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Assessment of Present Economic Scenario in India "A Study on the Factors Situation Influencing Petroleum Industry"

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ABSTRACT: *This paper deals with present economic scenario in indian petroleum industries. To analyze the reason for hike in petroleum product price level and provide the corrective measure to reduce the cost of product as much as possible. With today's unstable and extremely focused worldwide market, escalated by expanding for advanced items from requesting clients, government have begun to understand the criticalness of petroleum fare. Domesticated utilization of petroleum items in 2011-12 enlisted a development of 5% (as contrasted with 8% GDP development). In view of provincial utilization of petroleum items, import dependence for oil in India was 76% in 2011-12 and dependent upon the relative development sought after and preparation, it is evaluated that oil dependence will be as high as 85 for every penny in 2020. As far as using, as a nation we use, around 80-90% of import bill on petroleum items. The reason for this paper is to inspect the criticalness of cash variance and the choices availabilities to decrease the cost level.*

Keywords: *Economy of India, petrol price hike, need for change in petrol price, need for change in petroleum industry, inflation strategy, present day economic scenario.*

I. INTRODUCTION

The economy of India is the tenth-largest in the world by nominal GDP and the third-largest by Purchasing Power Parity (PPP). The country is one of the G-20 Major Economies and a member of BRICS. On a per-capita-income basis, India ranked 141st by nominal GDP and 130th by GDP (PPP) in 2012, according to the IMF. India is the 19th largest exporter and the 10th larger importer in the world. The economy slowed to around 5.0% for the 2012–13 fiscal year compared with 6.2% in the previous fiscal. On August 28, 2013 the Indian rupee hit an all-time low of 68.80 against the US dollar. In order to control the fall in rupee, the government introduced capital controls on outward investment by both corporates and individuals. India's GDP grew by 9.3% in 2010–11; thus, the growth rate has nearly halved in just three years. GDP growth rose marginally to 4.8% during the quarter through March 2013, from about 4.7% in the previous quarter. The government has forecast a growth rate of 6.1%-6.7% for the year 2013–14, whilst the RBI expects the same to be at 5.7%. Besides this, India suffered a very high fiscal deficit of US$ 88 billion (4.8% of GDP) in the year 2012–13. The Indian Government aims to cut the fiscal deficit to US$ 70 billion or 3.7% of GDP by 2013–14 [2].

In 1991, India adopted liberal and free-market principles and liberalized its economy to international trade under the guidance of Former Finance minister Manmohan Singh under the Prime Ministry of P.V. Narasimha Rao, prime minister from 1991 to 1996, who had eliminated License Raj, a pre- and post-British era mechanism of strict government controls on setting up new industry. Following these major economic reforms, and a strong focus on developing national infrastructure such as the Golden Quadrilateral project by former Prime Minister Atal Bihari Vajpayee, the country's economic growth progressed at a rapid pace, with relatively large increases in per-capita incomes [2].

1.1. Refinery in petroleum production:

Out of the 21 refineries operating in the country, 17 are in public sector, three in private sector, and one is a joint venture of BPCL and Oman Oil Company (6 MT a year refinery at Bina in Madhya Pradesh). "The refinery capacity is further expected to increase to 214.07 million tonnes per annum by the end of 2011-12," it said. Though the document did not name the new units that would be commissioned, it may be alluding to almost complete 9 MT Bhatinda refinery that has been built by a joint venture of state-owned Hindustan Petroleum and steel baron Lakhsmi Mittal-controlled Mittal Investment Sarl. Also, Essar Oil is expanding its Vadinar refinery in Gujarat to 18 MT from current 14 MT.

The Survey said refinery production (crude throughput) during 2010-11 had reached 206.15 MT (including Jamnagar Refinery under a special economic zone by Reliance Industries Ltd), showing an increase of 6.9 per cent compared to 192.77 MT in 2009-10. During the current financial year (April-December), refinery production was 158.26 MT. "The country is not only self-sufficient in refining capacity for its domestic consumption but also substantially exports petroleum products," it said. During 2010-11, the country exported 59.13 MT of petroleum products worth Rs 1, 96,112 crore [6].

India's oil reserves meet 25% of the country's domestic oil demand. As of 2009, India's total proven oil reserves stood at 775 million metric tonnes while gas reserves stood at 1074 billion cubic meters. Oil and natural gas fields are located offshore at Mumbai High, Krishna Godavari Basin and the Cauvery Delta, and onshore mainly in the States of Assam, Gujarat and Rajasthan. India is the fourth largest consumer of oil in the world and imported $82.1 billion worth of oil in the first three quarters of 2010, which had an adverse effect on its current account deficit. The petroleum industry in India mostly consists of public sector companies such as Oil & Natural Gas Corporation **(ONGC)**, Hindustan Petroleum Corporation Limited **(HPCL)**, Bharat Petroleum Corporation Limited **(BPCL)** and Indian Oil Corporation Limited **(IOCL)**. There are some major private Indian companies in the oil sector such as Reliance Industries Limited **(RIL)** which operates the world's largest oil refining complex [2].

II. REVIEW OF LITERATURE AND RELATED STUDIES

The Economic Survey has called for addressing the key issues of petroleum subsidies, clarity on gas pricing policy, petroleum price distortion and concerns over various disputes pertaining to the New Exploration Licensing Policy (NELP).

“Addressing the key fiscal risk of petroleum subsidies is critical in better fiscal marksmanship,” the Survey said. The overall subsidy bill of the government, it said, was likely to overshoot the target of Rs.1.79 lakh crore this financial year due to higher crude oil prices. The government had put the petroleum products subsidy at Rs.43, 580 crore, food subsidy at Rs.75, 000 crore and fertilizer subsidy at Rs.60, 974 crore, taking the total subsidy bill to Rs.1, 79,554 crore for 2012-13. “With recent reforms in diesel prices and efforts at expenditure re-prioritization, the medium-term fiscal consolidation plan is credible, and could yet again yield macro-economic dividends in terms of higher growth and price stability,” the survey said.

“The short-run action needed to remove impediments to implementation of projects in infrastructure, especially in the area of energy, includes clarity in terms of NELP. The long-term strategy should focus on issues like petroleum price distortion and natural gas pricing. The government appreciates the economic role of rational energy pricing. Rational energy prices provide the right signals to both the producers and consumers and lead to a demand-supply match, providing incentives for reducing consumption on one hand and stimulating production on the other,’’ it stated.

Over the years, India’s energy prices had become misaligned and were now much lower than global prices for many products, it said. The extent of misalignment was substantial, leading to large untargeted subsidies, it added. The high level of global crude oil prices also had a bearing on fertilizer subsidy as there was inadequate pass through in urea prices, it said. Food subsidy had been growing at an average annual rate of 25.4 per cent in the last five years, and the bulk of it was accounted for by the Targeted Public Distribution System (TPDS), it pointed out [5].

Has the still-threatening global financial crisis really signaled the weaknesses of Economics, the scientific discipline as we know it? This question has inspired a volume of essays from Y. V. Reddy.

Navigating through the debates between 2010 and 2012 on the continuing global financial crisis, Economic Policies and India's Reform Agenda: New Thinking reflects the confidence of the former central banker who steered the nation's banks to safer waters.

Reddy seeks a change in economic thought and policy-making. Arguing for a three-fold shift in the discipline, he calls for broadening the focus of policy-makers, improvisation in the tools employed by economists and an emphasis on empirical evidence. This new thinking, he says, will contribute to India's accelerated development.

New Thinking addresses three concerns of economic thought for a developing economy: public policy after the crisis, the role of the financial sector in development, and the lessons learnt from world economies. Novel in approach, this volume critically examines India's development strategies and suggests a redefining of the role of the financial sector in accelerating development. The author's observations on other developing economies and analyses of the diverse uncertainties enable a comprehensive understanding of the influence of global factors on the reform agenda for India.

Reddy's New Thinking is built on experience that is gifted with foresight and understanding of theory. His language is fluid, his ideas objective, his prescriptions visionary. This collection will inspire debates, and encourage fresh perspectives on attaining the desired growth rate in India. As it addresses a readership committed to developments in the Indian economy, his analyses are certain to question some popular convictions on the country's economic thought and policies [3].

2.1. Current Status of Refining in India?

There are 18 refineries in India operating both in public and private sector with a total capacity of 2.5 MBD (million barrels per day). Reliance refinery at Jamnagar is the biggest. As a matter of fact this refinery is the fourth largest in the world. After expansion in four years, this refinery will process 1.2 million Barrels a day. The smallest refinery is in Guwahati, Assam with 0.1 million barrels a day capacity. Other refineries are medium sized with high cost of production and are spread all over the country to facilitate distribution. Reliance of its own is not a petroleum marketing organization. It supplies the marketing network of Bharat Petroleum, Indian Oil, Hindustan and others. With huge capacity and concentrated effort in refining only, the company is a low cost producer. Essar in Jamnagar is also in the same position. Its refining capacity is not as big as Reliance, but at about 0.7 million barrels a day, it is close behind. This location together with all existing refineries is sufficient to meet India's demand. A 10% surplus is exported out. In the current year, statistics indicate that about 0.15 MBD of petroleum products were exported. The value added contents of exports earn about $3 to 4 per barrel margin. This is a significant hard cash earned from the existing infrastructure. What gives India the edge is its lower crude shipping cost and lower labor costs?

In four years, India's demand will boost to about 3.2 MBP. The capacity at that time is expected to be about 3.6 MBD. This will allow the country to export about 0.4 MBD of the petroleum products. It is a significant boost to the county's value added exports (diamond cutting and polishing industry operates on a similar value added structure, although at a bit higher margins) [4].

2.2. Economics of Refining and Export

Economics of a large export oriented refinery is a complex mixture of product up-gradation, shipping costs, type of crude processed, local labor costs, capital involved, taxes etc. The crude oil has a direct impact but its cost is passed on to the buyer directly. A well-run refinery generates about $ 8 to $16 margin per barrel of crude processed (Singapore is the key example). Indian refineries have the margin at about half the above amount, primarily due to all the above factors except the shipping costs. Downstream product mix and capability to switch between product mixes at the manufacturing site is the dominant factor, which enhances or reduces the margin. Hence if export oriented refining capacity is to be built then it has to have a flexible production capability. These days, gasoline and aviation fuel prices have surged far ahead of others, due to supply shortage. At other times it is the fuel rich products, which may be the dominant need. An export-oriented refinery has to be able to deliver either of the product mix without a serious disruption.

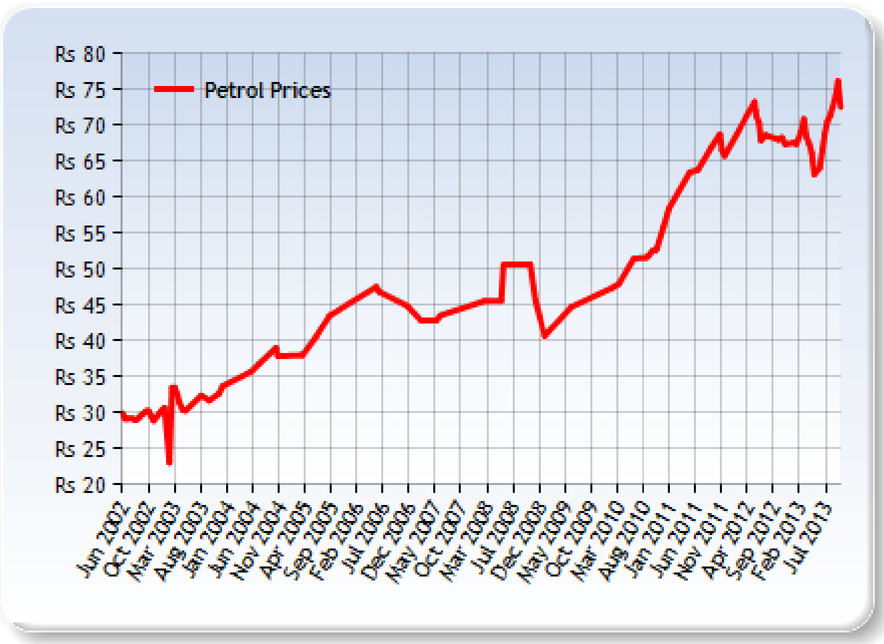
A brown field refinery in around Jamnagar may cost about 15% less to build. A 1.0 MBP refinery at a brown field site today will cost about $ 2.5 to $3.0 Billion. This is a very large capital investment. Indian interests alone cannot undertake it. FDI (Foreign Direct Investment) and imported technology will play an important role. Already Government of India under the leadership of its Petroleum Minister has initiated studies to investigate all possibilities. Surprisingly external interests in setting up exported oriented refineries have been well developed. Shell Global and BP are the primary candidates. They may also participate financially in these ventures. For external interests to participate, it is important that India offer them incentives, tax breaks and a welcome mat.

Smaller refineries farther from coast can be expanded to meet the local demand with internal resources [4].

2.3. Historical Petrol Price Chart India

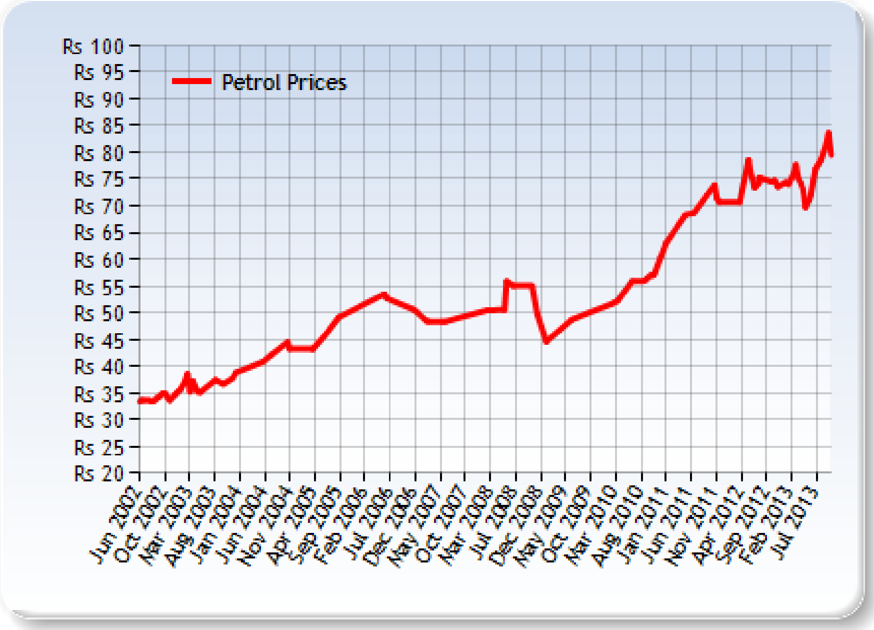
We have collected historical Petrol prices in India since the year 2002. We cover all the metro cities in India and have created a graph for each city - Delhi Petrol price hike chart, Kolkata Petrol price hike chart, Mumbai Petrol price hike chart and Chennai Petrol price hike chart. We hope that the graphs provide an insight on the Petrol price increase.

Fig: 2.3.1 – Shows the Petrol Price Hike level in Delhi



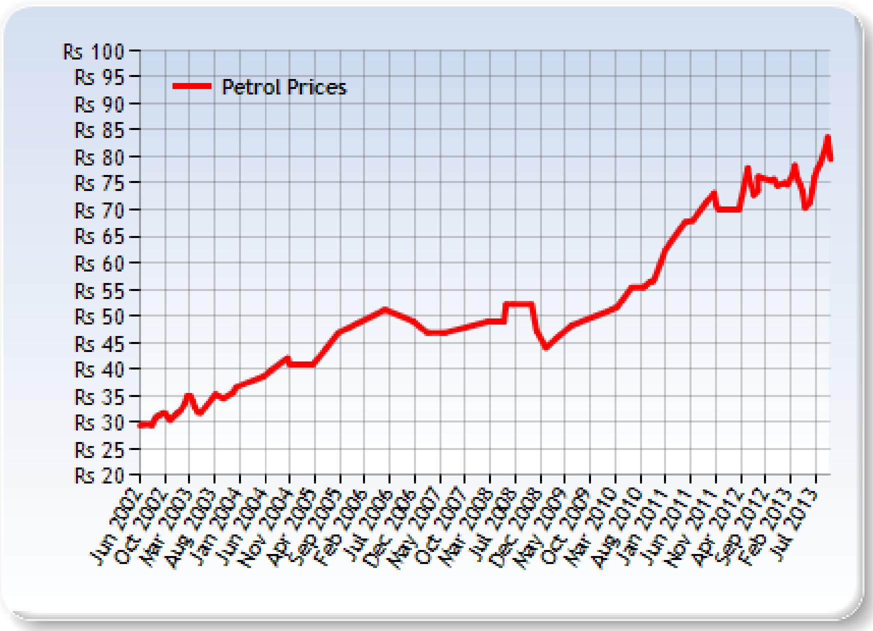
Delhi Petrol Price (Source:www.mypetrolprice.com)

Fig: 2.3.2 – Shows the Petrol Price Hike level in Kolkata



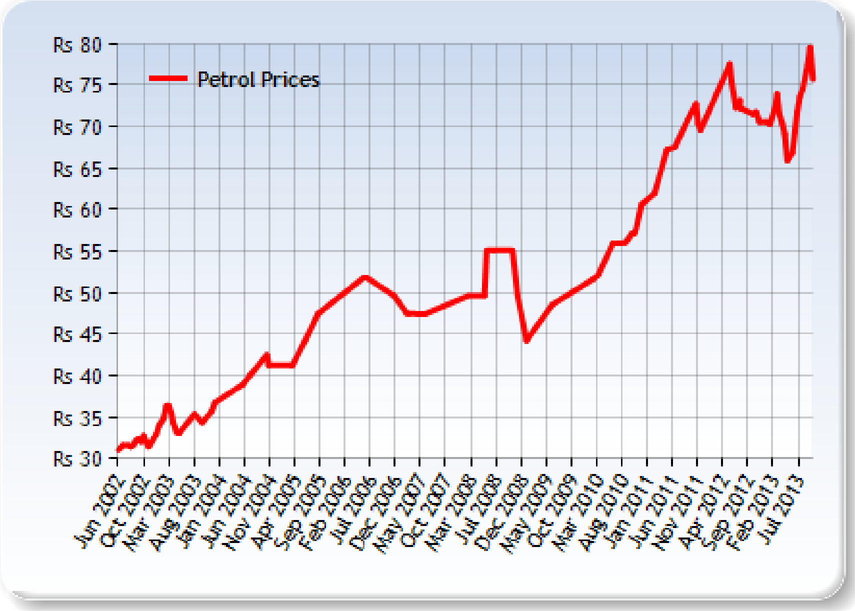
Kolkata Petrol Price (Source:www.mypetrolprice.com)

Fig: 2.3.2 – Shows the Petrol Price Hike level in Mumbai



Mumbai Petrol Price (Source:www.mypetrolprice.com)

Fig: 2.3.2 – Shows the Petrol Price Hike level in Chennai



Chennai Petrol Price (Source:www.mypetrolprice.com)

2.4. Petroleum Pricing Policy in India: Need for Change

India is one of the quickest developing economies of the world. In the meantime, the nation is additionally home to very nearly one fifth of the aggregate world population. With such a gigantic lump of the world population and development rate of the economy drifting around 8 to 9 percent per annum for most recent five years, the interest for the petroleum items is expectedly high. Remembering the social and monetary repercussions the legislature has dependably remained included with the valuing and supply of these items.

The explanations behind the immediate association of the administration are not troublesome to look for. While the interest for the petroleum items is climbing by very nearly 15 for every penny for every annum, the household processing of the raw petroleum has basically remained stagnant in the course of the most recent two decades, making the nation vigorously subject to the import of unrefined.

Further, the quickly improving economy requires petroleum items like diesel and petrol in immense amounts for convey products over this unfathomable nation. Diesel is likewise utilized by numerous commercial ventures as a basic enter for processing. The blasting car part of the nation additionally needs a considerable measure of petrol and diesel at sensible costs. Accordingly, any steep build in the costs of oil antagonistically influences the Indian economy.

More than 250 million individuals in the nation live underneath destitution line and there is a dominant part of populace grouped as the working class. It is the avocation of the legislature to give the cooking fuel to the poorer segments at competitive rate and the administration has been proceeding with its approach of subsidizing lamp fuel intensely. In the meantime, the white collar class, constituting dominant part of the number of inhabitants in the nation, can't manage the cost of the LPG at the business rate and consequently the legislature needs to subsidize the LPG also.

Instantly after autonomy the expense acknowledgment to the oil organizations in the nation was connected to the 'import equality' sort of valuing, regarded as the 'Value Stock Pricing' (VSA). This instrument was essentially an expense in addition to equation to the import value, which incorporated included components of every last one of expenses, for example transporting charges upto the Indian ports, protection, travel misfortunes, import obligations and different demands and charges.

The VSA was accompanied by the Administered Price Mechanism (APM) which truly included manufactured value altering by the legislature now and again and trek or decrease in the costs turn into a political choice, as opposed to being a balanced monetary choice. The choice to disassemble the APM was pointed at progressively moving from fake estimating of petroleum items towards a setup where the value is dead set by the business compels of interest and supply. Henceforth, as a cognizant strategy choice, the legislature carried into the energy another estimating instrument with impact from April 1, 2002.

The new system was intended to halfway separate the costs of petroleum items in the nation from unstable universal unrefined petroleum costs. In the meantime it was to guarantee that the costs of certain items like lamp oil (Kerosene) and LPG remained sponsored according to the government policy.
It was normal that the new valuing instrument might be the first stage to advance towards an estimating system dependent upon the connection of the business strengths.

While the shortcomings of the new framework had gone to the fore throughout the previous six years of its implementation, the later spurt in the worldwide unrefined costs has totally uncovered the flip side of it. While conceiving the new system six years prior, neither man nor woman had suspected that the worldwide rough costs might be near $150 for every barrel.

A standout amongst the most noticeable contentions progressed by the Central government in favour of the later steep trek in the costs of the petroleum items was that the oil organizations were enduring overwhelming misfortunes and must be rescued. This rationale, be that as it may, uncovered the illogical of arrangement of evaluating these items. Assuming that the point was to impact the import cost recuperation, the same severely lost center in the past years and the value determination for this segment has again ended up being a simply political choice.

While the nation is undoubtedly needy intensely on imports, just about one fourth of the aggregate unrefined prerequisite is met by residential preparation. The point when value for every barrel of unrefined petroleum is talked over, the way that one fourth of the sum supply of the rough is met locally is over-looked. Locally processed unrefined petroleum costs the country something around $55 for every barrel and if the worldwide cost is taken to be around $150 for every barrel, the normal weighted household value comes to be around $122 for every barrel. The point when changed over to for every liter, it fetches the nation about Rs 31 for every liter. The refining and circulation expenses incorporated, the normal cost of petroleum items like diesel and petrol ought not be more than Rs 35 for every liter, while the normal rate of these products has been settled higher.

In the meantime it ought not to be overlooked that the petroleum items are the most burdened products in the nation. Assuming that the legislature is such a great amount of worried about the costs of the petroleum items, it should lessen the excise duty and the VAT rates the nation over. Anyway such a choice might bring about misfortune of income. It would seem that the misfortune to the oil organizations is a myth made by the administration to ensure its own incomes.
The execution of general society division oil organizations does not propose that these organizations are under any danger of losing out their benefits after the worldwide rough cost increment. Their benefits have truly expanded.

2.5. The Alternative

The rationale behind the degree of increment in costs is not, one or the other comprehended by the overall population and nor is transparent. Under the present situation, where the unrefined petroleum costs are fluctuating with upward pattern, the evaluating instrument has ended up considerably more suspect.

At the same time the government does not have numerous choices. One alternative is to do a reversal to the past APM administration, having zero transparency. Be that as it may such a stage might be retrograde in nature. Even if re-presented with certain changes, the APM might neglect to come up to the desires of the consumers.

Second alternative is to switch over the business driven framework under which the government might have minimal part in determination of petroleum costs. Might as well the legislature choose to go in for this administration, numerous earlier movements are obliged to be taken. The legislature should need to disassemble the administration of subsidies in admiration of diesel, LPG and lamp fuel by and large. Assuming that the subsidies are not to be scrapped by and large and are to be furnished to the focused on aggregation of individuals (viz. those living beneath poverty line), then a divide dispersion arrange needs to be recognized to coddle their necessities.

III. CONCLUSION

Such a framework, be that as it may, may be politically unsatisfactory to a large portion of the political gatherings. All the more especially in **the present day situation**, when the inflationary forces are at their top.

The result lies in suitably adjusting the existing framework to a huge degree. The progressions should point at diminishing the tact currently figuring out the costs of the petroleum items. Determination of costs ought to be more transparent, with sufficient and overall characterized part of the business powers. Subsidization of the items like lamp oil and LPG may as well just be focused to the individuals living underneath the poverty line by devising a suitable instrument. Remaining subsidies must be withdrawn by sticking to a recommended / prescribed timeline.

An inference has been made that distinctive sorts of diesels ought to be utilized for trucks and luxury autos. It bodes well for supply diesel at subsidized rate for the possessor of a luxury diesel auto. It is high time that the tracks likewise exchanged over to the utilization of 100% power for running the trains. For transport vehicles Compressed Natural Gas (CNG) ought to be utilized, which is less polluting, from one perspective, and might bring about freeing the products transport part from the utilization of diesel, on the other.

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