Reducing the Price of Petrol & Diesel

Why in news?

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The government has currently asked the “Oil Marketing Companies” (OMC) to absorb any increase in crude oil price.

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Why hasn’t petrol & diesel prices reduced with curde prices?

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- Price of petrol & Diesel now is as highas it was in 2012 even though the crude prices have almost halved.
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- During that time, the government used to subsidise consumers and the loss was borne by the government, OMCs and upstream public sector oil companies.
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- Eventually the prices started falling.
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- But it wasn’t reflected in the market prices as the government kept cutting the subsidies.
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- This made the prices reflect the market trends.
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- But the current directive to OMCs to absorb increase in price is seen as a policy reversal against de-regulated pricing.
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What can the Central Government do to reduce cost?

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- Excise duty is fixed in rupee terms Rs 17.33 per litre for diesel and Rs 21.48/litre for petrol.
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- So increase in the cost of diesel or petrol does not increase the revenue of the central government
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- It would be unwise for the government to cut the excise duty as it has subsidised the customer for already a long period.
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- However the excise duty rates can be made equal for both diesel and petrol.
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- It will increase the price of diesel by 2% and reduce the price of petrol by 6%.
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- Hence there will be reduction in distortion.
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What can the State Governments do?

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- **VAT Rate -** States impose very high VAT on petrol & diesel.
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- Since VAT rates are ad valorem rates i.e calculated in percentage terms, their value in rupees increases with increase in prices.
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- Whenever the oil price increases, revenues of states also go up.
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- Thus, the states should periodically reduce their VAT rates.
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- **Bringing under GST -** Taxes on petrol & diesel constitute a major portion of state revenue.
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- So the states insist on keeping diesel and petrol out of GST.
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- Even with a high GST rate of 32%, the states' share of the tax would be around Rs.5 /litre which is much below the current Rs 14,litre of petrol & Rs.21 per liter of diesel.
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- So to reduce the prices, all states should have a uniform GST rate for diesel and petrol.
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Source: Indian Express

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