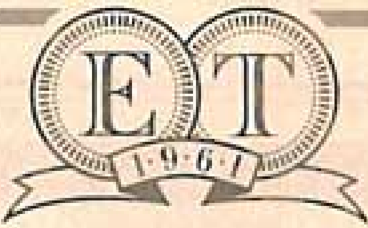
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Guest Column

UTTAM GUPTA

Unwarranted price hike

To tackle the ballooning deficit in the Oil Pool Account (OPA), the government is contemplating a hefty increase in prices of petroleum products, viz., diesel by about 21 per cent, LPG 25 per cent and kerosene 60 per cent. This way, it proposes to garner about Rs 6000 crore which is a third of the targeted overall reduction of Rs 18,000 crore during the current year.

Only about six months ago, i.e., in March 2000, the price of LPG was hiked by 30 per cent. Earlier in January 2000, price of petrol was raised by 10 per cent. And, even in case of diesel, the last price hike in October 1999 was a huge 40 per cent. Against this backdrop and considering their inflationary effect on the entire economy, further increase in prices should be avoided. Instead, the government should use other options to contain the deficit.

Before we dwell on these, at the outset, it may be noted that the deficit of Rs 24,000 crore as on 31 March 2001 was projected on the basis that international price of crude will continue to rule well above US $30.0 per barrel. However, in the wake of various initiatives at the global level particularly by developed countries, the price is expected to fall below this level (analysts expect this to settle in the range of US $26-28 per barrel). As a result, the deficit will be correspondingly lower.

Let us now consider various options which can be justifiably used.

First, consequent to steep increase in international prices of crude and petroleum products and significant depreciation of the rupee, the ministry of finance (MoF) is expected to reap a bonanza of about Rs 15,000 crore by way of extra revenue from levy of custom and excise duty. The duty rates need to be suitably restructured to return this money to the OPA. To withhold this on grounds of likely shortfall in revenue from proceeds of disinvestment or increase in non-plan expenditure is illogical.

Second, it may be recalled that at the beginning of the '90s, there was a huge surplus of about Rs 9000 crore in the OPA. Then, nearly half of this amount, i.e., about Rs 4500 crore was appropriated by the government to reduce its budget deficit. This, together with interest accrued during the last 10 years or so, should be returned to the Pool. Even at a modest 12 per cent per annum, this would add up to about Rs 14,000 crore by now.

The above two steps will not only completely wipe out the projected deficit as on 31 March 2001, but also, leave a surplus of about Rs 5000 crore. However, the Pool will still have to grapple with the demand of ONGC/OIL for payment in respect of domestic supplies of crude on the basis of full parity with prevailing international price (currently, they are being paid @ US $16.0 per barrel). Involving an amount of about Rs 10,000 - 15,000 crore, this too should not cause much of a problem in view of the following.

During 1997-98, in a bid to tackle the deficit in OPA (estimated at about Rs 18,000 crore), the government had issued bonds — of 5-7 years maturity — to oil companies for about Rs 12,000 crore. However, in view of huge surplus at the beginning of 1999-2000 (enabled primarily by international price of crude plummeting to a low of US $10.0 per barrel), these bonds were prematurely retired. But for this, and if, the government had stuck to original plan for redemption, there would have been enough surplus in the Pool! Notwithstanding the above, the liabilities to ONGC/OIL can be met by using the surplus of about Rs 5000 crore on the one hand and for the balance, the government may issue bonds. This will help these undertakings maintain their financial health and facilitate implementation of various projects for exploration and development presently constrained by lack of funds.

Currently, oil companies are paid for petroleum products on the basis of their prevailing international prices. The relevant price includes C&F landed cost, port handling charges and import duty. And since, import duty on petroleum products is much higher than on crude, any given percentage increase in the international price, yields a bonanza for oil companies at the cost of OPA.

There is need for rationalising the payments system to prevent unwarranted gains to the refineries. The government should also take a close look at the CAG report which has alleged excess payments to oil companies to the tune of about Rs 6000 crore and initiate appropriate steps to reduce the consequential burden on the oil pool account.

(The author is chief economist, The Fertiliser Association of India. Views expressed are personal)