

Cascading effect of price hike

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Consequent to the hike in the price of diesel on October 3, 1999, DTC has increased its fare by almost 100 per cent. The cost of diesel constitutes only about 15 per cent of the total cost of operations. In view of this, increase in its price by 40 per cent should have led to an increase in fare by only six per cent (40×0.15). Against this, the hike is almost 17 times. When members of opposition in the Delhi Assembly highlighted this serious anomaly, the Chief Minister retorted that increase in fare on an average was 76 per cent and not 100 per cent. Even 76 per cent is highly disproportionate—almost 13 times the increase that can be justified by increase in price of diesel.

The phenomenon is not unique to DTC. The All India Motor Transport Congress (AIMTC) proposed an increase in freight by 30 per cent. This too was highly disproportionate as an increase of only six to eight per cent that could be justified on account of the hike in diesel price (taking share of diesel in overall cost as 15-20 per cent). Belatedly, transporters realised that long-term contracts with users did not have any escalation clause and therefore, the contemplated increase could not be pushed through. Consequently, they trained their guns on Government seeking immediate withdrawal of hike in diesel price. On being told that there will be no roll back, they went on an indefinite strike.

During confabulations with representatives of transporters, even as officials offered sops by way of inserting escalation clause in long-term agreements (in respect of movements by Government departments/undertakings), they did not bother to highlight the basic point that cost of operations would increase by a mere six per cent; which should not be difficult to absorb.

The Government was obviously on a weak wicket. It cannot be expected to preach what it is not doing! The 40 per cent hike in diesel price was totally unprincipled and unwarranted. In a recent advertisement, Ministry of Petroleum & Natural Gas has come up with an explanation that the higher cost of diesel was eating into margins of oil companies. The claim is highly exaggerated. About 80 per cent of diesel supply is from domestic refineries whose cost has not increased in tandem with international prices. No doubt, refineries are paying a higher price for crude inline with its import parity price (IMPP); however, impact of this on their production cost is much lower than increase in cost of imported diesel. This is because apart from crude, conversion/processing cost accounts for a significant share.

Significantly, domestic producers of crude viz., ONGC/OIL, are paid only a certain pre-determined percentage of IMPP even as refineries pay the full international parity price. The differential is quietly appropriated by the Government for meeting its needs. But for this and if refineries were to pay the same price as received by producers, impact on their production cost would have been still lower!

Other vital players in supply chain are also not free from disproportionate syndrome. Confronted with an increase in freight charges, sellers of essential items such as vegetables and fruits, raise respective prices. They too follow the footsteps of bigwigs. The actual increase in prices run into several rupees per kg as against a few paise that can be justified on account of increase in freight charges.

In a nutshell, there is a cascading effect on cost of items across the whole spectrum leading to a spiralling inflation. The beleaguered consumers not only pay for increases caused by a hike in basic price, but also, for the element of greed at various levels including departments/undertakings, transporters, vendor/seller and so on. No wonder, the cascading effect of governmental greed is a major factor responsible for making the life of common man miserable.

The consumers would not mind paying more if only all relevant facts are placed before them and increase in price and service charges is limited to the extent justified by underlying factors. While, on one hand, transporters should stop blowing up the real impact of hike in diesel price, on the other, there is an urgent need for Government to adjust the price downwards.