

## **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, retail 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**