



## Issue of Petrol and Diesel Pricing in India

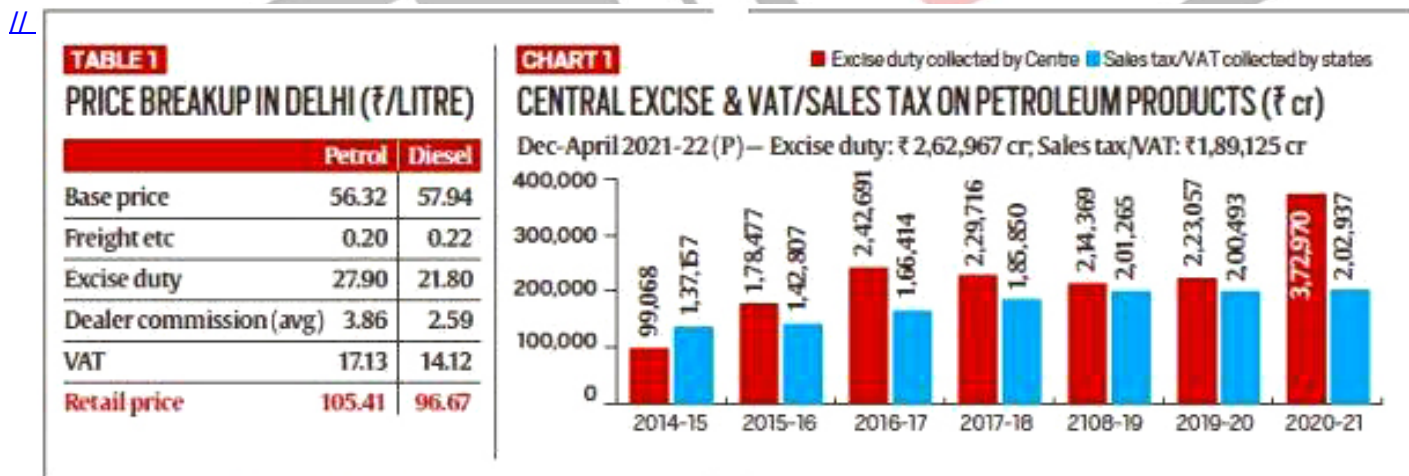
**For Prelims:** VAT, Excise Duty , crude oil prices

**For Mains:** Issue of Petrol and Diesel Pricing in India, Effect of Policies & Politics of Countries on India's Interests

### Why in News?

Recently, the Prime Minister urged several **Opposition-ruled states to cut taxes on petrol and diesel** in order to **reduce the economic burden on citizens** and work as a team in this time of global crisis following the spirit of **cooperative federalism**".

- Maharashtra, West Bengal, Telangana, Andhra Pradesh, Tamil Nadu, Kerala, and Jharkhand have not reduced **Value-added tax (VAT)** on Petrol and Diesel.
- VAT is consumption tax which is added to a product at every point of the supply chain where value is added to it.



### What are the Components of Retail Prices of Fuel?

- Retail prices of petrol and diesel are made up of mainly 3 components:
  - Base price (reflecting cost of international oil)
  - Central Excise Duty
  - State Tax (VAT)
- **Central and state taxes form a major chunk** of the price of petrol and diesel in India.
- **Excise duty is constant for all over India**, state taxes (sales tax and value added tax) vary depending upon the rates levied by different state governments.
  - These taxes **make fuel even more costly for consumers**.
- In November 2021, the **Centre had reduced excise duties** on both petrol and diesel to bring

some relief to end-use customers.

- Exercise duty was **reduced by Rs 5 per liter on petrol and Rs 10 per liter on diesel.**
- Fuel prices **remained constant after the Centre's exercise duty reduction.**
- However, a **recent surge in global crude oil prices** owing to the **war between Russia and Ukraine** led to corresponding hikes in the price of petrol and diesel in India too.
- The **price reduction varied across states** due to differences in VAT rates.
  - States with higher VAT witnessed slightly higher reduction in pump prices.
- **Retail rates of petrol and diesel are governed** by international prices as **India depends on imports for meeting 85% of its oil needs.**

## What are the Government Earnings from Fuel Prices?

- **Exercise duty and VAT on fuel constitute** an important source of revenue for both the Centre and the states.
- As per the **Budgets 2020-21**, Excise duty on fuel makes up about 18.4% of the Centre's gross tax revenues.
  - Petroleum and alcohol, on average, **account for 25-35% of states' own tax revenue.**
    - **Of the revenue receipts of states**, central tax transfers comprise 25-29%, and own tax revenues 45-50%.
- **During April-December 2021**, taxes on crude oil and petroleum products had **yielded Rs 3.10 lakh crore to the central exchequer**, including Rs 2.63 lakh crore as excise duty, and Rs 11,661 crore as cess on crude oil.
  - For the same period, Rs 2.07 lakh crore accrued to the state's exchequer, of which Rs 1.89 lakh crore was through VAT.

## What are the Constraints of States in Lowering Fuel Taxes?

- **Major Source of Revenue:**
  - Petroleum and liquor account for **roughly a third of states' own tax revenue**, making it difficult for states to forgo a part of it.
- **Impact of Pandemic:**
  - The **economic downturn and the pandemic** had led to higher spending needs and reduced revenues.
    - States' consolidated fiscal deficit had jumped from 2.6% of **Gross Domestic Product (GDP)** in FY20 to 4.7% in FY21.

## What are the Options to Cool Inflation?

- As **India is heavily dependent on imports for crude**, there is no way of cooling energy price **inflation** other than by lowering taxes on the finished product or by re-introducing subsidies.
- **Subsidies enable state-owned fuel retailers to sell at a lower price**, while private refiners who do not get subsidy from the government are forced to incur losses.
- Given that **higher fuel prices are getting transmitted** to prices of other items as transportation becomes costlier, it is believed that **monetary tightening would be the right solution.**

## Way Forward

- India has been **experimenting with diversifying its source of oil and gas imports**, creating strategic oil reserves, blending ethanol with auto fuel and an ambitious electric mobility plan.
- However, **these measures are yet to achieve a critical mass** to have a positive impact on energy prices in the face of a massive surge in global prices of crude oil, gas, petrol, and diesel.
- The easiest way that the government can stop fuel prices from rising is by cutting taxes on them, and by taking less dividends from oil **Public sector undertakings.**
- The government should restrict the export of fuel and other Petro-products.
  - This will **force refineries to sell their output in the domestic market**, removing one reason for giving them assured trade-parity prices.

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

**Q. In the context of global oil prices, “Brent crude oil” is frequently referred to in the news. What does this term imply? (2011)**

1. It is a major classification of crude oil.
2. It is sourced from North Sea.
3. It does not contain sulphur.

**Which of the statements given above is/are correct?**

- (a) 2 only
- (b) 1 and 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

**Ans: (b)**

**Exp:**

- **Brent crude oil** is one of the major classifications of crude oil done on the basis of geographical location of the source.

**Source: IE**

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