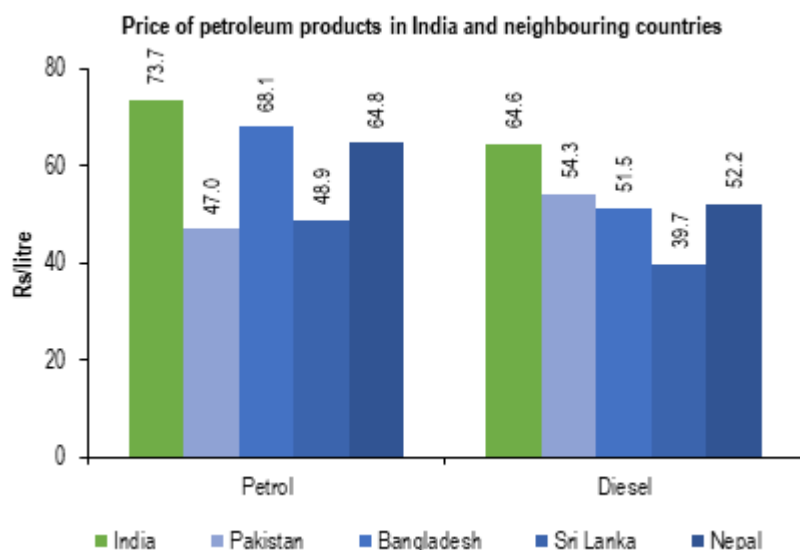


## the PRS Blog » What impacts petroleum prices?

Over the last few days, the retail prices of petrol and diesel have touched an all-time high. In Delhi, [petrol was selling at 74.6/litre](#) on April 25, 2018, while [diesel was at 66/litre](#).

Petroleum products are used as raw materials in various sectors and industries such as transport and petrochemicals. These products may also be used in factories to operate machinery or generators. Any fluctuation in the price of petrol and diesel impacts the production and transport costs of various items. When compared to other neighbouring countries, India has the highest prices for petrol and diesel.



Note: Prices as on April 1, 2018. Prices for India pertain to Delhi.

Sources: Petroleum Planning and Analysis Cell, Ministry of Petroleum and Natural Gas; PRS.

### How is the price of petrol and diesel fixed?

Historically, the price of petrol and diesel in India was regulated, i.e. the government was involved in the deciding the retail price. The government deregulated the pricing of petrol in 2010 and diesel in 2014. This allowed oil marketing companies to determine the price of these products, and revise them every fortnight.

Starting June 16, 2017, prices for petrol and diesel are [revised on a daily basis](#). This was done to with the idea that daily revision will reduce the [volatility in retail prices](#), and protect the consumer against [sharp fluctuations](#). The break-up of retail [prices of petrol](#) and [diesel in Delhi](#) on April 25, 2018 can be found below. As seen in the table, over 50% of the retail price of petrol comprises central and states taxes and the dealer's commission. In case of diesel, this amount is close to 40%.

**Table 1: Break-up of petrol and diesel prices in Delhi (on April 25, 2018)**

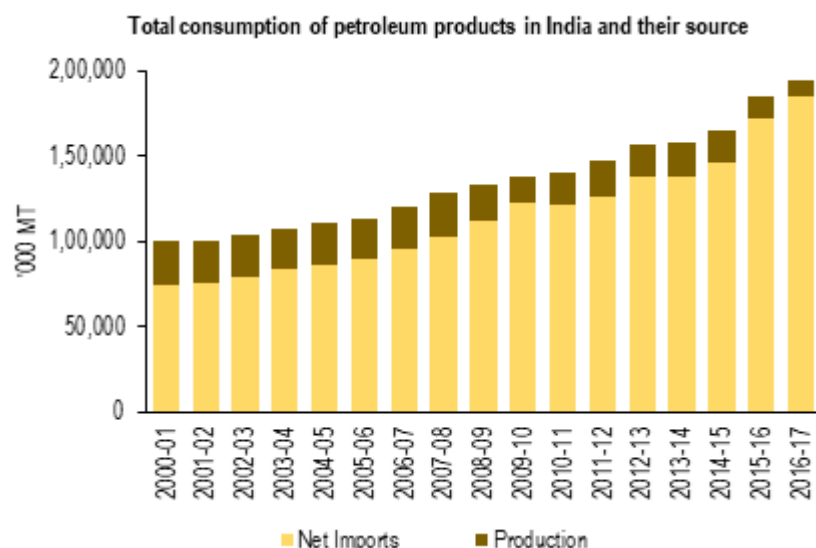
Component	Petrol		Diesel	
	Rs/litre	% of retail	Rs/litre	% of retail

		price		price
Price Charged to Dealers	35.7	48%	38.4	58%
Excise Duty (levied by centre)	19.5	26%	15.3	23%
Dealer Commission	3.6	5%	2.5	4%
VAT (levied by state)	15.9	21%	9.7	15%
<b>Retail Price</b>	<b>74.6</b>	<b>100%</b>	<b>65.9</b>	<b>100%</b>

Source: Price Build-up of Petrol and Diesel at Delhi effective April 25, 2018; Indian Oil Corporation Limited.

### Does India produce enough petroleum to support domestic consumption?

India imports 84% of the petroleum products consumed in the country. This implies that any change in the global prices of crude oil has a significant impact on the domestic price of petroleum products. In 2000-01, net import of petroleum products constituted 75% of the total consumption in the country. This increased to 95% in 2016-17. The figure below shows the amount of petroleum products consumed in the country, and the share of imports.



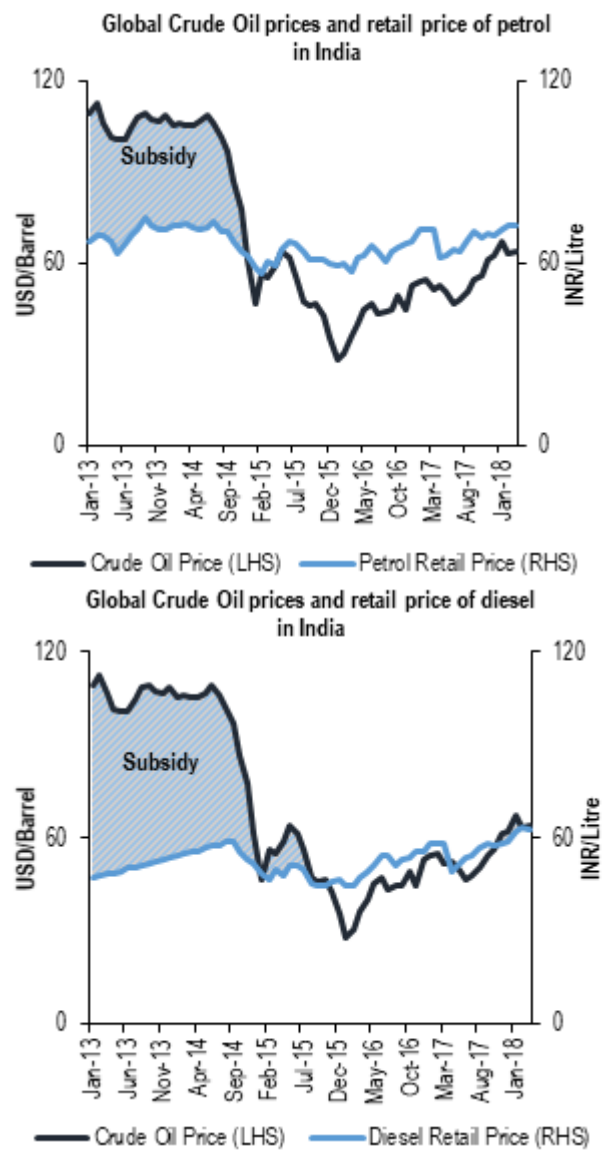
Note: Production is the difference between the total consumption in the country and the net imports.

Sources: Petroleum Planning and Analysis Cell; PRS.

### What has been the global trend in crude oil prices? How has this impacted prices in India?

Over the last five years, the global price of crude oil (Indian basket) has come down from USD 110 in January 2013 to USD 64 in March 2018, having touched a low of USD 28 in January 2016.

While there has been a 42% drop in the price of global crude over this five-period, the retail price of petrol in India has increased by 8%. During this period, the retail price of diesel increased by 33%. The two figures below show the trend in prices of global crude oil and retail price of petrol and diesel in India, over the last five years.



Note: Subsidy indicated in the graphs is notional. While calculating the subsidy amount, other factors such as cost of domestic inputs will also have to be accounted. Global Crude Oil Price is for the Indian basket. Figures reflect average monthly retail price of petrol and diesel in Delhi.

Sources: Petroleum Planning and Analysis Cell; Indian Oil Corporation Limited; PRS.

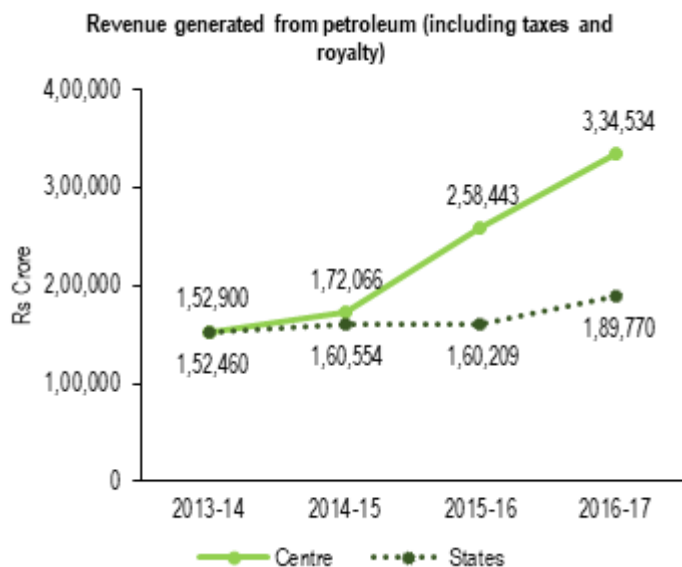
## How has the excise duty on petrol and diesel changed over the last few years?

Under the Constitution, the central government has the powers to tax the production of petroleum products, while states have the power to tax their sale. Petroleum has been kept outside the purview of the Goods and Services Tax (GST), till the GST Council decides.

Over the years, the central government has used taxes to prevent sharp fluctuations in the retail price of diesel and petrol. In the past, [when global crude oil prices have increased, duties have been cut](#). Since 2014, as global crude oil prices declined, excise duties have been increased.

Sources: Petroleum Planning and Analysis Cell; PRS.

As a consequence of the increase in duties, the central government's revenue from excise on petrol and diesel increased annually at a rate of 46% between 2013-14 and 2016-17. During the same period, the total sales tax collections of states (from petrol and diesel) increased annually by 9%. The figure below shows the trend in overall collections of the central and state governments from petroleum (including receipts from taxes, royalties, and dividends).



Notes: Data includes tax collections (from cesses, royalties, customs duty, central excise duty, state sales tax, octroi, and entry tax, among others), dividends paid to the government, and profit on oil exploration.

Data sources: Petroleum and Planning Analysis Cell; Central Board of Excise and Customs; Indian Oil Corporation Limited; PRS.

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