

Fuel price crisis: Issues behind petroleum rates explained in 7 points; lowering dependency on oil a long drawn process

Business

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India imported 256.32 million metric tonnes of

crude oil and petroleum products in 2017-18 and paid Rs. 6,52,896 lakh crore. The import dependence of India in the case of crude oil is over 80 percent.

What is the benchmark crude price for India and how is it determined?

The Indian basket of crude oil represents a derived basket comprising of Sour grade (Oman & Dubai average) and Sweet grade (Brent Dated) of crude oil processed in Indian refineries in the ratio of 72.38:27.62 during 2016-17. The price of Indian crude oil basket was \$106.85 per barrel (1 barrel=159 litres) in May, 2014. It fell down to \$39.88 per barrel in April 2016 and has gradually increased since then and is around \$78 per barrel.

What is the tax structure on petrol and diesel?

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Sl. No.	Description	Unit	Petrol	Diesel
1	C&F (Cost & Freight) Price (Moving average basis)	\$/bbl	84.2	90.59
2	Average Exchange rate	Rs/\$	70.22	70.22
3	Price Charged to Dealers (excluding Excise Duty and VAT)	Rs/Ltr	39.21	42.85
4	Add : Excise Duty	Rs/Ltr	19.48	15.33
5	Add : Dealer Commission (Average)	Rs/Ltr	3.63	2.51
6	Add : VAT (including VAT on Dealer Commission)	Rs/Ltr	16.83	10.46
7	Retail Selling Price at Delhi- (Rounded)	Rs/Ltr	79.15	71.15

(Data from Indian Oil Corporation Limited)

Every dollar increase in the international price of crude oil increases the cost of petrol and diesel in India by Rs. 0.50/ litre and a fall in the exchange rate of the Indian rupee against US dollar increases the cost of petrol and diesel in India by Rs. 0.65/ litre.

What is the revenue generated by taxes on petroleum products?

The contribution to central and state exchequer by the petroleum section in the last few years is as follows:

Revenue contribution in Rs crore				
	2014-15	2015-16	2016-17	2017-18 (P)
Contribution to Central Exchequer (in crore) through Tax/ Duties on Crude oil & Petroleum products	1,26,025	2,09,354	2,73,225	2,84,442
Contribution to State Exchequer (in crore) through Tax/ Duties on Crude & Petroleum products	1,60,526	1,60,114	1,89,587	2,08,893
Total Contribution of Petroleum Sector to Exchequer through Tax/ Duties (1+2)	2,86,551	3,69,468	4,62,812	4,93,335

42 percent of the Basic Excise Duty collection at the Centre is given to state governments for infrastructure and welfare programs and 60 percent of the balance 58 percent of the Basic Excise Duty collection is spent on Centrally Sponsored Welfare Schemes in the States i.e. total amount transferred to States is $(42+34.8)=76.8$ percent.

Every one rupee reduction in central duty leads to a loss on about Rs 14000/= crores to the central exchequer.

How does the picture of under-recovery in the oil and natural gas sector look like?

Under Administered Price Mechanism (APM) earlier Petrol /diesel prices were not market linked and prices were being modulated, the steep increase in international prices of oil used to exert severe pressure on the oil marketing companies (OMCs). The retail prices of these commodities were kept below the cost resulting in large under-recoveries for OMCs.

Year	Under-recovery (crore)	Cumulative total (crore)
2004-05	20,146	20,146
2005-06	40,000	60,146
2006-07	49,387	1,09,533
2007-08	77,123	1,86,655
2008-09	1,03,292	2,89,947
2009-10	46,051	3,35,998
2010-11	78,190	4,14,188
2011-12	1,38,541	5,52,729
2012-13	1,61,029	7,13,759
2013-14	1,39,869	8,53,628

From the year 2004-05 to 2013-14, the total under-recoveries was Rs. 8,53,628 crores.

Why were oil bonds issued and what is their current status?

During the period of 2004-08 when the international crude prices were increasing rapidly, the government started subsidising petroleum products proved grossly insufficient but since the fiscal position of the government was already precarious, it could not increase the subsidy to this sector. The government resorted to the issuance of 'oil bonds' to the OMCs. These interest-bearing bonds were not even reflected on the balance sheet by the UPA government, resulting in artificial measurement of the burgeoning fiscal deficit.

Between 2005-06 and 2009-10, oil bonds worth Rs. 1,42,202 crore were issued by the government with the rate of interest on them ranging from 7.33 percent to 8.4 percent per annum repayable up to 2024-25 by successive governments. Oil companies have either sold these bonds or used them as collateral to raise cash. OMCs have sold oil bonds worth Rs 1,24,536 crore and had to bear a loss of around Rs 5,000 crore in selling of these bonds at a discounted rate because the bond market did not have much appetite for these bonds. Till date the government has repaid around Rs. 70,000 crore to the holders of these bonds and out of this amount, only Rs. 10,000 crore (approx) has gone into the repayment of the principal component and the rest towards the interest obligation. Thus the outstanding principal amount on these bonds is Rs. 1,30,000 crore. Most of these bonds will be matured by 2024-25

How crucial are petroleum products in our energy mix?

In the year 2015-16, the source wise share in consumption of energy was as follows:

Sl. No.	Source	Share (in percentage)
1	Coal and Lignite	46.28
2	Crude Petroleum	34.48
3	Electricity from hydro, nuclear and other renewable sources	12.75
4	Natural Gas	6.49

How can India reduce its dependence on crude oil?

Petroleum products are important because one cannot readily switch between them and other sources of energy. To make our economy less dependent on oil would be a long drawn process, which can be accelerated by conducive government policies. Modi government is working on this long-term solution.

It is evident than in order to reduce our dependence on imported oil, we need to generate more energy from coal and lignite, which we have in abundance and also focus on electricity generation from hydro and other renewable sources like wind and solar. Since the government is focussed on having 1 GWh of installed solar capacity by 2022, we will see an increase in its share in the source wise energy share in the coming years.

(The writer is National Spokesperson of BJP on Economic Affairs)