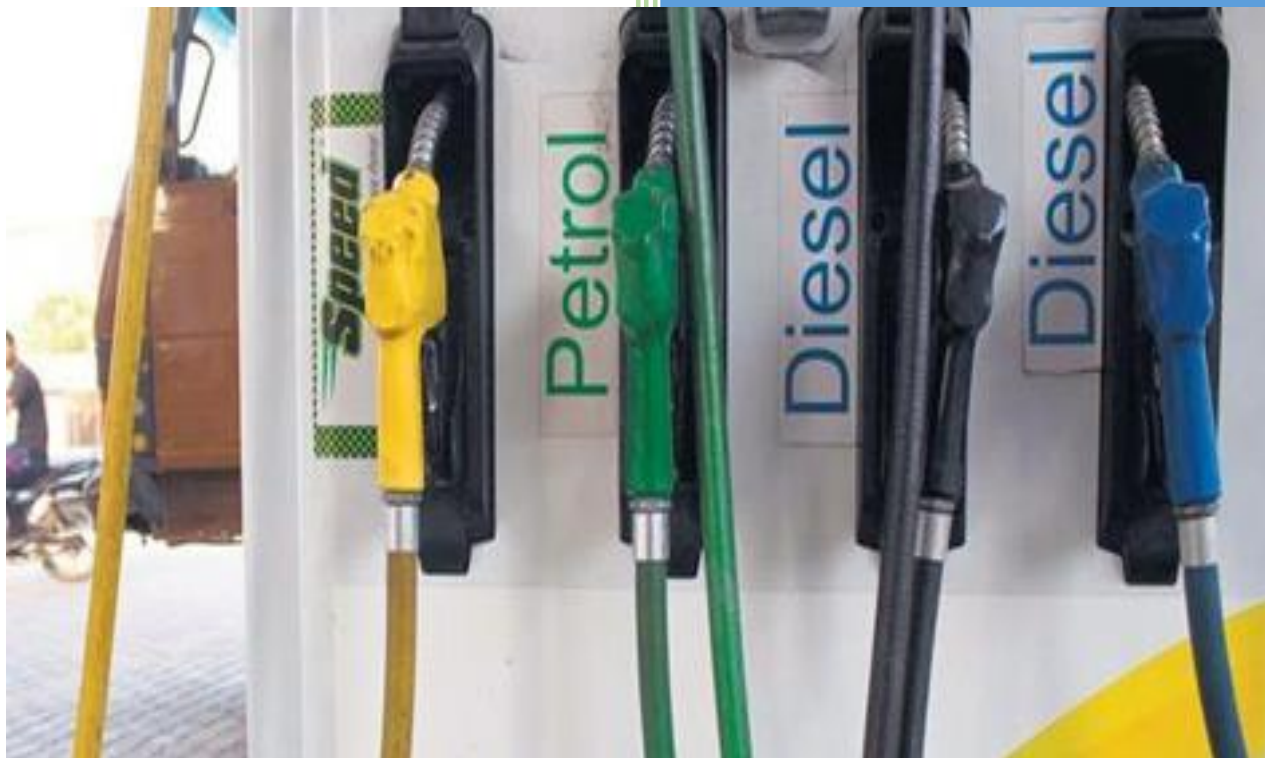


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WORKSHOP ON DIESEL AND PETROL PRICE RATIONALISATION



An initiative supported by

Purpose of the Workshop

The petrol and diesel prices now reflect the cost of supply. However, there is still a significant difference between price of diesel and that of petrol, due to differential rates of excise tax imposed by central government, which is further accentuated by difference in the VAT rates imposed on diesel and petrol by states. These lead to significant difference in sale prices of petrol and diesel, which leads to distortions in their use. Rationalization of taxes would bring many benefits.

Need to Understand Impact on Stakeholders

Any change in policy affects different stakeholders differently. A clear upfront understanding of such impacts on stakeholders will facilitate policy reforms. IRADe's study has analyzed the impacts on various stakeholders, if the price distortions were to be eliminated through revenue neutral policy level interventions. The impact of rationalizing diesel price on the following stake holders is assessed:

- Central and State government finances
- Truckers and consumers
- Farmers
- Car manufacturers, and
- Bus operators and passengers.

The purpose of this workshop is to discuss the findings of the study with various stake holders, understand their concerns and to define a road map for reforms. The participants will include Government officials from relevant Ministries like Ministry of Finance, Ministry of Petroleum and Natural Gas, State finance persons, Oil Marketing Companies, private sector participants from Automobile, Trucking, Agriculture, State transport and other sectors.

Background

The Indian Government has in the past controlled prices of a number of petroleum products. The most important of these products are diesel, petrol, liquefied petroleum gas (LPG) and kerosene. Consumers are charged a low price and the difference in the sales realization of the Oil Marketing Companies (OMCs) and their cost of supply, called under recoveries, were financed by contributions from the government, upstream oil companies and oil marketing companies. The under recoveries were large as the government fixed sale prices quite low compared to cost of supply.

Following the report of the (Parikh Committee, 2010), petrol price was freed and has been market determined. Diesel price was however not liberalized due to concern for inflation caused by increase in diesel price.

Following this, IRADe did a study supported by Shakti Sustainable Energy Foundation and Ministry of Finance, which showed that while increasing diesel price will lead to a small increase in inflation in the short run, over the medium term the rate of inflation would be much higher and the GDP much lower if the diesel price was not reformed. Also, the impact on consumers of higher diesel price would be less than half a percent of their level of consumption.

In the past the price difference between petrol and diesel became as high as Rs.25 per litre. This led to automobile buyers switching over to diesel cars, which led to abnormal growth in diesel consumption and the OMCs were forced to import diesel.

The Modi government has freed diesel price and now both diesel and petrol price reflect the cost of supply. However, there is still a significant difference between price of diesel and that of petrol, due to differential rates of excise tax imposed by central government, which is further accentuated by difference in the VAT rates imposed on diesel and petrol by states. Rationalization of taxes would bring many benefits.

Why Rationalize Diesel and Petrol Prices?

The difference in the price of diesel and petrol encourages use of diesel vehicles and provides no incentive for its reduced consumption. It influences decisions of people to buy large diesel cars and has led to a huge increase in the number of diesel vehicles. More private vehicles are turning to diesel as the fuel of choice, primarily because of the price differential between diesel and petrol leading to a shift in car production from petrol to diesel. If such price distortions are eliminated the use of diesel and petrol would be more optimal.

When fuel oil price was market determined but diesel price was not market determined, we had an anomalous situation where diesel was used in place of fuel oil because diesel was cheaper. Internationally fuel oil is the cheaper fuel.

The grades of diesel now available in India produce much higher particulate matter and other pollutants that are known to cause high carcinogenic emissions, compared to petrol leading to health and environmental issues. As diesel vehicles have proliferated, the incidence of asthma and other lung diseases directly linked to air pollution has shot up. Rational diesel and petrol prices will reduce use of diesel. Lower use of diesel will also reduce cost of refining. Diesel constitutes such a large fraction of India's consumption of petroleum products that refineries have to use hydrocracking to increase production of needed amount of diesel. This increases the cost of refining. There are then both economic and environmental reasons to rationalize tax rates so that these distortions are reduced.

Based on the understanding of these impacts a road map towards a rational pricing policy for the country will be identified.

About IRADe

IRADe is an independent advanced research institute which conducts research and policy analysis and engages stakeholders such as government, non-governmental organizations, corporations, academic and financial institutions. IRADe research covers energy, climate change, urban development, poverty, gender-equity, agriculture and food security. IRADe's focus is effective action through multi-disciplinary and multi-stakeholder research to arrive at implementable solutions for sustainable development and policy research that accounts for the effectiveness of governance of techno-economic and socio-cultural issues.

IRADe was established under the Society's Act, in 2002 at New Delhi. It is certified as a Research & Development Organization by the Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology (MoST). It has also been selected as a Centre of Excellence by the Ministry of Urban Development (MoUD) for urban development and climate change. In addition, it provides expertise to other ministries, national and international institutions and partners with other reputed organizations.

Our Mission: To explore new opportunities and promote paradigm shifts to provide optimum solutions in sustainable development to include vulnerable groups in decision making process.

Our Vision: To be a leading independent policy research organization and think tank that suggests implementable policies to focus on poverty alleviation, gender equity and inclusive growth, with a focus on energy, environment and climate change using multidisciplinary, multi-stakeholder framework so as to integrate various perspectives and field-level understanding.

Our Objectives:

- ❖ Integrate multidisciplinary and multi-stakeholder perspectives concerning issues of development.
- ❖ Promote wider consensus, through research and analysis, on effective policies.
- ❖ Engage and work at local, district, state, national, South Asia regional and global levels.
- ❖ Provide research support to developing countries for development and for negotiation process for international agreements.

Carry out policy research that accounts for the political economy of the society and effectiveness of governance

Thematic Areas of IRADe:

1. Energy and Power System, 2. Sustainable Urban Development,
3. Climate Change and Environment, 4. Poverty Alleviation and Gender,
- 5 Agriculture and Food Program

IRADe's outreach and partners

IRADe networks with the government, ministries/departments, international organizations, public and private sectors, academic experts, NGOs, and consultants to work on projects awarded by them. IRADe provides decision support to eleven ministries that include Ministry of Environment and Forests and Climate Change, Ministry of New and Renewable Energy, Niti Aayog (formerly Planning Commission), Ministry of Power, Ministry of External Affairs, Ministry of Earth Sciences, Ministry of Urban Development, Department of Science and Technology, Central Statistical Organization under Ministry of Statistics and Programme Implementation, Technology Information, Forecasting and Assessment Council (TIFAC), etc. for many national level projects.

At the international level, IRADe has worked with bilateral and multilateral organization like the World Bank, Asian Development Bank (ADB), U.S. Agency for International Development (USAID); United Nations Development Programme (UNDP); United States Environmental Protection Agency (USEPA), Wuppertal Institute for Climate, Environment and Energy, (WISION) Germany; Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Germany; Rockefeller Foundation; International Institute for Applied Systems Analysis (IIASA), Austria; British High Commission (BHC), Centre for Clean Air Policy (CCAP), USA; International Institute for Sustainable Development (IISD), South South North Trust (SSNT) etc.

IRADe has partnered with academic, private sectors, multinational organizations, think tanks and NGOs. These include Shakti Foundation, Indian Council of Social Science Research (ICSSR), SEWA, Petroleum Federation of India, Pricewater House Coopers, ICF International, Rockefeller Foundation, Institute for Social and Environmental Transition (ISET), Center for Clean Air Policy (CCAP), Indian Council for Research on International Economic Relations (ICRIER), InsPIRE Network for environment, Stanford University and Sir Dorabji Tata Trust (SDTT) among others.

IRADe has also developed strategic partnerships and is part of global networks like the USAID's Low

Emissions Asian Development (LEAD) program – ASIA-LEDS, ENERGIA-International Network for Gender and Sustainable Energy, Netherlands; Global Clean Cook Stoves Forum, UN Foundation; Asian Cities Climate Change Resilience Network (ACCCRN), Global Technology Watch Group (GTWG-DST), Climate Action Network South Asia (CANSAs).

IRADe has carried out some pioneering work in the field of state level energy planning, energy access, city level climate resilience planning and smart city, cross border energy trade, other climate change studies and livelihood studies.