Oil - Daily Pricing Mechanism

Why in news?

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A pilot project has been proposed by the three public sector oil marketing companies — Indian Oil, Bharat Petroleum and Hindustan Petroleum — in an effort to reform the pricing mechanism.

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What is the project about?

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- Starting next month, in select cities fuel prices at the pump points will be reset daily in par with global oil price movements.
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- The rest of the country will continue with the existing system, till the project’s outcomes are assessed.
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- In the existing system petrol and diesel prices are calibrated generally on a fortnightly basis.
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What is the necessity?

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- This is in line with the best practices in the international market.
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- It is illogical for an economy integrated with the global financial and commodity markets to keep fuel prices unchanged for as much as a fortnight.
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- Aligning prices daily and spreading out the degree of change will lessen the impact on consumers.
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- Oil costs often bring down consumer confidence due to fuel inflationary expectations. Marginal changes in the daily price of fuel, rather than abrupt

shifts over random intervals will reduce this.
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What should be done?

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- **Transparent Pricing -** After more than two months of no change, the latest price cuts came overlapping with the Assembly elections in five States.
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- A transparently formulated and dynamic pricing regime would prevent such undesirable coincidences in the future.
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- It would also allow private companies to compete with the PSU oil marketers, which today control 95% of fuel outlets.
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- **Less Tariff -** The government must also reduce high petroleum product taxes imposed since June 2014, when oil prices began to fall, along with reduction in energy subsidy liabilities.
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- **Policy on Independent Oil Retailers -** In US, big oil corporations like ExxonMobil, Chevron, Shell or Conoco-Phillips own barely 5% of the fuel outlets.
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- The rest of the retail business is run by independent players, who are in no obligation to ensure business to a captive refinery.
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- In India, for example an IOC fuel outlet buys petrol or diesel from a refinery run by the same PSU outfit.
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- Such elimination of competition means that decontrolling retail prices will give the consumer only less benefits of the market.
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- A policy on independent oil retailers should be the next move on the government’s agenda.
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Source: The Hindu

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