Gap between domestic, int’l fuel prices highest

AMID PANDEMIC Benchmark Brent crude at $43.08/barrel, lowest level since August 2016

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NEW DELHI: The Covid-19 pandemic has disrupted economic activity around the World. The global economy is expected to contract by 5.2% this year. A direct fallout of contraction in economic activity has been a sharp fall in oil prices. US oil futures went into negative territory on April 20 as buyers failed to take their deliveries on time. Benchmark Brent crude fell to a 21-year low of $9.12 per barrel on April 20 and continues to be at $43.08/barrel, the lowest since August 2016 (before the Covid-19 induced crash in March).

The resultant fall in import costs has translated into gains, but none has been passed on to Indian consumers. An HT analysis shows that the gap between domestic and international petroleum prices has been the highest in almost two decades during the pandemic. The main reason for this is a sharp increase in taxes on the sale of petroleum products.

The analysis is based on a comparison of petrol and diesel prices in Delhi with the rupee equivalent of Brent crude prices. It shows a sharp increase in petrol-diesel prices as a multiple of Brent crude prices at March-end. Retail prices have been increasing sharply in the month of June. Petrol and diesel prices have increased by ₹8.30/litre and ₹9.16/litre between June 6 and June 22.

However, their value as a multiple of international oil prices has gone down from the anomalously high levels in March and April. This is because of a recovery in Brent crude prices. To be sure, the mark-up continues to be significantly higher than pre-March levels. (See Chart 1)

The daily revision in domestic fuel prices by oil companies restarted from June 6 after a gap of more than two months (the last daily revision had been on 16 March). Both the central and state government had earlier increased the surcharge on fuel prices in May in order to increase their tax revenue which had fallen due to the lockdown. The latest break-up of fuel price data on Indian Oil website shows that the tax component accounts for around 65% of the petrol and diesel price in Delhi. Petrol-diesel prices differ across states in India, as they are not under the Goods and Services Tax regime.

Madan Sabnavis, chief economist at Care Ratings, said that the issue of fuel prices is linked directly to the revenue of both the central and state governments. According to him, the revenue incentive had driven the move by governments to increase taxes so as to garner more revenue even as fuel consumption is low.

On its impact on inflation, he added: “The Wholesale Price Index (WPI) is already in negative territory and will move up into positive zone as fuel products have a higher weight in the index compared with the Consumer Price Index (CPI) which is much lower. Therefore while fuel inflation will go up, headline inflation may not be affected perceptibly.”