

Slow creep: on petrol and diesel prices

Petrol and diesel prices have crept up slowly over the last three months, but without inviting the kind of anger and criticism usually directed at such fuel price hikes. The price of petrol in Delhi, for instance, has cumulatively increased by almost 5 since the introduction of the daily pricing policy on June 16 this year. [Daily pricing](#) is now being seen by many as a ploy to increase prices while allowing the government to escape any political backlash. The government, for now, [has ruled out any change to the current pricing policy](#) arguing that it, in fact, ensures that the benefit of lower international crude oil prices is passed on to domestic consumers. A comparison of crude oil prices with domestic petrol and diesel prices, however, suggests that this argument is far from convincing. In 2012, when India purchased a barrel of crude for around \$120, a litre of petrol was sold at around 65 in retail fuel stations. Today, when the Indian crude basket price has dropped to around \$50, the retail price of petrol is well over the 70 mark. This does not come as much of a surprise. The deregulation of petrol and diesel pricing, in 2010 and 2014 respectively, caused fuel prices to be determined primarily by the forces of supply and demand rather than input costs. Traditionally, fuel prices were determined on a cost-plus basis, which led domestic prices to fall in line with the cost of inputs like crude oil.

Hike of fuel prices: On a glide path?

Still, lower international crude oil prices should have led to lower domestic fuel prices even under the free pricing regime, if not for the heavy taxes imposed on domestic fuels. Excise duty and value added tax are the main culprits in this regard. In fact, about half the price paid by the Indian end-consumer for petrol goes towards paying these taxes. The government's excise duty collection, for instance, has more than doubled during the period 2014-17, from 99,184 crore to 2,42,691 crore. This suggests quite clearly that the government, not the consumer, has been the biggest beneficiary of lower crude oil prices since 2014. These taxes impose an artificial limit on the amount of supply that can be profitably sold to the Indian consumer, which in turn leads to consumers paying higher prices for petrol and diesel. In fact, an alternative tax such as the goods and services tax (GST), even at its highest slab of 28%, would substantially lower the current tax burden on fuels. Apart from making petrol and diesel more affordable to many more people in the lower rungs of the economy, it will also decrease the economic distortions caused by extraordinarily high taxes imposed on automobile fuels that are widely used. Along with lower taxes, greater competition in the fuel retailing market will allow further cost efficiencies to kick in and lead to lower prices for consumers.

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