



## High fuel prices in India – What are the causes?

### Description

#### Theme:

- The Russia-Ukraine war increased fuel prices in many countries including India.

#### Reasons for the high fuel prices in India:

- Petrol and diesel pricing depends on several factors. Final retail price = crude oil price (international price of crude oil) + refinery charges + transport charges + dealers' commission + Central Excise Duty (Imposed by Central government) + Value Added Tax (VAT) & surcharges (Imposed by state government).

One of the main reasons for the high fuel prices is high taxes by central and state governments (Central Excise duty + VAT & surcharges). As of March 2022, approx half of the price we pay for petrol goes to central and state governments as taxes. India is one of the most highly fuel-taxed countries in the world. The government explained that this revenue is needed to spend on welfare schemes.

- Petrol and diesel are still not in the ambit of GST (Goods & Services Tax). If they come under GST, taxes on taxes will be avoided and hence the retail prices will be reduced.
- The efficiency of petroleum refineries in India is one of the worst in the world. This is contributing to the price rise of petrol and diesel.
- India is third in the top countries that use crude oil after the USA & China. But the problem is that India does not have many oil reserves. Over 80% of the crude oil for our fuel needs is imported. So, import costs will be added to the final price. There is a lack of investment in the exploration of crude oil reserves within the country.
- As the Rupee value is depreciating, oil refineries have to pay more rupees to import crude oil. This is also one of the reasons why fuel prices are high.
- Saudi Arabia-led OPEC+ alliance (Organization of the Petroleum Exporting Countries) decided to cut production in the year 2020 to prevent the fall of crude oil prices during the pandemic

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. They also decided to gradually increase output to reach the pre-pandemic supply level. So, less supply and more demand result in high prices.

- Russia's invasion of Ukraine in the year 2022 resulted in several sanctions on Russia. So, many countries are not importing crude oil from Russia. This further reduced the supply of crude oil and resulted in an increase in prices.

### Consequences of high fuel prices:

- High petrol and diesel prices contribute to higher transportation costs and hence increases in the prices of essential commodities such as vegetables, rice, pulses etc. This is a big burden on commoners who are already facing job losses, low income due to pandemic.
- High fuel prices increase the prices of commodities and thereby can cause inflation.
- As people pay more for essential commodities, they may not easily buy other non-essential goods. So, that results in fewer sales for many businesses and that leads to an economic slowdown.

### What needs to be done:

- Reducing taxes on petroleum products will result in a reduction in costs of transport and thereby reduces the price of many consumer goods. This will help markets and the economy and also reduces the burden on common people.
- Instead of depending on these taxes on petrol & diesel, the Indian government needs to create more revenue sources such as increasing the number of people that pay income tax, recovering bad loans of public sector banks etc.
- More and more people are buying their own vehicles, especially after witnessing the pandemic and hence the demand for petrol and diesel is increasing and thereby the pressure on foreign exchange reserves and 'Trade deficit' are increasing. This will further lower the value of the rupee. To reduce the dependence on crude oil imports, there is a need to invest in the exploration of crude oil reserves in the country. Moreover, alternative energy resources such as solar energy, wind energy should be encouraged and promoted.
- There is a dire need to encourage people to use electric vehicles and to use renewable energy resources. This will reduce the burden on foreign exchange reserves as well as leads us towards eco-friendly living.

### Conclusion:

Due to the high fuel prices, there will be a huge burden on people whether they own a vehicle or not. Because high fuel prices increase the cost of transport and thereby increases the prices of consumer goods. To avoid that situation, the government needs to work on reforms in petroleum pricing.

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