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PETROL PRICING IN INDIA

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ABSTRACT

People are very pretty sensitive about fuel prices as they are directly linked to the commodity. Earlier these prices were changes fortnight based on the average price of crude oil and foreign exchange rate of the preceding 15 days. But from the beginning of 16th June last year, all petrol pumps across the country have been changing their petrol and diesel prices each day based on market prices of crude oil (international) and foreign exchange rates. But in many instances, the old price system s have failed to change proportionally with the rise and fall in international crude oil prices due to political intervention. So in order to find the need for shifting to daily fuel price change model, one has to understand the dynamic of petrol pricing in India.Though the union government deregulated the petrol price in 2010 and diesel price in 2014, which allowed old marketing companies to decide on the prices of fuel., according to the change in international oil prices based on the currency exchange rate. But, the state owned oil marketing firms Indian Oil Corp., Bharat Petroleum Corp and Hindustan Petroleum Corporation were not allowed to raise prices in the state or national election in order to avoid peoples anger. But to compensate the oil companies, the government allowed them to change higher prices even the international oil rates have fallen.

Keywords: Interference of Politics, Dependency, Calculation of fuel price, Reasons for deregulation of fuel price, etc.

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1. Introduction

Efficient and reliable energy supplies are a pre-condition for accelerating the growth of the Indian economy. While the energy needs of the country especially oil and natural gas are going to increase at a rapid rate in coming decades, whereas the indigenously available energy resources are limited. These resources may not be sufficient in the long run to sustain the process of economic development1 . The combined share of oil and natural gas constitute around 25 per cent of total energy consumption in 2011-12. At the same time, the dependence on imports of petroleum and petroleum products continues to be around 80 per cent of total oil consumption in the country.

People are very pretty sensitive about fuel prices as they are directly linked to the commodity. Earlier these prices were changes fortnight based on the average price of crude oil and foreign exchange rate of the preceding 15 days. But from the beginning of 16th June last year, all petrol pumps across the country have been changing their petrol and diesel prices each day based on market prices of crude oil (international) and foreign exchange rates. But in many instances, the old price system s have failed to change proportionally with the rise and fall in international crude oil prices due to political intervention. So in order to find the need for shifting to daily fuel price change model, one has to understand the dynamic of petrol pricing in India.

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2. Objective of Study

This paper seeks to study the following issues in Indian economy

1. The reasons behind the price increasing

2. Interference of Politics in petrol pricing
3. India dependency on petroleum
4. Calculation of Fuel Price in India
5. Why is government not reducing Excise duty

3. Methodology

The present study primarily based on Secondary information. The required secondary data were collected from World Bank and various sources such as newspapers and internet, etc. The collected data were arranged in the tabular form and the simple mathematical tools such as percentage and average has been utilized for analysis.

Determination of Petroleum Prices

As far as the prices of petroleum products are concerned, there are a number of factors responsible for influencing petroleum prices like - cost of crude oil, demand and supply imbalances, taxes and duties on petroleum products and market conditions, production and consumption of petroleum products, petroleum reserves, imports of petroleum products, international prices of petroleum products, subsidy on petroleum products, and location effects, etc..

What is the reason behind the price increase?

Retail prices of petrol and diesel in India track global prices of these auto fuels, not crude, although they are broadly linked to crude oil price trends, which have firmed up. As the supply cut by the Organization of the Petroleum Exporting Countries (Opec) and Russia led to a rally in global oil prices, the cost of the Indian basket of crude, which averaged $47.56 a barrel in 2016-2017, rose to touch $63.80 (average price) in March 2018, according to data from the Petroleum Planning and Analysis Cell, an arm of the oil ministry. The price was $76.84 a barrel on Monday. The Indian basket represents the average of Oman, Dubai and Brent crude.

Is there a cause for concern?

The worry over crude oil prices stems from India's energy needs being primarily met through imports, with the country importing 214 million tonnes of crude oil in 2016-17. Extreme volatility has marked crude oil prices, which reached a record $147 per barrel in July 2009.

What does this mean for the Indian economy?

That crude oil price is continuing to advance in global markets is bound to impact India's oil import bill and trade deficit. Lower oil prices had dramatically improved India's terms of trade in 2015-16, thus boosting India's gross domestic product (GDP).

A sharp spike in the price of oil will also reverse the declining trend on inflation and put pressure on central and state governments to cut taxes on petrol and diesel, which is likely to adversely impact their non-goods and services tax revenue. This is also expected to keep margins of state-owned refiners under pressure as they seek to absorb some part of their cost from being passed on to consumers and, in the process, impact the central government's dividend income.

What is the oil price outlook?

With crude oil accounting for about 90% of the production cost of auto fuel, experts believe that the global oil prices will remain firm with Opec looking to extend its cooperation with Russia on production cuts. This assumes significance, given that Opec accounts for around 40% of global production and India is one of the major Opec consumers. Experts also say that in the event of any trade war escalation, global economic growth could slow down and result in softer commodity prices, including that of oil.

What is India's strategy?

India has been seeking reasonable rates as its energy demand grows. New Delhi is also reworking its import strategy by stepping up the share of short-term contracts whenever the market is favourable and exploring long-term supply deals at discounted prices. The new energy architecture also involves acquiring hydrocarbon assets abroad and diversifying

India's supply sources from geographies such as the US and adding renewable energy sources to its energy mix to tackle possible price shocks

Interference of Politics in Petrol Pricing: Though the union government deregulated the petrol price in 2010 and diesel price in 2014, which allowed old marketing companies to decide on the prices of fuel., according to the change in international oil prices based on the currency exchange rate. But, the state owned oil marketing firms Indian Oil Corp., Bharat Petroleum Corp and Hindustan Petroleum Corporation were not allowed to raise prices in the state or national election in order to avoid peoples anger. But to compensate the oil companies, the government allowed them to change higher prices even the international oil rates have fallen.

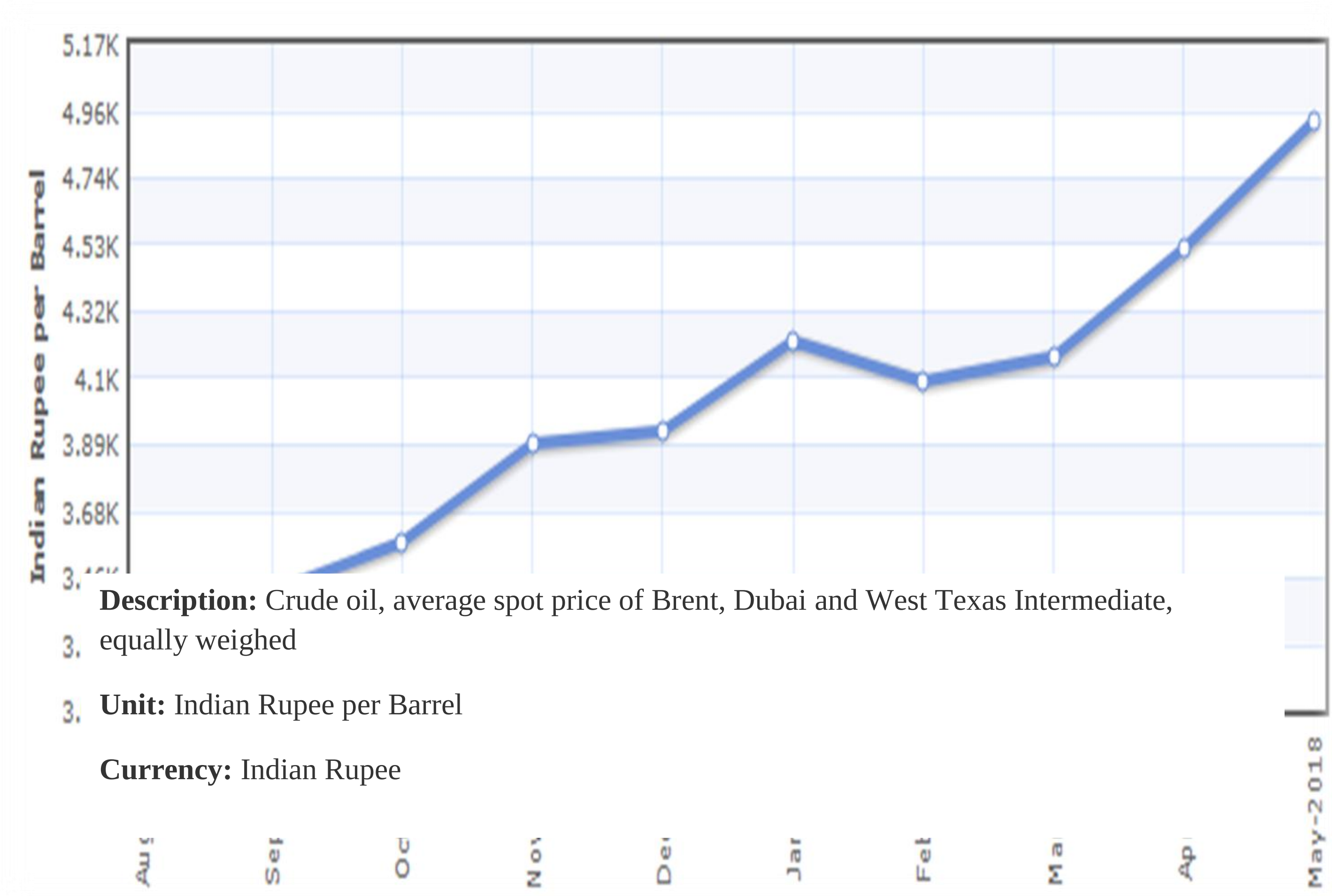
Indian dependency on Petroleum: though there is mix of both private sector like Reliance industries, Cairn India Ltd. and public sector counterparts like Oil India, Oil and Natural Gas Corporation (ONGC) among others in this sector. However, these companies together cater only to 25% of Indians Crude oil requirement. 75% of India's crude oil needs is met through imports. International prices of crude oil and foreign exchange rates from the base components of price of petrol and diesel prices in India. But this forms only a small portion of the retail price of fuel the final price is determined by other factors like taxes, duties, cess and dealer margins.

Calculation of Fuel Price in India: Diesel and Petrol prices have steadily increasing after daily price revisions, but it must be noted that fuel price are excluded from GST, but other costs and taxes are included. Here is a sample of how petrol price is calculated.

Taxes and Charges	**Petrol Prices**
International Price of Crude Oil + Ocean Fright (As on 13th June 2018) Dollar Price (Rs. 67.61)	75.33$ or Rs5093.33 per Barrel
1 Barrel of Crude Oil	159 Liter
Crude Oil – cost per unit	Rs. 32. 03 per liter
Basic OMC Cost Calculation *	
Entry Tax, Refinery Processing, Landing Cost	Rs. 2.1 per liter

& other operational costs along with Margins	
OMC Margin, Transport, Freight Cost	Rs. 3.31 per liter
Basic Cost of Fuel and refining cost	Rs. 37. 44 per liter
Additional Excise Duty + Road Cess as Charged by Central Government	Rs. 19.48/ Liter on Petrol
Pricing Charged to dealer before VAT	Rs. 56. 92 Per Liter
Calculation Dealer retail price – Base Location (Delhi)	
Commission to Petrol Pump dealers	Rs. 3.63 per liter
Fuel Cost before VAT (round off for approximately	Rs.60.55 per liter
Additional VAT (varies from State to State – 27% on Petrol & 16.75% on Diesel +25p as pollution Cess with Surcharges	Rs. 16.61/Liter Petrol
Final Retail Price as on 13th June 2018 (Calculation)	Rs. 77. 11 per liter

CRUDE OIL(PETROLEUM) MONTHLY PRICE – INDIAN RUPEE PER BARREL



Description: Crude oil, average spot price of Brent, Dubai and West Texas Intermediate, equally weighed

Unit: Indian Rupee per Barrel

Currency: Indian Rupee

Month	Price	Change
Aug-17	3,194.46	-
Sep-17	3,413.19	6.85%
Oct-17	3,574.53	4.73%
Nov-17	3,887.81	8.76%
Dec-17	3,930.99	1.11%
Jan-18	4,215.16	7.23%
Feb-18	4,085.16	-3.08%
Mar-18	4,171.72	2.12%
Apr-18	4,516.93	8.27%
May-18	4,924.08	9.01%

Source: World Bank

Reasons why the fuel prices were deregulated?

With the deregulation, fuel prices will be market linked. That means if the international petroleum prices rise, customer will have to pay more for buying. But in the old pricing scenario, fuel prices weren't cut, but they increased the subsidy for oil companies which are around Rs. 63000 Crores. The freeing up (deregulation) of price and diesel prices will save the government several thousand Crores in subsidy payment.

Why is government not reducing Excise duty?

The central government has already signaled that it will not cut excise duty, a key component of the retail price of fuel.

There are many reasons behind the government hesitation to reduce excise duty. Even a single rupee cut in excise duty on petrol and diesel will result in a revenue loss of several thousand crores. When the fuel price doesn't go up, there is no reason for any tax cut. The central levies Rs. 19.48 a liter of excise duty on price and Rs. 15.33 per liter on diesel. States have a value added tax (VAT), which varies from state to state. The government hopes that fuel prices would come down in a few weeks as the geopolitical tensions across the Korean Peninsul will reduce after historical summit between the US and North Korea. Experts also predict that US shale gas boom could reduce the crude oil price.

Petrol, diesel prices at all-time highs ahead of Ganesh Chaturthi

Across all states, Maharashtra pays the most for petrol because of a high VAT of 39.12% in Mumbai, Thane and Navi Mumbai, while the tax rate for the rest of the state is 38.11%.

The state-run oil companies did not raise prices today, petrol and diesel continue to be at all-time record highs. Across all states, Maharashtra pays the most for petrol because of a high VAT of 39.12% in Mumbai, Thane and Navi Mumbai, while the tax rate for the rest of the state is 38.11%. At least three state governments have so far provided some respite to consumers by reducing VAT, which varies from state to state. Rajasthan has cut petrol and diesel prices by Rs 2.5 per liter, Andhra Pradesh by Rs 2 and West Bengal by Re 1. In Mumbai, the price of petrol is Rs 88.26 while the price of diesel is Rs 77.47. Those living in Parbhani, 500 km away from Mumbai, are paying at least Rs 90.02 per liter due to higher transportation costs. This is the highest known price for petrol in India.

However, private fuel retailers are charging a notch more than state-run ones like IOC, BPCL and HPCL.

In Delhi, petrol costs Rs 80.87 and diesel Rs 72.97. In Bengaluru, the price of petrol is Rs 83.51 and that of diesel is Rs 75.32. In Hyderabad, petrol costs Rs 85.75 and diesel Rs 79.37. In Chennai, petrol costs Rs 84.05 and diesel Rs 77.13. In Kolkata, petrol costs Rs 83.75 and diesel Rs 75.82 The central government has already signaled that it will not cut excise duty, a key component of the retail price of fuel. Global crude oil prices and the rupee's exchange rate are to be blamed for rising fuel prices. US WTI crude futures are trading close to $70 a barrel while Brent crude futures are at $79.30 a barrel. A falling rupee is increasing the cost of import of crude oil for India, which imports around 80% of its demand. The rupee is now just 10 paisa away from the 73 mark against the US dollar.

Conclusion

The daily revision system in oil prices can never affect consumer much as international oil prices do not fluctuate daily. Change in prices of petrol and diesel will not affect the commuters .The price movement will immediately reflect on the account books of oil marketing firms, but greatly help in the long run since there is no need maintain loss or subsidy. Apart from this, it will increase of overall sales of oil marketing companies and improves the share prices. Deregulation also brought private oil companies Reliance industries and Essar oil into retail sale of fuels. For government, low subsidy means they can meet its fiscal deficit target of 4.1 per cent of GDP. The less fiscal deficit will reduce government borrowing and increase spending on asset creation, which will add to economic productivity and positive on the rupee.

Reference:

1. World Bank
2. Secondary data through electronic (internet)