

Reasons for hike in fuel prices

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What has been the trend in fuel prices?

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- On March 2014, the Brent crude price was \$ 108.6 per barrel, and petrol cost Rs 73.16 a litre in Delhi.

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- On September 11, 2017, Brent crude was trading at \$ 54.2 per barrel but the price of petrol in Delhi was nearly the same as 42 months ago, at Rs 70.30 per litre.

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- Ever since dynamic daily pricing model was implemented, the price of petrol has gone up from Rs 63.09 to Rs 70.39 an increase of 11.6%.

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- Diesel prices have surged similarly, and the trend has been identical in other cities.

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- During this period the Indian basket of crude has gone up 12.5 per cent.

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What is the fuel pricing mechanism?

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- The Indian basket of crude oil represents a derived basket comprising Sour Grade (Oman and Dubai average) and Sweet Grade (UK based) of crude oil processed in Indian refineries.

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- Prices of petrol and diesel have been made market-determined effective June 2010 and October 2014 respectively.

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- Since then, the Public Sector Oil Marketing Companies (OMCs) are

supposed to take appropriate decisions on the pricing of petrol and diesel.

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- It must be in line with international product prices and other market conditions such as exchange rate and the demand-supply situation, among others.

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- From June 2017 dynamic daily pricing is being followed.

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What are the determining factors of fuel costs?

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- **Market factors** -The price is determined by the movement of crude oil price (the main raw material), the rupee/dollar exchange rate and demand-supply situation in the market.

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- **Excise duty**-There was a series of excise duty hikes in the second half of 2015 and the initial months of 2016 on both petrol and diesel to help shore up finances.

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- This has helped the Centre realise higher central excise duties will fetch higher revenues.

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- **Oil companies** -Oil companies have the pricing freedom and Government has no business interfering in the day-to-day affairs of the companies.

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- At many instance companies buy crude oil at high price and they sell it for low price due to market trends, to match this losses they hike the prices.

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Source: Indian Express

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