Making fuel affordable

What is the issue?

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- Petro and diesel prices are increasing to a record high, despite the falling international crude oil prices.
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- The recent 'daily price revision' policy introduced by the government is also not benefitting the consumers.
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- It calls for the government to pay attention to the factors behind this and take measures to make petrol and diesel affordable to its consumers.
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What is daily price revision policy?

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- Under this, the retail selling prices of petrol and diesel is revised daily based on average international price and the currency exchange rate.
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- Government argued that this would pass on the benefit of fall in international prices to the end consumers.
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- However, prices of petrol and diesel have only been going up, despite the introduction of the dynamic fuel pricing.
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What are the reasons for this anomaly?

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- **Taxes** - The favourable impact that dynamic fuel pricing makes, is outweighed by the impact of taxes levied by the government.
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- The central excise duty on petrol shot up by 127 percent and that on diesel by 387 percent in the last two years.
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- In addition to this, there are other state levies that add up to the fuel bill.
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- Notably, about half the price paid by the Indian end-consumer for petrol goes towards paying these taxes.
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- **GST** - The recently introduced GST also did not cover the petroleum products and so prices vary at locations depending on the applicable state taxes.
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- The goods and services tax (GST), even at its highest slab of 28%, would substantially lower the current tax burden on fuels, if covered.
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- **Price deregulation** - Traditionally, fuel prices were determined on a cost-plus basis, which led domestic prices to fall in line with the cost of inputs like crude oil.
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- However, petrol and diesel pricing were deregulated in 2010 and 2014 respectively.
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- This caused the fuel prices to be determined primarily by the forces of supply and demand rather than input costs.
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How does the future look?

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- The signs of an increase in international crude oil prices have started to set in.
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- However, there are no signs of the government cutting down the taxes.
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- If petrol and diesel are to be affordable to end-consumers, the government must step in and introduce measures to lower the prices.
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Source: The Hindu

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