Fuel Revenue for Welfare - Oil Prices

What is the issue?

- Union Petroleum Minister remarked that the government's idea was to take a cautious and conscious approach of a balance in fuel prices, save it and use it for welfare.
- With general consumption at a low phase, here is an assessment if this approach would be beneficial or not.

What opportunity did low oil prices offer India?

- Global oil prices are still about 45% lower than 2019 closing levels.
- [This was despite coordinated supply cuts by major global oil producers.]
- With this, India had an opportunity to pass on the benefit to consumers.
- This could have also given a fillip to the stalled consumption scenario.

What happened though?

- The ‘deregulated’ oil marketing companies chose not to reduce the retail prices even when crude prices dropped in April 2020.
- This could be attributed to their caution amid a sharp slump in demand, in the wake of the nationwide lockdown.
- The government decided, earlier in May 2020, to raise Excise Duty on petrol and diesel for a second time in less than 2 months.
- This gave way to several concerns.
- After this, the Centre’s tax revenue on a litre of petrol sold by IOC in Delhi as on May 16, 2020 was 1.8 times the fuel’s freight inclusive base price of Rs. 18.28.
- This represented 46% of the final retail price of Rs. 71.26.

Is the government's move justified?

- With economic activity brought to a near standstill by the lockdown the Centre’s overall revenue prospects have come under severe strain.
- From that perspective, the government’s move to maximise its takings from transport fuels is understandable.
- However, the government has consistently tinkered with the duty structure through recent years of low oil prices too.
- This undermines the benefits from pricing deregulation that ought to have

accrued to oil companies and consumers.

What is the need for caution?

- The government aims at maximising revenue from fuel products to fund welfare measures.
- But notably, this can bear fruit only if demand for petrol and diesel remains unaffected by the continuing high costs.
- It is hard to see transport fuel demand rebounding to pre-lockdown levels for at least one or two quarters given the below:
    1. COVID-19-led restrictions on inter-State transportation is still in place
    2. Contracting automobile sales are unlikely to recover any time soon
    3. Job losses and pay cuts are sure to shrink household budgets
- Added to this is the Centre's ambitious disinvestment target of Rs. 2.1-lakh crore for this fiscal, which notably includes a stake sale in BPCL.
- So, the petroleum products' pricing approach gets even more complicated.
- Potential investors are unlikely to be impressed by the lack of autonomy in the sector.
- So, it is in the government's interest not to risk the health of the gainful petroleum sector.

Source: The Hindu