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VIEWPOINT

Robbing Peter to pay Paul

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PRICES of petroleum products increased on October 1, but did not bring down the subsidy on petroleum fuels. Post price hike, the subsidy on diesel is Rs 2.99 a litre, on kerosene Rs 5.71 a litre and the 14 kg LPG cylinders come with a subsidy of Rs 140 per cylinder. The prevailing subsidy levels are considerably higher than six months ago. The subsidy on diesel then was only Rs 1.93 per litre. The subsidy on kerosene was Rs 5.33 a litre then and LPG cylinder prices had a built-in subsidy of Rs 125.

It is very clear from the present state of affairs that the hapless consumer will simply have to go on paying more and more for fuel. In March, the price of LPG cylinders were jacked up by 30 per cent. Diesel prices had been raised by a hefty 40 per cent only a year ago. So why is it that subsidy levels keep going up with the prices of petroleum products.

The OPEC produces crude oil at a cost of a measly $ 5 a barrel or so and it controls 40 per cent of the global crude supplies. So, even when the international price of crude oil plummeted to a low of $ 10 a barrel roughly two years ago, the profit margins of OPEC countries was almost 100%.

Now, when the price of crude is $ 30 a barrel (at one point crude prices had even touched $ 37 a barrel), margins of oil producers are as high as 500 per cent. Imported crude accounts for roughly 70 per cent of India's total requirements. Since refineries pay the international price for domestic crude as well, an increase in global prices impacts refinery margins irrespective of where the crude oil is coming from. Therefore, when crude prices go up, the cost of production of petroleum refineries go up correspondingly.

The cost of crude to refineries is also impacted by the depreciation of the rupee and the customs duty. In April this year, for instance, the CIF (cost in freight) price of imported crude was $ 172 per tonne. After working in the 15 per cent customs duty, the cost of crude worked out to Rs 8,604 per tonne, at a rupee-dollar parity of $ 1 = Rs 43.50.

By August 2000, crude prices had gone up to $ 204 per tonne. The dollar was trading at Rs 46. The cost of crude to the refineries at the prevailing rupee-dollar parity and after adding on customs duty then worked out to Rs 10,792 per tonne. Thus, nearly 40 per cent of the increase in the cost of crude oil was on account of the depreciation of the rupee and the import duty.

The add-ons to the price of crude do not end here. Crude oil is processed into petroleum products, which attract excise duty at the rate of 16 per cent on diesel and 32 per cent on petrol. Even LPG and kerosene are not spared and attract excise duty at the rate of 16 per cent and 8 per cent respectively. All these elements, the duties and the rupee depreciation, push up the cost of petroleum products for consumers and the subsidy element in these fuels as well. Then there is sales tax, which in states like Maharashtra is as high as 33 per cent on products like diesel.

On imported petroleum products too, the deadly combination of rising international crude prices, the rupee depreciation and the import duty, work to inflate the ultimate cost to the consumer. In the current year the revenue collection from crude oil and petroleum products is estimated to be a whopping Rs 15,000 crore or so.

Ironically, this accrual to the Central coffers is not talked about, but a big noise is made about the deficit in the oil pool account. A rational tactic for tackling the oil pool deficit (which was expected to grow to Rs 24,000 crore by year-end before oil prices were raised) would have been to lower customs and excise duties in a manner that would return the entire extra collection to the pool.

Along with the Rs 4,500 crore that was transferred to the Consolidated Fund of India (CFI) in the early nineties and the interest on it, the revenue collected on petroleum products could have completely wiped out the oil pool account deficit.

It is time now to end this game of hide and seek and face facts head on.

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