Fuel prices are rising sharply

Why in news?

Recently, the retail prices of automobile fuels have reached record highs across the country.

Why are consumers in India paying more for petrol and diesel?

- In theory, retail petrol and diesel prices are linked to global crude oil prices i.e. that if crude prices fall, retails prices should come down.
- But this does not happen in practice, largely because oil price decontrol is a one-way street in India.
- So, when global prices go up, the resultant increase is passed on to the consumer but when the reverse happens government slaps fresh taxes and levies.
- This ensures the state gets extra revenues but the consumer, who should have ideally benefited, is forced to spend more.
- Therefore the main beneficiary in this subversion of price decontrol is the government & consumer is a clear loser, as are the fuel retailing companies.

Why are crude oil prices rising now?

- In April 2020 after the pandemic struck, prices collapsed as the demand fell down.
- But when economies relaxed travel restrictions and factory output picked up, global demand got improved and prices started recovering.
- Brent crude, which was trading at about $40 per barrel between June and October, started rising in November and has gone past the $60 per barrel mark after the rollout of Covid-19 vaccines.
- The controlled production of crude by OPEC Nations amid rising demand has been another key factor in boosting oil prices.

What is the impact of taxes on retail prices of auto fuels?

- Currently, state and central taxes amount to around 180% of the base price of petrol and 141 % of the base price of diesel in Delhi.
- Central government hiked its excise duty on petrol & diesel to boost its revenues as economic activity fell during pandemic.

- A number of states have also hiked sales tax on petrol and diesel to shore up their revenues.
- Now Industrial analysts projected cuts in central excise duty as prices hit record levels but government is not considering any proposal to cut the rates.
- Tax on fuels as a percentage of pump prices is around 65 % of the retail price in Germany and Italy, 62 % in U.K., 45 % in Japan and around 20 % in U.S.
- Besides, oil marketing companies halted daily revisions of petrol and diesel prices for 82 days starting from March 16, 2020.
- They explained that lowering prices in line with international prices will led to negative margins for oil marketing companies.

How are the global prices?

- In other countries, petrol prices are just hitting pre-pandemic levels but India is seeing high prices due to high state and central taxes.
- The average price of petrol in India (Delhi) in January was up 13.6 % compared to the year-ago period though the average price of Brent crude was down about 14 % in the same period.
- In January, consumers in US, China and Brazil pay average prices that were 7.5%, 5.5% and 20.6 % lower than the year-ago period.

How will these hikes impact inflation?

- Experts say that the impact of rising fuel inflation will be counterbalanced by declining food inflation which was down to 4.06 % in January.
- Moreover it is the urban population which will be impacted more by rising fuel prices than the rural population.
- However, weak monsoon may hit rural India too as farmers are forced to rely more on diesel-powered irrigation.

Source: The Indian Express

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