Addressing Rising Oil Prices

What is the issue?

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Global oil prices are surging to phenomenal high, India need to act smart in this regard.

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What are the concerns with global oil prices?

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- Global crude oil now at almost $80 a barrel, petrol and diesel prices back home have climbed up rapidly in recent months.
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- It has not helped at all that the oil price rise has coincided with the steep fall of the rupee.
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- Petroleum products contributed 24 per cent of the Centre's revenue receipts and 8 per cent of the States' revenue receipts in 2016-17.
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- However, the union though under pressure to keep prices in check, seems disinclined to cut excise duties.
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What were the actions of the government in this regard?

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- Union government hiked these nine times between November 2014 and January 2016 when the oil prices were declining and cut just once in October 2017.
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- Faced with uncertain revenues on the GST front in particular, it possibly does not want to risk a fiscal slippage at a time when the current account deficit too is slated to expand.

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- States too are reluctant to cut their sales tax on fuels, although Rajasthan and Andhra Pradesh have done so already.
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What is the petroleum pricing mechanism in India?

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- In India oil marketing oil marketing companies fix petroleum prices based on trade parity price (TPP).
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- The TPP is based on product prices in the international market, assuming that 80 per cent of the petrol and diesel is imported and 20 per cent is exported.
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- It is high time the oil marketing companies started pricing their products independently and transparently based on market principles, depending on their distinct cost structures and margin profiles.
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What measures needs to be taken?

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- Union government must direct oil marketing companies to change their pricing mechanism from trade parity price (TPP) to one based on market realities.
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- Union government must engage with the States with respect to bringing petrol and diesel under GST.
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- Improved GST collections will give States the confidence to allow these products into the net.
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- The maximum GST rate is much lower than the effective tax rates being charged by the Centre and States together on petrol and diesel.
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- The Centre can consider higher GST on these fuels for revenue-neutrality.
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- Lower costs and the benefit of input tax credit under GST could help oil

companies reduce fuel prices.
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- Reduced reliance on petroleum revenues would go well with the overall emphasis to improve the tax base and formalise the economy.
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- The easier option of asking public sector oil marketing companies to go slow on price hikes in the run-up to the polls should be avoided.
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Source: Business Line

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