world's three largest energy producers, America, Saudi Arabia and the United Arab Emirates have said they will ensure adequate supply in the global oil market.

- The United States has said that it will curb financial strain on any institution or company that violates oil restrictions, in which Such restrictions are included companies prohibit the use of Swift Banking International Transaction System, the seizure of any American assets and transactions in dollars.

Influence on India

- **Oil supply for refineries:** This decision of US is likely to have a great impact on India.
- The US has recently banned another top supplier Venezuela, Venezuela. In these circumstances, the recent decision of the US can create problems for India.
- An increase in the import bill will put pressure on the rupee. Increase in crude oil prices will increase inflation.
- Iran granted privilege to India
- Iran gives a credit limit of 30 days to other countries and India 60 days.
- Iran also provided facility to pay India directly in rupees. It was arranged in that 55% of the total amount will be paid in European banks and the remaining 45% will be paid in India-based bank, which will be used for import from India.
- After this, in the event of closure of payments by European banks, Iran provided India with a 100% payment in rupees, the system continued with Iran until the P5+1 treaty was concluded.
- Again, 55% payment in Euro and 45% in rupees was provisioned.
- Iran also offers a discount in freight for the supply of crude oil to India.

Expected Questions (Prelims Exams)

1. Consider the following statements-

1. OPEC is a permanent, inter-governmental organization, which was established during the Baghdad conference organized in September 1960.
2. United Arab Emirates is one of OPEC's founding members.
3. Recently, Qatar has postponed its membership from OPEC.
4. OPEC headquarter is located in Dubai.

Which of the above statements is/are correct?

(a) Only 1

(b) 1 and 3

(c) 1, 3 and 4

(d) All of the above

Expected Questions (Mains Exams)

Q. In present global scenerio, the increasing Crude Oil price is negetively affecting Indian economy.India must have to search for an alternative energy source for the solution of this severe problem. Discuss the steps taken by the goverment in this direction till now.

(250 Words)

Note: Answer of Prelims Expected Question given on 25 Apr. is 1(c), 2 (c)