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*Country: Republic of India*

*Committee: ECOFIN – Economic and Financial Affairs Council*

*Agenda: Drop in global oil prices*

*“Oil prices affect everyone; either for the better or of course, for the worse.”*

* *Timothy Lane, Deputy Governor; Bank of Canada*

*Description of agenda:*

Oil prices fell sharply in the second half of 2014, bringing an end to a four year period of stability of price hovering around $105/barrel. The decline in price, which is much larger than the decline in non – oil commodity prices, may signal the end of a price ‘supercycle’. Oil prices are expected to rise only marginally in 2016. Still, the direction of oil prices is uncertain and there is a very real possibility that they may remain low for, in fact, several years. Despite advances in alternative fuels, and efforts at conservation, oil remains to be the life and blood of the world economy; and essentially seems to be the only practical and meaningful transportation fuel.

As such, lower oil prices will have enormous economic and political consequences that will be felt across the globe; in, of course, a variety of ways.

*Delegation policy:*

India recognises that oil importers would be affected by a slowdown in oil exporting countries. Sustained low oil prices will weaken activity in exporting countries, which would trigger adverse spillovers to trading partners and recipient countries to official support.

The decline in oil prices has significant macroeconomic, financial, and policy implications. If sustained; in fact, oil prices will support activity and reduce inflationary and fiscal pressures in oil importing countries. On the other hand, low prices would affect oil exporting countries quite adversely by weakening fiscal positions and reducing economic activity – or by leading to substantial volatility in financial markets; such as in the last quarter of 2014.

However, this decline in oil prices presents a significant window of opportunity for India to reform energy taxes and fuel subsidies, which are quite substantial in the country. Already, the central government is proposing to increase transfers to our regional governments in order to pave the way for the acceptance of reforms that the central government will advocate.

India hopes that this decline in oil prices also serves as a reminder for oil – exporting countries to reinvigorate reforms in order to diversify oil reliant economies.