

## Dealing with Petrol Price Rise

### What is the issue?

\n\n

\n

- Prices of petroleum products are in a rising trend in recent months, calling for action by the government.

\n

- But the Centre has some compelling reasons to not interfere with the prices.

\n

\n\n

### Why is interference not feasible?

\n\n

\n

- Over 80% of consumption needs are dependent on imports.

\n

- This undermines our capacity to determine its prices.

\n

- Petrol and diesel cost increase by Rs 0.50/litre with one-dollar increase in the international price of crude oil.

\n

- Likewise, it increases by Rs 0.65/litre with a fall in the exchange rate of the rupee against the US dollar.

\n

- Thus, the price of petroleum products is largely externally determined, making any interference inadvisable.

\n

\n\n

### Why is Centre's role limited?

\n\n

\n

- There is a concern that petroleum products are highly taxed in India.

\n

- The demand is thus to bring down the excise duty by the Centre to control

the spiralling prices.

\n

- But it is estimated that a Rs 1 reduction in the excise duty would reduce revenue collection by Rs 14,000 crore.

\n

- But India clearly needs this revenue for catalysing economic growth and providing social security.

\n

- As, a large component of central government duties on petroleum products is given to state governments.

\n

- The rest is spent on centrally-sponsored welfare schemes in the states.

\n

- Thus, the total amount transferred by the Centre to the states comes to around 75% of the collections.

\n

\n\n

### **What can states do in this regard?**

\n\n

\n

- Higher prices are likely to reduce consumption.

\n

- So, if the consumption falls, the tax collected by the Centre also goes down.

\n

- This is because taxes imposed by the Centre are specific i.e. fixed in terms of Rs per unit.

\n

- On the other hand, the states tax the oil on ad valorem basis.

\n

- This means that the tax is based on the assessed value of the commodity.

\n

- So, with increasing petroleum prices, states' tax collection correspondingly goes up.

\n

- Thus, the states could make a 10-15% duty cut and still get the same amount of tax revenue as budgeted.

\n

- Therefore, the call for reduction in taxes on petroleum products applies more to the states than to the Centre.

\n

\n\n

## What is the way forward?

\n\n

\n

- The long-term solution to this problem is to change the share of petroleum products in energy consumption mix.

\n

- India needs to generate more energy from coal and lignite which is abundant in the country.

\n

- It should also focus on electricity generation from hydro, nuclear and other renewable sources.

\n

\n\n

\n\n

**Source: Indian Express**

\n

