Let them continue to freely price diesel and petrol

Given the continuous hike in crude oil prices, by around 37%—from $52.49 per barrel in April 2017 to $71.98 right now (Indian basket)—and the fact that we are now in the last year before the elections, it is not surprising there is talk of the government planning to ask PSU oilcos, IOC, HPCL and BPCL, to go slow on hiking prices of petrol and diesel and, instead, absorb some of the hike in prices. While PSU oilcos have been passing on the hikes to consumers so far, if oil touches $80 per barrel that some are predicting—from April 2 to April 20, Brent prices rose 8.3%, to $73.25 per barrel—no government would like to see petrol/diesel prices shoot up.

Though, with US shale production likely to rise 125,000 barrels per day to touch 7 million in May, this will play a calming role.

So far, to be fair, the government has done a good job in curtailing subsidies, though a large part of the heavy lifting was done by the fall in global prices. In 2013-14, when the Indian crude oil basket was at $105 per barrel and under-recoveries were as high as Rs 143,738 crore, Rs 62,837 crore came from diesel alone—petrol prices had been freed up in June 2010, so there were no under-recoveries.

In October 2014, the NDA freed up diesel prices as well—this was helped by the fact that the UPA had started hiking diesel prices regularly by a small amount—and today, when oil is at $71.98 a barrel, there are no under-recoveries on diesel. In the case of both LPG and kerosene where there are still subsidies, small homeopathic price hikes were allowed and several crore users of LPG were eliminated by using Aadhaar to weed out those with more than one connection and through the prime minister’s #GiveItUp campaign. As a result, in April-December 2017, the kerosene and LPG subsidies were only Rs 17,446 crore.

Even when prices started hardening a bit, the government did not force oil PSUs to absorb the fuel hikes. Between June 16, 2007 and August 31, 2007, for instance, when petrol prices rose from Rs 23.94 per litre in the Gulf to Rs 25.64, Indian PSUs raised their ex-refinery prices from Rs 24.87 to Rs 26.65—a similar situation prevailed when it came to diesel. If crude prices rise too much, one option before the government is to lower excise duties on petrol diesel—right now, while the refinery transfer price of petrol is Rs 35.35 per litre, central excise is Rs 19.48 and VAT in Delhi is Rs 15.75.

When global oil prices were falling, the government hiked the excise duty four times between November 2014 and January 2015 but, when prices started rising again, the government cut excise duties by Rs 2 per litre in October 2017—the Rs 8 per litre cut in this year’s budget was neutralised by the introduction of a similar road cess. So, the government can cut excise duties again, but, with finances tight, that will mean expenditure cuts, an unwise thing while the economy continues to need a government stimulus.