

Need for Petroleum Reform

What is the issue?

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- International prices of crude oil is constantly rising, which increases the expenditure of the government.

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- To address this union government need to introduce reforms in the petroleum sector.

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How prices of crude oil impacted the Union government?

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- In the first seven months of 2017-18, the government's subsidy bill on petroleum products has gone up by over 30 per cent.

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- In April-October 2016, it was Rs 16,237 crore and in the same months of 2017, it is estimated at Rs 21,246 crore.

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- At this rate, the current year could well end with a total petroleum subsidy bill of about Rs 35,000 crore, substantially higher than the Budgeted subsidy provision of Rs 25,000 crore.

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How government addressed fertilizer expenditure?

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- In the financial year 2017-18 the subsidy bill for urea has declined by about 30 per cent.

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- Against Rs 39,123 crore spent on urea subsidies during April-October last year, the expenditure this year in the same period is only Rs 27,398 crore.

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- This significant reduction in the urea subsidy bill was possible largely due to the government's focus on launching Neem-coated urea with renewed energy to prevent its diversion and misuse.

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- But the use of improvised packages for urea led to an increase in prices, the new packages had less urea for the same price.

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- By this government has achieved reducing the expenditure as well as excessive use of urea.

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What reforms need to be introduced in petroleum sector?

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- As a first phase of reform government raised retail prices of petrol, diesel and cooking gas, in small doses it has worked.

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- Competition among refiners to buy crude oil at the best prices from the market and use their technological skills to process them more efficiently need to be increased.

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- It will encourage refiners to be more competitive and cut their costs to increase their margins.

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- Simultaneously, the retailers should be encouraged to price their products at levels determined by their own considerations of costs and margins.

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- The current practice of collective retail pricing of petroleum products with changes announced in agreement should be abandoned.

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Source: Business Standard

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