



Reducing the Price of Petrol & Diesel

Why in news?

\n\n

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

\n\n

Why hasn't petrol & diesel prices reduced with crude prices?

\n\n

\n

- Price of petrol & Diesel now is as high as it was in 2012 even though the crude prices have almost halved.

\n

- During that time, the government used to subsidise consumers and the loss was borne by the government, OMCs and upstream public sector oil companies.

\n

- Eventually the prices started falling.

\n

- But it wasn't reflected in the market prices as the government kept cutting the subsidies.

\n

- This made the prices reflect the market trends.

\n

- But the current directive to OMCs to absorb increase in price is seen as a policy reversal against de-regulated pricing.

\n

\n\n

What can the Central Government do to reduce cost?

\n\n

\n

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

\n\n

What can the State Governments do?

\n\n

- \n
- **VAT Rate** - States impose very high VAT on petrol & diesel.
\n
- Since VAT rates are ad valorem rates i.e calculated in percentage terms, their value in rupees increases with increase in prices.
\n
- Whenever the oil price increases, revenues of states also go up.
\n
- Thus, the states should periodically reduce their VAT rates.
\n

\n\n

- \n
- **Bringing under GST** - Taxes on petrol & diesel constitute a major portion of state revenue.
\n
- So the states insist on keeping diesel and petrol out of GST.
\n
- 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.
\n
- So to reduce the prices, all states should have a uniform GST rate for diesel

and petrol.

\n

\n\n

\n\n

Source: Indian Express

\n



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative