Oil price pickle

PAPER- GS-III OIL CRISIS

The increased duty on fuel can fund welfare, but arbitrary methods will have implications

Union Petroleum Minister that the Centre is taking a ‘cautious and conscious approach’ of ensuring a balance in fuel prices and aims to use the resultant savings for welfare is on the face of it unexceptionable. With global oil prices still about 45% lower than 2019 closing levels despite coordinated supply cuts by major producers, India had an opportunity to pass on the benefit to consumers and provide a fillip to becalmed consumption.

Imp Points

- That the ‘deregulated’ oil marketing companies chose not to reduce pump prices, even when crude tumbled last month, could be attributed to their caution amid a sharp slump in demand in the wake of the nationwide lockdown.
- It is the government’s decision, earlier in May, to raise Excise Duty on petrol and diesel for a second time in less than two months that raises several concerns.
- For one, subsequent to the latest increase the Centre’s tax revenue on a litre of petrol sold by IOC in Delhi as on May 16 was 1.8 times the fuel’s freight inclusive base price of ₹18.28 and represented 46% of the final retail price of ₹71.26.
- With economic activity brought to a near standstill by the lockdown the Centre’s overall revenue prospects have come under severe strain, and from that perspective the government’s move to maximise its takings from transport fuels is understandable.
- Still, the fact that the government has consistently tinkered with the duty structure through recent years of largely benign oil prices, undermines the benefits from pricing deregulation that ought to have accrued to oil companies and consumers.
- Back in 2018, ahead of key Assembly elections, the Centre had cut the excise duty at a time when global crude prices were on the ascent in order to minimise any electoral fallout from unchecked fuel costs.
- The government’s goal of maximising revenue from fuel products to fund welfare measures can only bear fruit if demand for petrol and diesel remains unaffected by the continuing high costs.

With curbs on inter-State road transport still in place, contracting automobile sales unlikely to recover any time soon, job losses and pay cuts sure to shrink household budgets, it is hard to see transport fuel demand rebounding to pre-lockdown levels for at least one or two quarters. Add to that the fact that the Centre’s ambitious disinvestment target of ₹2.1-lakh crore for this fiscal had included a stake sale in BPCL, and the petroleum products’ pricing approach gets even more complicated. With potential investors unlikely to be impressed by the lack of autonomy in the sector, it is in the government’s interest not to risk the health of the goose that lays the golden eggs.

Oil crisis past to present:  
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