

Fuel Pricing

June 26, 2020

State-owned oil marketing companies (OMCs) have increased the retail prices of petrol and diesel for more than 10 consecutive days following a 12-week pause during the lockdown imposed due to COVID-19 emergency. The fuel prices today have soared to 19 month high, while the price of **Brent crude oil futures**, which contributes a fourth to the value of the Indian crude basket, declined by about 3% during the same period.

Fuel Price Conundrum

- Companies use **rolling 15-day average international prices** to determine daily domestic rates of petrol and diesel.
- Companies are expected to follow the international market trends to determine domestic fuel prices, but they often diverge. Despite decline in crude oil price, fuel price has been rising due to following reason:
 - As India was battling the coronavirus pandemic in the third phase of the lockdown, a revenue-starved Central government hiked the excise duty by a record Rs 10 per litre on petrol and Rs 13 per litre on diesel.
 - The hike effectively meant that the Central government is collecting around 270% taxes on the base price of petrol and 256% in the case of diesel. However, the retail price didn't change and had no impact on the consumer.
 - The **hike was instead absorbed by the oil companies**. The burden is now being transferred to the consumers. Further, the demand has steadily gone up for both petrol and diesel with lockdown restrictions being eased across the country.

Source: *The Hindu, Economic Times*