Fuel prices: One-sided affair

India is witnessing the strange situation of auto fuel prices ruling at the highest levels when international crude prices are at their record lows. Last week, the government hiked excise duty on petrol by Rs 10 a litre and on diesel by Rs 13 a litre at one go. The effective excise duty on petrol has gone up to about Rs 33 per litre and on diesel to about Rs 32, and this takes the total incidence of taxation on fuel to 70% of the retail price. No other essential commodity is taxed so heavily. The hike has not had an impact on retail prices but it has completely neutralised the fall in crude prices. This means that the fall in prices has not benefitted the consumer, and the government has kept all the gains to itself. This has been pointed out a number of times but the government’s policy has not changed.

The hike in duties is expected to mop up nearly Rs 1.6 lakh crore in additional revenue this fiscal. The government hopes that this will help it cushion the fiscal problems arising from the additional expenditure to be incurred as part of the fight against Covid-19. All economic activities, including industry, small and medium enterprises (SMEs) and others like banking will need a stimulus from the government. This is expected to take the fiscal deficit above 4.8% of the GDP, about 35% about the budgetary target. This may change if the lockdown is extended further. But the government has put its own financial needs and imperatives above those of the people, without considering that there is a fair need to share the oil bonanza with the people. Such sharing might actually help the economy.

Cheaper fuel would put more disposable money into the hands of people. It will also reduce the prices of goods and services as oil is a price influencing input. Those who produce goods and services will benefit because of greater demand, and this will act as a natural stimulus to the economy. Lower fuel prices mean lower cost of production, which makes the economy more competitive and more attractive for investment. In any case, the principle behind the deregulation of petroleum prices was to link them to the market and benefit the consumers when the international prices are down. Now, it has become a one-sided affair with the consumer being made to bear the burden of higher prices without a chance to benefit from lower prices.