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Penny wise, pound foolish

The moot point is that despite the plunder of the petroleum sector, the fiscal deficit is high, says **Uttam Gupta**

EVEN as the government is contemplating an increase in the prices of diesel and LPG by 15 per cent each and kerosene by 20 per cent, other alternatives suggested by ministry of petroleum and natural gas (MPNG) to reduce the deficit in the oil pool account (OPA), have been found to be unviable. What are these alternatives and why are these considered unviable?

The MPNG's suggestions are: (i) reduction in customs and excise duties, including duty on imported crude from existing 25 per cent to 20 per cent and that on diesel from 30 per cent to 25 per cent; (ii) return of about Rs 4000 crore appropriated by the ministry of finance (MoF) from the OPA, a few years ago, for meeting the budgetary needs; and (iii) return of the bonanza of Rs 4360 crore reaped by the exchequer, during 1996-97, by way of additional duty collection due to rise in the international price of crude and other petroleum products.

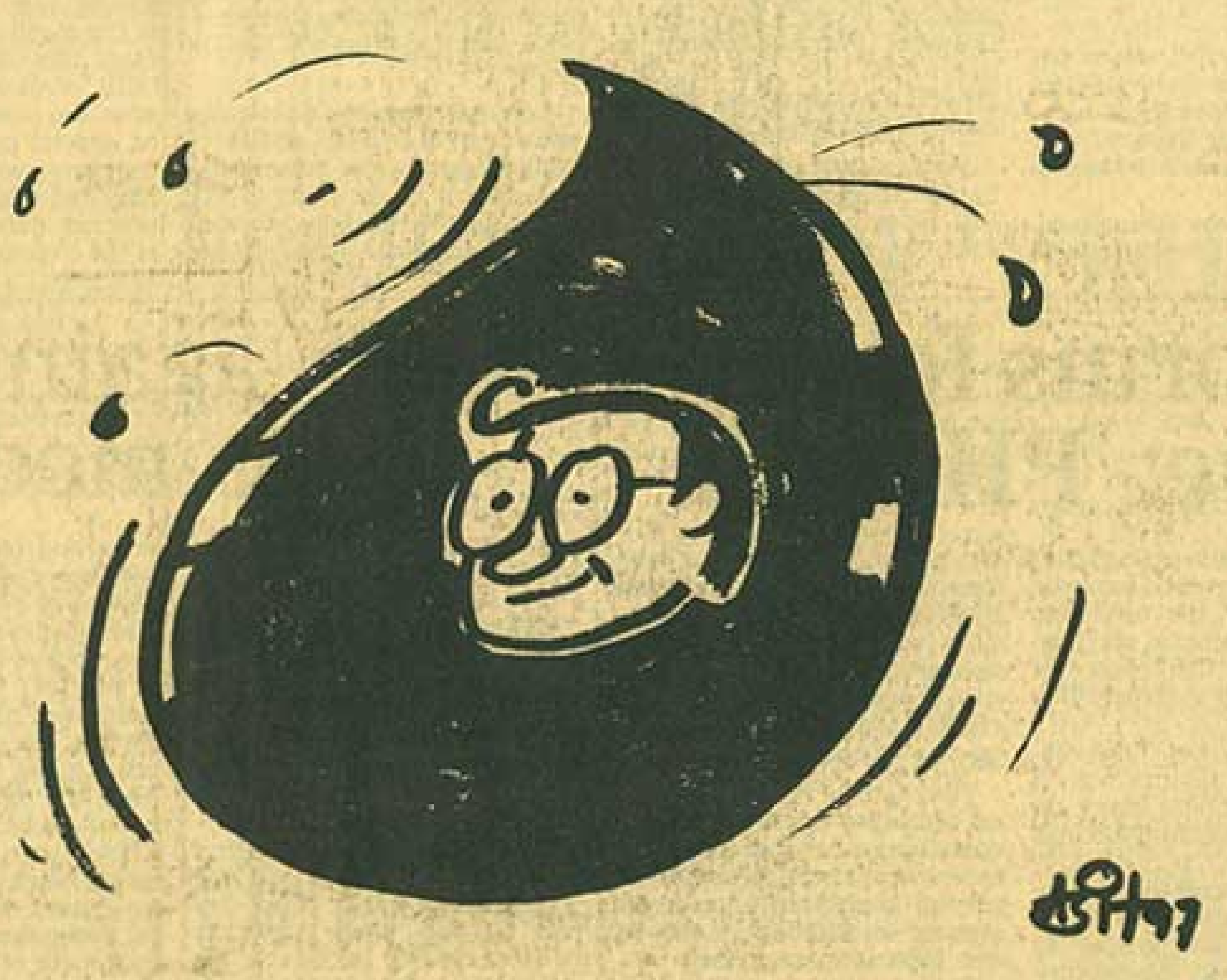
All these proposals have been rejected outright by the MoF — in a high-handed manner at that.

By describing these as unviable, the government has only sought to impart legitimacy to this high-handed and intransigent attitude of the MoF. Although the latter has given some explanations, these do not stand to valid reasoning.

On lowering of the duties, the view taken by the MoF is that since the finance bill has already been passed by the Parliament, how can the changes in rates be effected now? This has no substance as the MPNG's proposals, including the lowering of the duty, were made known to the MoF even at the time the exercises for the 1997-98 budget were going on. Having deliberately glossed over these while formulating the proposals, raising the question of Parliamentary propriety at this stage only smacks of double standards.

The MoF has further argued that, at a time, when it has reduced both the direct and indirect taxes across a wide range of economic activities, the exchequer cannot afford to lose huge revenue which the reduction in the custom and excise duty on crude and petroleum products would entail; that such a step will throw the fiscal deficit target completely out of gear.

The linkage of the tax concessions to the industry/personal income groups with the tax revenue from the oil sector is totally unjustified and unwarranted. The former has been done essentially to augment the corresponding revenues by spurring growth, bringing more assessees within the tax net and preventing evasion. Needless to say, all this offers tremendous potential. The government should endeavour to make a success of these bold and pragmatic decisions by gearing up the tax machine rather than fall back on the revenues from the oil sector to fulfil the overall targets.



Considering the universal linkage of the petroleum sector with the rest of the economy, and energy being a major element of the production cost in the industries, especially in the core sector, heavy taxation of the former is the surest invitation to a high-cost economy. Moreover, it tends to dampen the pace of investment and growth and could mar that prospects of increasing tax collection from the industries and trade. From this angle also, it is better to reduce tax burden on PoL.

The deficit in the OPA increased from Rs 5700 crore as on April 1, 1996 to Rs 18,000 crore as on March 31, 1997, i e a whopping Rs 12,300 crore. The government has attributed this to increase in the international prices of crude and PoL on the one hand, and significant depreciation of the rupee on the other. However, it is silent on the cascading effect of duties on the deficit. Customs duty is levied on ad valorem/percentage basis. In view of this, increase in the value of imports automatically increases the duty liability leading, in turn to higher cost and consequently, deficit in the OPA.

Only about two years ago i e August 1995, $1 was valued at Rs 31.5. Now, it is Rs 36. The rupee is unlikely to recover the lost ground in view of the continuing fragile BoP; on the contrary, it may even slide further. Ironically, even when the underlying factors are favourable — recent heavy inflow of dollars through FIIs and FDIs — the government has a vested interest in keeping it undervalued. This means that, in future also, the government will gain progressively at the expense of the OPA.

Against this backdrop, and considering that the government itself has contributed substantially to the rising deficit in the OPA, it is only fair and equitable that the MPNG's demand for return of the windfall gains to the exchequer of Rs 4360 crore, during 1996-97, be conceded. By the same logic, there is a strong justification for lowering the ad valorem rates specially with increase in the basic price of the imports and continuing increase in future.

Just as in the case of customs duty, the government has reaped fortuitous gains by way of additional excise collections on domestic PoL, but with a difference. Whereas the former came about due to external factors, the latter is largely the result of its own actions in raising the basic price of PoL. The prices of all varieties of PoL except kerosene have been raised four times in the 90s, i e October 1990, July 1991, September 1992 and July 1996, yielding unintended benefit to the government at the cost of the OPA. Considering that this will continue to be available in view of the higher basic price, there is an urgent need for downward adjustment in the excise duty as well.

Due to prevailing low international price of crude through most part of the 80s, and even the price allowed on domestic crude remaining unchanged at the end of the decade, the OPA had accumulated a huge surplus. This surplus was then appropriated by the government for meeting its budget deficit. Had the money remained with the OPA, this would have grown into a huge sum, enough to take care of the eventualities.

Now when, because of an adverse turn of external factors exacerbated by the duties, the OPA is in deficit, in all fairness, this money should be returned. For the government to draw upon the OPA when the going is good and leave it high and dry when it is in serious difficulty, is not only inconsistent, but highly discriminatory. True, this would upset government's budget, but, this is a problem it has to tackle by checking evasion and improving tax collections from other sectors.

The MPNG's suggestion for dual pricing of diesel is also not without merit, although, there may be some practical difficulties in implementation. For instance, why should the industries/commercial establishments be entitled to supply of diesel at a lower rate for running of captive power plants?

The MoF is very prompt in raising the bogey of fiscal deficit whenever there is talk of seeking its help in reducing the deficit in OPA. It is also quick to point out that the former is more inflationary than increase in PoL prices to tackle the latter. Which is more inflationary is an issue on which there could be endless debate. The moot point, however, is that despite the incessant plunder of the petroleum sector, the fiscal deficit is high.