



## Pricing mechanism behind petroleum

### What is the issue?

\n\n

Petroleum prices are rising and there are considerable demands to the centre to reduce its excise duties on the product.

\n\n

### How the sector was deregulated?

\n\n

\n

- Being a basic intermediate good, it is operated through a special oil pool account funded by the surplus of ONGC and the refining companies, as well as direct government subsidies.

\n

- Being an ideal commodity for indirect tax, high Central excise duty and high sales tax rates by the states at the retail level were levied.

\n

- With the rising trend in international crude oil prices the subsidy burden of the oil pool account began to mount.

\n

- There were demands that the oil market should be deregulated.

\n

- But the excise revenues from oil was substantially larger than the subsidies provided by the centre.

\n

- Also, the surpluses of petroleum mining and refining companies were substantial enough for cross subsidisation of the loss-making retail oil companies.

\n

- But the entry of private players like Reliance and Essar into the retail trade made cross-subsidisation untenable.

\n

- Thus the administered Price Mechanism for petroleum was dismantled and

market pricing mechanism was allowed.

\n

\n\n

## What was the consequence?

\n\n

\n

- The Centre chose to increase the excise duty on petrol and diesel, although OPEC prices showed a downward trend.

\n

- The hike in excise duty was 380 per cent for diesel and 120 per cent for petrol between 2014 and 2017.

\n

- The **C&AG Report** has observed that the huge increase in central excise collection from petroleum products (2015-16) was due to a sharp increase in per unit tax on petrol and diesel.

\n

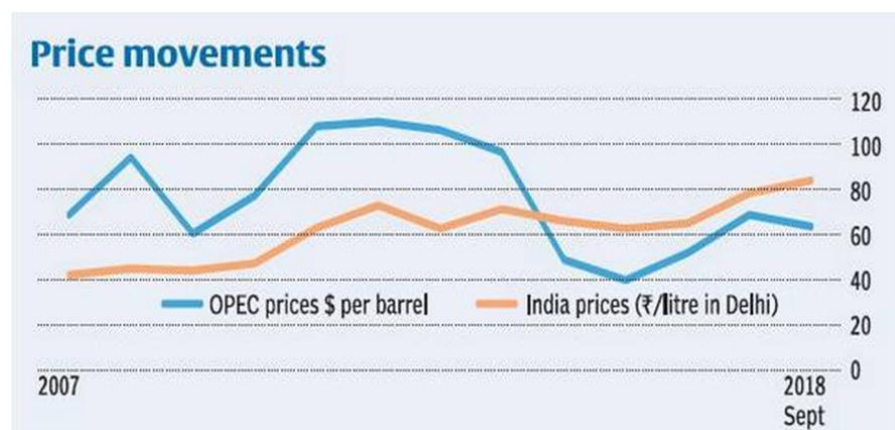
- The excise duty revenue of the central government from petroleum products which was Rs.88600 crores in 2013-14 peaked to Rs.2,53,254 crores in 2016-17.

\n

- Never has indirect tax on any commodity witnessed such a sharp escalation as on petroleum products.

\n

\n\n



\n\n

## What is the present scenario?

\n\n


\n

- The international prices crude oil began to rise from late 2016.
- Yet the Centre refused to reduce the excise duties and prodded oil companies to raise their retail selling prices.
- The Centre fears an adverse impact on fiscal deficit, if any additional revenue from petroleum products gets lost.
- The depreciating rupee also added to their woes.
- However, rising fuel prices are stoking an inflationary fire and imposing an unbearable burden on the people.

### Should the states be held responsible?

- States are benefiting from petroleum price escalation through higher devolution after the 14th Finance Commission award in the share of central excise duty.
- However, **only basic excise duty** on petrol and diesel is shareable with the States and others are outside the divisible pool of taxes shareable with the States.

Duty structure (₹ per litre)					
Item	Basic excise duty	Special excise duty	Additional excise duty	Total	Share of basic excise duty in total (%)
Petrol	7.66	6	7	20.66	37.07
Diesel	10.69	6	1	17.69	60.42



- Also, VAT rates has been hardly increased in recent years and even some states have already reduced VAT rates to moderate the current price escalation.

\n\n

## What should the centre do?

\n\n

- \n
  - The centre argues that it keeps a substantial portion outside the shareable pool for its obligations on social sector spending.
  - \n
    - There is no established connection between higher duties on petroleum products and social sector spending.
    - \n
      - A demand has also been made that petroleum products be included in the GST.
      - \n
        - But before it gets into reality, a compensation package has to be finalised as per the GST compensation law.
        - \n
          - This would make the present compensation cess to be inadequate.
          - \n
            - Thus the solution is for the Centre to immediately roll back its excise duty spikes.
            - \n

\n\n

\n\n

**Source: Business Line**

\n



**IAS PARLIAMENT**  
*Information is Empowering*  
A Shankar IAS Academy Initiative