Dealing with Petrol Price Rise

What is the issue?

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- Prices of petroleum products are in a rising trend in recent months, calling for action by the government.
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- But the Centre has some compelling reasons to not interfere with the prices.
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Why is interference not feasible?

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- Over 80% of consumption needs are dependent on imports.
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- This undermines our capacity to determine its prices.
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- Petrol and diesel cost increase by Rs 0.50/litre with one-dollar increase in the international price of crude oil.
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- Likewise, it increases by Rs 0.65/litre with a fall in the exchange rate of the rupee against the US dollar.
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- Thus, the price of petroleum products is largely externally determined, making any interference inadvisable.
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Why is Centre's role limited?

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- There is a concern that petroleum products are highly taxed in India.
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- The demand is thus to bring down the excise duty by the Centre to control

the spiralling prices.
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- But it is estimated that a Rs 1 reduction in the excise duty would reduce revenue collection by Rs 14,000 crore.
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- But India clearly needs this revenue for catalysing economic growth and providing social security.
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- As, a large component of central government duties on petroleum products is given to state governments.
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- The rest is spent on centrally-sponsored welfare schemes in the states.
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- Thus, the total amount transferred by the Centre to the states comes to around 75% of the collections.
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What can states do in this regard?

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- Higher prices are likely to reduce consumption.
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- So, if the consumption falls, the tax collected by the Centre also goes down.
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- This is because taxes imposed by the Centre are specific i.e. fixed in terms of Rs per unit.
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- On the other hand, the states tax the oil on ad valorem basis.
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- This means that the tax is based on the assessed value of the commodity.
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- So, with increasing petroleum prices, states' tax collection correspondingly goes up.
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- Thus, the states could make a 10-15% duty cut and still get the same amount of tax revenue as budgeted.
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- Therefore, the call for reduction in taxes on petroleum products applies more to the states than to the Centre.
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What is the way forward?

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- The long-term solution to this problem is to change the share of petroleum products in energy consumption mix.
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- India needs to generate more energy from coal and lignite which is abundant in the country.
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- It should also focus on electricity generation from hydro, nuclear and other renewable sources.
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Source: Indian Express

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