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# The unprincipled hike

## The Government should focus on removing the anomalies in the Oil Pool Account, says **Uttam Gupta**

Even as the Union Minister of Petroleum and Natural Gas has promised re-consideration of the hefty increase of 40 per cent in diesel price with effect from October 3, 1999, the Government should take a serious note of some of the inconsistencies in the approach to its pricing, ever since it switched over to the principle of parity with the prevailing international prices of the commodity.

During 1998-99, the first full year after the switch over, even as the global price of diesel kept low, reduction in its price in the country was less than proportionate. According to an estimate, as against a reduction of about Rs 3 per litre warranted on parity, the price was reduced by only Rs 1 per litre. Even this benefit was nullified when, in the Union Budget for fiscal year 1999-2000, the Government levied an additional cess of Rs 1 per litre. Even as the import parity principle was observed more in the breach during 1998-99, in the current year when, international price of diesel has increased, the Government has cited the same principle to justify the price hike of 40 per cent. In fact, reports say that the Government is contemplating yet another increase in November 1999. This syndrome of heads-I-win-and-tails-you-lose is grossly unfair to the common man.

There is a further distortion in the application of the import parity principle. This arises from the fact that there is 30 per cent customs duty on diesel imports which is loaded while fixing its selling price. The local taxes levied on ad valorem basis, have a further cascading effect. Due to all these levies if increase in the basic price of diesel is, say, Rs 1 per litre, the consumer will land up paying Rs 2 more per litre.

In view of the above, even as both the Union and State governments merrily enjoy substantially enhanced revenues (an increase of about 60 per cent during second half of current year over a corresponding period of 1998-99 is estimated), the hapless consumers are doubly penalised. The Government has argued that the increase in Diesel prices was necessary to contain deficit in the Oil Pool Account (OPA). Once a certain principle of pricing has been established like that of import parity, reference to OPA is unwarranted. Irrespective of whether there is a surplus or deficit in OPA, price fixation has necessarily to be on the basis of that principle alone.

Even in regard to the alleged deficit in OPA, the Government has refrained from placing the full picture before the public. It has talked of a deficit of Rs 5200 crore (current). Herein, the significant point to note is that this is after appropriation of a huge Rs 12,615 crore which were used for redemption of Oil Bonds. If this is added back, then far from deficit there will be substantial surplus of Rs 7415 crore.

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It may be recalled that in August 1997, the Government of India had issued Oil Bonds worth Rs 13,000 crore to oil companies to deal with the then deficit estimated at about Rs 18,000 crore. The plan was to redeem these over a period of five to seven years. As for financing of their redemption, nowhere was it said that the money will come from the OPA. In fact, it did not even visualise that the pool account would at all be able to generate required surpluses.

Contrary to this, however, and thanks to the depressed international prices on one hand and less than proportionate reduction in selling prices — not merely diesel, but a host of other products like naphtha, fuel oil, LSHS etc — on the other, during the 18-month period ending March 31, 1999, the OPA built up a huge surplus. The Government lost no time in taking this away for redeeming almost the entire bonds, leaving a mere outstanding of Rs 385 crore.

By retiring the bonds prematurely, in less than two years as against five to seven years as originally planned, the Government has made its life all the more easier. But this is at the cost of the hapless consumer who is being made to pay a hefty price increase for the consequential deficit in the OPA. The deficit of Rs 5200 crore includes Rs 1000 crore towards the so-called miscellaneous items. This is a significant amount and the public which has to bear the brunt of consequential actions, has a right to know as to what these items are.

The lack of transparency speaks volumes about the lack of accountability in the functioning of the OPA. That the functioning of OPA does not instil confidence would also be clear from the experience of the year 1996-97. Consequent to July 1996 price hike — including 15 per cent hike in diesel — the Government had estimated the year-end deficit to be in the vicinity of Rs 4000 crore. Against this, the actual deficit by March 31, 1997 turned out to be Rs 15,500 crore, which is higher by a huge Rs 11,500 crore!

A meaningful review of the price hike should take note of these gaping holes in working of the OPA. Instead of treating the pool as sacrosanct, the Government should focus on removing these anomalies. This is all the more important as the alternative of increasing the price has the potential of stoking fires of inflation.