

The lowdown on the petrol pricing policy

Amid protests against the recent spike in petrol and diesel prices, Union Petroleum Minister Dharmendra Pradhan has ruled out the possibility of an end to the recently introduced policy of revising fuel prices daily. Since June 16 this year, petrol and diesel prices across the country have been revised on a daily basis, against the previous policy of revising prices every fortnight. By opting for daily pricing, India has joined advanced countries like the United States and others which follow the practice.

The daily pricing policy is in line with the government's efforts over the years to deregulate the pricing of essential fuels. The prices of petrol and diesel were first deregulated in 2010 and 2014 respectively, bringing in the practice of fortnightly revision of prices. The new daily pricing policy, the government argues, will now allow oil marketing companies such as Indian Oil, Bharat Petroleum Corporation, and others to price their products even better, that is, in accordance with their fluctuating input costs. The oil companies need not wait a fortnight to change prices, and it is believed that this would allow them to quickly pass on the benefit of lower crude oil prices to retail customers. Also, daily price revisions will reduce the risk of huge revisions in prices, which is more common under the fortnightly pricing policy.

The daily pricing policy has been blamed in recent weeks for the sharp increase in petrol and diesel prices. Fuel prices fell in the initial days after the implementation of the new policy, but have seen a sharp acceleration ever since. The price of petrol in metro cities like Delhi and Kolkata, for instance, has risen by more than Rs. 5 since the introduction of daily pricing. The government has blamed supply constraints due to floods in the United States for the present rise in prices. A wider criticism, however, is that domestic fuel prices have also failed to match the drastic fall in international crude oil prices over the last few years. Petrol, for instance, sold at a retail price of Rs. 65 in 2012 when the price of the Indian crude oil basket was around \$120. Today, even as the price of crude oil has dropped by more than half to hover around \$50, the retail price of petrol stands at well over Rs. 70. The surprising divergence in the cost of crude oil and domestic fuel prices has caused a lot of anger. What is being missed is the fact that fuel prices are determined by market forces, not costs. So lower crude oil prices need not necessarily lead to lower fuel prices. Costs only determine the profits of oil companies, whose operating margins have naturally improved since deregulation.

Taxes are the main culprit stopping petrol and diesel prices from reflecting the fall in international crude oil prices. About half the retail price paid by consumers for petrol and diesel goes towards paying the excise duty and the value added tax imposed on them. These taxes increase the price at which oil companies can profitably sell essential fuels to consumers, thus restricting supply and keeping prices high. Taking on the Opposition's criticism, Finance Minister Arun Jaitley on Wednesday dared the States ruled by the Congress and the CPI(M) to reduce VAT on petroleum products and forgo their share of the Centre's revenue from fuel taxes. He said 42% of the Central tax receipts from petrol go to the States. Mr. Pradhan has called for petrol and diesel to be brought under the GST to lower the tax burden. This will help bring down their prices, but only when it is combined with better competition in the oil sector. Otherwise, lower taxes will merely improve the profits of oil companies without any of the benefits, whether it is lower crude oil prices or any other fall in input costs, being passed on to consumers.

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