

## HOW PETROLEUM PRICES DETERMINED IN INDIA?

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### Abstract

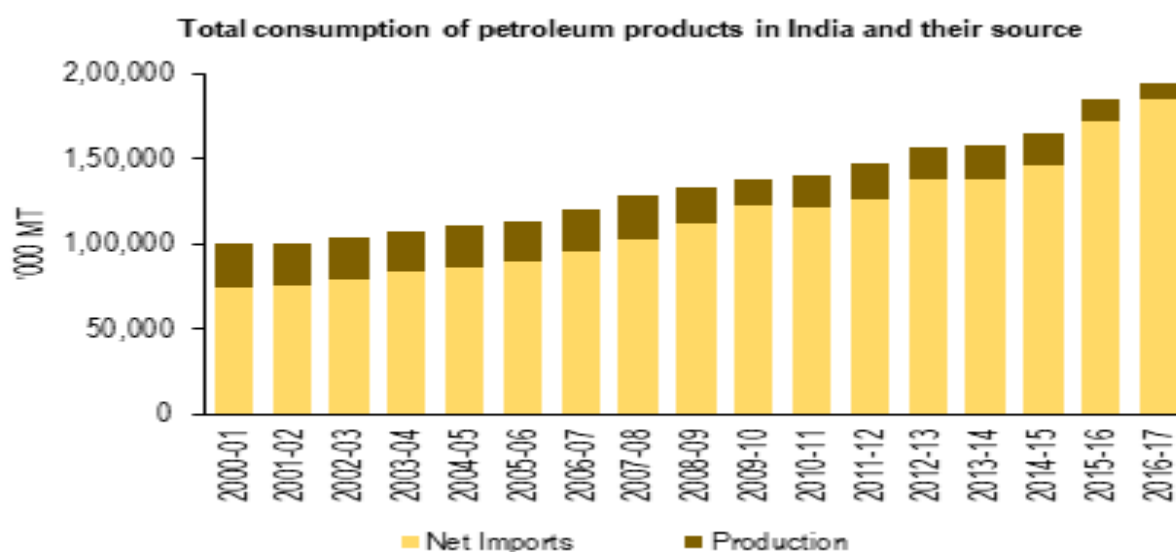
*As the reports say that India imports 80% of crude oil from the OPEC countries. This is the world's leading organization and dominating the world's oil market. The main control on oil market is of OPEC. As the Indian lifestyle is changing, the demand for the petroleum products has been increasing since last two decades. This is directly putting load on the import of oil. The main aim of this research study is to find out the various factors which decide the petroleum prices in the market. The other question is that, what is the impact of the changes in the prices on the other Goods and Services available in the market. The crude oil is refined and processed to get petrol, gasoline, diesel, aviation fuel, kerosene, and fuel oil, and others, its value is maximized etc. which is the main source of energy and one of the most used consumable energy source in the world. The prices of the crude oil decide the prices of the various petroleum and other by-products get after the refining process. And the prices of the crude oil are decided by some other various factors which are like quality of the crude oil, economy, weather and technology used for it. The prices of the crude oil, after completing a circle put huge impact upon the economic growth of the country. The need of the customer about the quality of the petroleum products is different in different countries; this is so because of the technology used in their country. So the prices of the Products after refining are also different. When crude oil prices rises in the international market, it put impact upon the economy and economy get disturbed. This disturbance leads to inflation in the market. This paper will study the same that how economy gets affected of the crude oil prices and how economy affects the other things.*

## Introduction

Basically the Oil Prices in India has put huge impact upon the economic growth of the country. However, with the increase in the prices of the petroleum products, inflation has gone up, but on the other hand, the revenues from excise duty and other type of taxes has also increased and that has been positive for the government. The prices of the petroleum are governed by various factors and the impact of the same is also on various things. The study of the oil prices is done to know the actual phenomenon of the price raising, the impact upon the economy and the other various relevant things which are discussed later on in this study. The oil prices in the neighboring countries like Pakistan, Bangladesh and Sri Lanka, are lessor than that of India.

Earlier, the price of petrol and diesel in India was regulated, i.e. the government was involved in the deciding the retail price. The government deregulated the pricing of petrol in 2010 and diesel in 2014. This allowed oil marketing companies to determine the price of these products, and revise them every fortnight.

Starting June 16, 2017, prices for petrol and diesel are revised on a daily basis. This was done to with the idea that daily revision will reduce the volatility in retail prices, and protect the consumer against sharp fluctuations.



The main reason of all the other reasons of rising prices of petrol in last decade is the increase in the use of it. The main source of Oil Products in India is Import. The above table is clearly depicting the rise in the imports of the Oil Products in the last two decades in India. So if the use is more, the import burden will rise and then there is rise in the prices.

### **Literature Review:**

**A Apama (2014):** In his paper, he has made an efforts to study the impact of prices of crude oil on the growth and actual position of the Indian economy. He considered GDP in it, Index of Industrial Production and Wholesale Price Index. As per his studies, these parameters were the most relevant.

**Dr. Ira Bapna, Vishal Sood, Prof. H.S. Saluja and Dr. N.K. Totala (2014):** The Correlation between crude oil prices and S&P CNX Nifty and companies was shown in this study. The conclusion of the study was that the crude oil prices and S&P Nifty companies has very close relationship. The existence of Unit root defines it.

### **Objectives of the Study:**

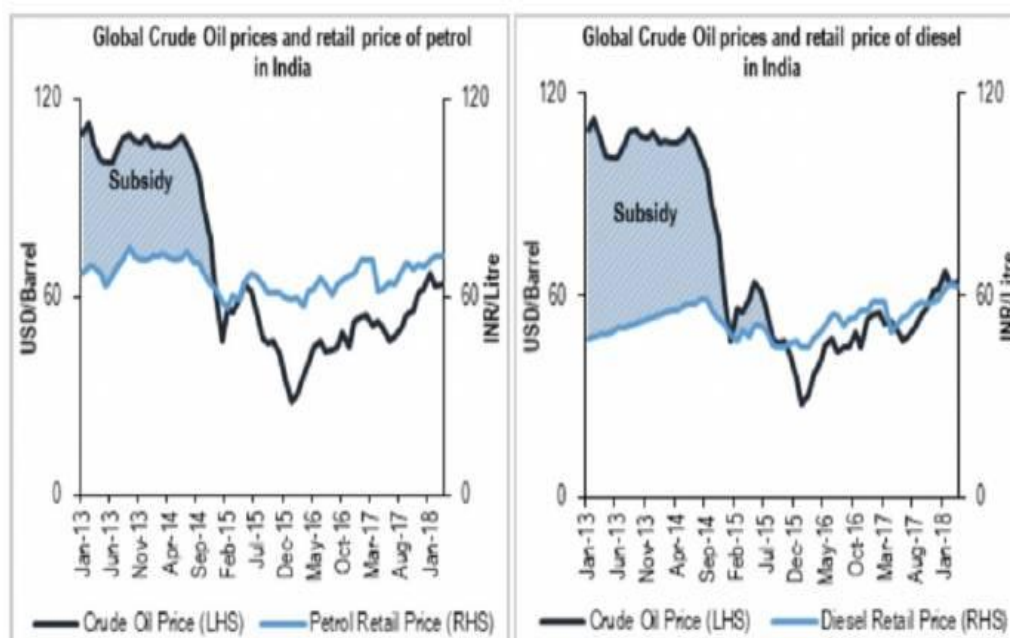
1. To know the determination process of petroleum prices in India.
2. To know the actual crude oil prices and reason for increasing petroleum prices in India.
3. To know the impact of charging high prices of petroleum products despite of low crude oil prices.
4. To differentiate the two Govt. parties in rule since 2004, UPA and NDA on petroleum prices.

### **Research Methodology:**

For the preparation of this paper, whole data required for this study is secondary data which has been taken from various sources and online websites and paper journals. The scope of the study is Indian Petroleum Market in which prices of past decades and current prices has been studied.

## Findings and Analysis

- As per the records and reports, it is to be noted that in last five years from 2013 to 2018, the prices of the crude oil has come down. It was USD 110 in January 2013 but has come down to USD 64 in 2018 March. The lowest of all times were recorded in the year of 2016 when it came down to USD 28. So the downfall in crude oil prices was 42% but interestingly the prices of the petrol in India in these years have risen up by 8%. On the other hand the prices of the Diesel have gone up by 33%. The trend of the prices in last five years has been shown in the following figure.

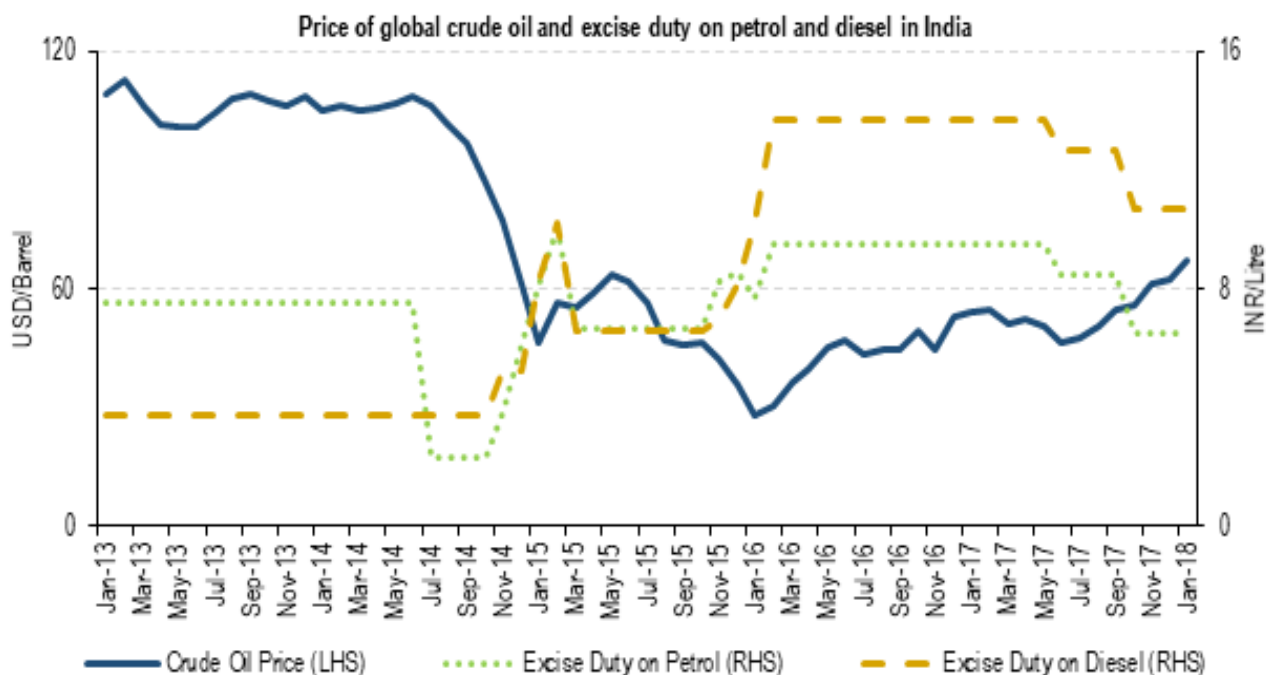


Note: Subsidy indicated in the graphs is notional. While calculating the subsidy amount, other factors such as cost of domestic inputs will also have to be accounted. Global Crude Oil Price is for the Indian basket. Figures reflect average monthly retail price of petrol and diesel in Delhi.

Sources: Petroleum Planning and Analysis Cell; Indian Oil Corporation Limited; PRS.

- Under the Constitution, the central government has the powers to tax the production of petroleum products, while states have the power to tax their sale. Petroleum has been kept outside the purview of the Goods and Services Tax (GST), till the GST Council decides. Over the years, the central government has used taxes to prevent sharp fluctuations in the retail price of diesel and petrol. In the past, when global

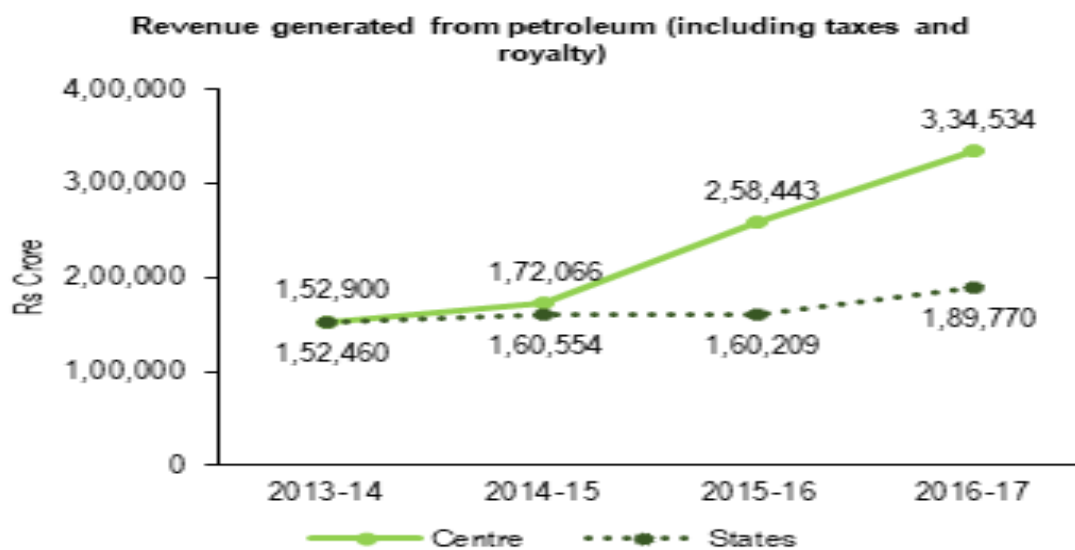
crude oil prices have increased, duties have been cut. Since 2014, as global crude oil prices declined, excise duties have been increased.



Above is the graph which shows that how the Indian govt. has put excise duty on petrol and diesel and despite of low prices of crude oil, why the prices of petrol and diesel have been so high.

- As a consequence of the increase in duties, the central government’s revenue from excise on petrol and diesel increased annually at a rate of 46% between 2013-14 and 2016-17. During the same period, the total sales tax collections of states (from petrol and diesel) increased annually by 9%. The figure below shows the trend in overall collections of the central and state governments from petroleum (including receipts from taxes, royalties, and dividends).

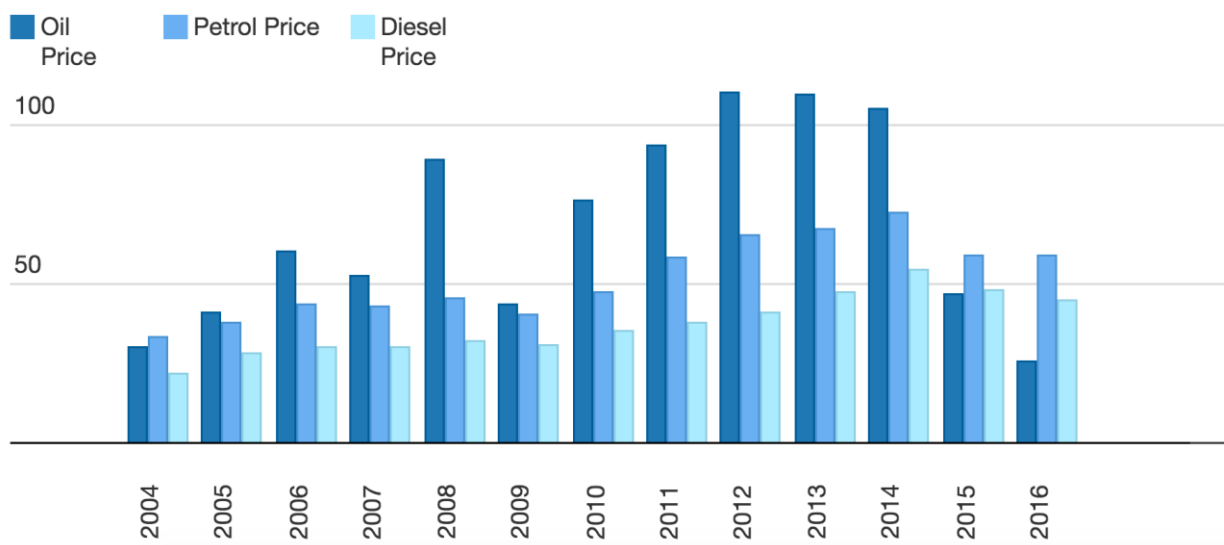




Because of high excise duty imposed by the state and central govt. the prices of the petrol and diesel has gone up but on the contrary, the revenues of the govt. have increased very rapidly. So for govt. this has been good source of income and revenue.

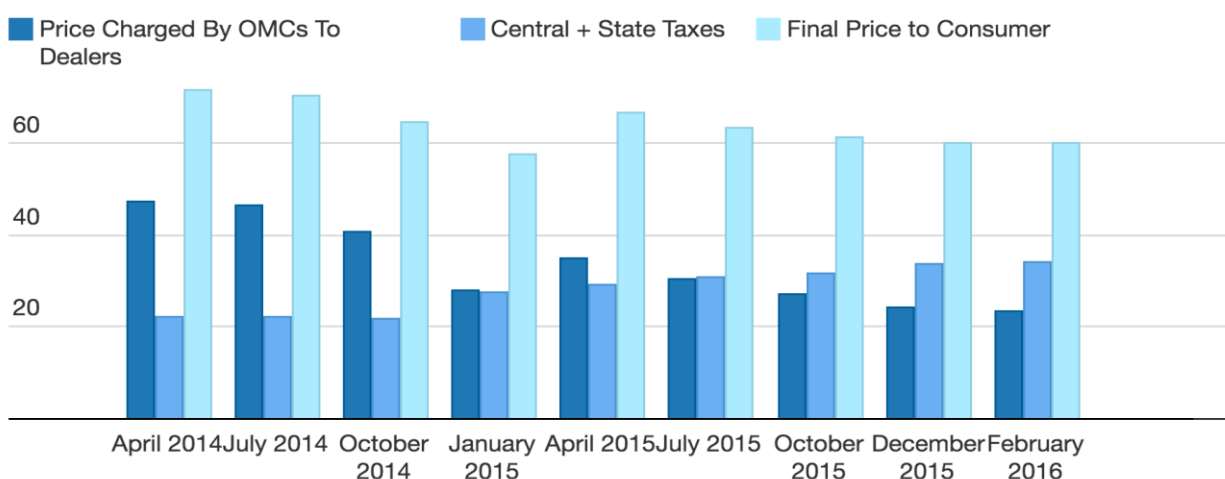
- Although India imports more than 80% of its fuel requirement, which means declining global prices should, theoretically, have seen sharp declines in retail petrol and diesel prices, Indian consumers of petrol and diesel now pay about double the global rate.

### What India Pays, What Indians Pay, 2004 to 2016

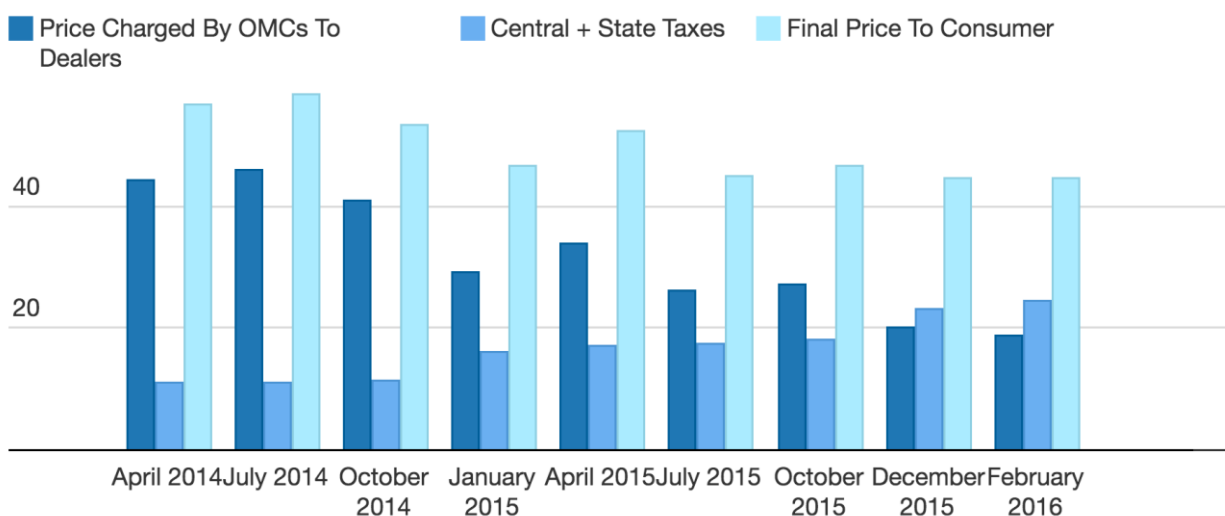


5. Indian prices stay high because oil marketing companies (OMCs), such as Indian Oil Corporation Ltd, Hindustan Petroleum Corporation Ltd and Reliance Industries Ltd., add their margins, the central government adds excise, state governments add their own (value-added) taxes, and the dealers (petrol pumps) get their commission. The total of these is the retail price of the fuel you pay. The Explanation is given in the chart as follows:

### Components Of Retail Petrol Price, 2014 To 2016



### Components Of Retail Diesel Price, 2014 To 2016



## 6. Import of crude oil and average of crude oil prices:

Year	Import of Crude Oil (MMT)	%Growth in Imports of Crude Oil	Average Crude Oil Prices (US\$/bbl.)	%Growth in Average Crude Oil Prices
2011-12	171.729	4.97	111.89	31.5
2012-13	184.795	7.61	107.97	-3.5
2013-14	189.238	2.4	105.52	-2.27
2014-15	189.435	0.1	84.16	-20.24
2015-16	202.85	7.08	46.166	-45.15
2016-17	215.72	6.34	45.62	-1.18
2017-18	219.7262	1.85	41.67	-8.65

From the above table, it is very much understandable that the import of crude oil in the country has gone up. The reason for the same is discussed later on in the next point of this paper. So, with the increase in the demand for petroleum products, this import has gone up, but, if look upon the prices, the prices has come down a lot. So this is the main reason why the prices must had been low but because of the above discussed reason of excise duty, it is still going higher and higher.

Year	Import of Petroleum Products (MMT)	%Growth in Imports of Petroleum Products	Exports of Petroleum Products (MMT)	%Growth in Export of Petroleum Products	Import of LNG (MMT)	%Growth in Import of LNG
2011-12	15.849		60.837		13.214	
2012-13	16.354	3.186320904	63.408	4.226046649	13.136	-0.59028303
2013-14	16.697	2.097346215	67.864	7.027504416	12.995	-1.07338611
2014-15	21.301	27.57381566	63.932	-5.793940823	14.092	8.441708349
2015-16	29.456	38.28458758	60.539	-5.307201401	16.582	17.66959977
2016-17	36.955	25.4583107	65.613	8.38137399	18.915	14.06947292
2017-18	37.712	2.048437289	64.832	-1.190312895	18.816	-0.52339413



Not only the import of the crude oil, but the import of the Petroleum products, after refining, has also gone up. So the margin of refining is now paid to the other countries. The reason for increase in the import of the products and crude oil is shown in the below written point.

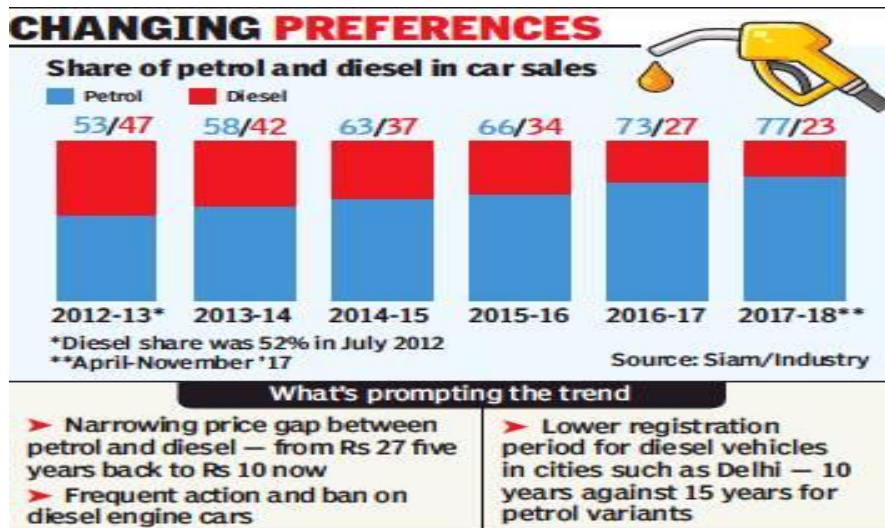
7. Consumption of the Petroleum products in the year 2018:

**Table-1: Petroleum Products Consumption (Quantity in TMT)**

Category of Product	Share (%)	August 2017	August 2018	Growth (%)	Products included
<b>Sensitive products</b>	14.5%	2,341	2,412	3.1%	SKO & LPG
<b>Major decontrolled products</b>	69.2%	10,907	11,492	5.4%	HSD, MS, Naphtha, Lubes, LDO, FO/LSHS, Bitumen & ATF
<b>Other decontrolled products</b>	16.3%	3,230	2,699	-16.4%	Petcoke & other minor products
<b>Grand Total</b>	<b>100%</b>	<b>16,478</b>	<b>16,603</b>	<b>0.8%</b>	

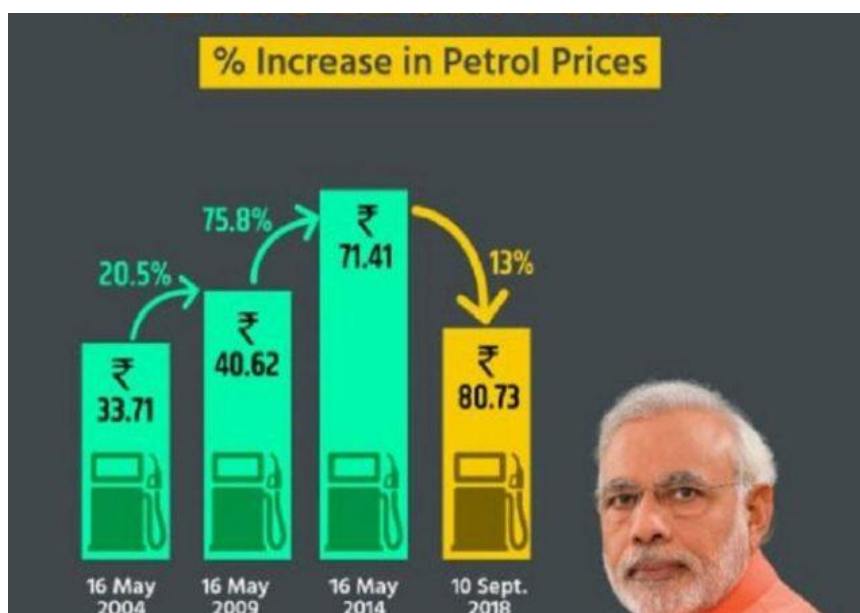
The use of sensitive products like SKO and LPG has increased and it counts to 2341 TMT with a growth rate of 3.1%. On the other hand, the Major products have also shown the growth rate of 5.4%. However, the downfall has been recorded in the consumption of other decontrolled products by 16.4%.

8. Changes in preferences of people:



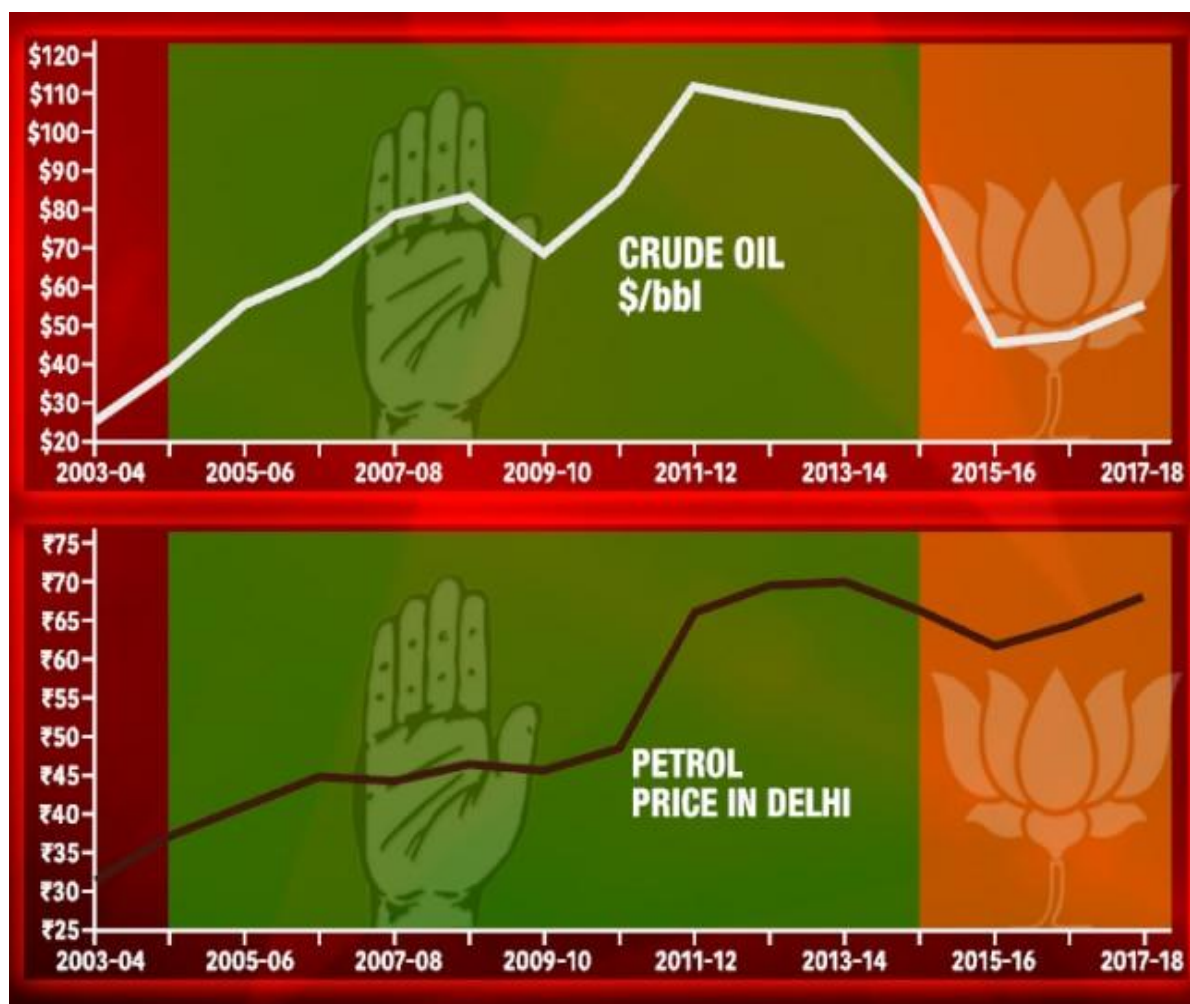
After studying the above chart, we can see that since 2013, when the share of diesel and petrol vehicles was almost same, it has decreased consistently. And right now it is less than 23%. So this shows the more dependency of the people on petroleum cars and vehicles. Because of this thing, the consumption of petroleum products has gone up in the recent years and so are the prices of the products.

9. UPA and NDA govt.:



Despite of rise in the petrol prices, the BJP govt. has stated that the rise in percentage is far lowered than of congress. However, their statement doesn't include the prices of the crude oil at the time of rise in prices in different time period. So this thing cannot define or justifies the increase in prices of petroleum products lower in percentage.

The following two images can justify that the rise in prices at the time of congress govt., is because of rise in the prices of crude oil, but on the other hand, the rise at the time of BJP, is because of rise in excise duty.



Congress govt. didn't raise the price much since 2010-11 despite of huge rise in the prices of crude oil. However, the prices had to be increased with the consistent rise in the crude oil prices after 2010-11, but the interesting thing was that the prices were still lower than

that of crude oil. When BJP govt. came to power in 2014, the crude oil prices had a great downfall and since 2014-15, it was decreasing till 2016. However slight rise has been noticed since 2016-17 but the petroleum prices hardly came down and right now it's at the peak. Till 2nd October, 2018, petrol was over Rs. 90 in Mumbai and Diesel over Rs. 80.

### **Conclusion:**

The rise in the prices of the petroleum products has been noticed since long time despite of downfall in the crude oil prices. So the main reason behind this is the heavy excise duties and taxes imposed by the govt. For price control on petroleum, the petroleum products needed to be put into the basket of GST. The public of India is demanding this since the 1st July, 2017. If the petroleum products also being put under GST slabs, the prices may go half almost.

The other thing that is responsible for the high prices is the consumption of the petroleum products. The consumption has gone so high since last decade. The more rely on vehicle is main reason for it. With increase in the consumption, the burden has been noticed on the import of the crude and petroleum products. This thing has put Indian economy under pressure. So, there are number of reasons, but some of them are controllable and some are not.

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