

High petrol, diesel prices: Four things that may help

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HIGHLIGHTS

- Last week, Defence minister Nirmala Sitharaman had said the state governments have still not given their consent to bring petrol and diesel under GST
- However, Union minister of Petroleum, Dharmendra Pradhan, is holding discussions with the oil companies to chalk out alternative ways to bring down fuel prices



NEW DELHI: Despite a straight sixth day cut in petrol and diesel prices , rates are still quite high across the country. In the backdrop of this, the government is mulling long-term solutions to address the issue of spiralling fuel prices.

Here are four focus areas the government may look at to cool fuel prices:

1. GST: While trade associations are demanding that petroleum products be brought under the ambit of Goods and Services Tax (GST), there is no official word from the government. Last week, Defence minister Nirmala Sitharaman had said the state governments have still not given their consent to bring petrol and diesel under GST. However, Union minister of Petroleum, Dharmendra Pradhan, is holding discussions with the oil companies to chalk out alternative ways to bring down fuel prices.

Taxes make up over 50 per cent of the retail cost of petrol and diesel. If fuel is brought under GST, even at a 40 per cent tax rate (a cut of 10 per cent), the cost will come down significantly.

2. Windfall tax: With crude oil prices touching record high, the oil companies have benefitted a lot. Thus, ONGC, which supplies 20 per cent of the country's crude requirements and has made 'windfall gain' from rising oil prices, may be asked to sell crude at lower price to retailers. In return, the government will ask for lower dividend from the company this year.

3. Futures trading: Dharmendra Pradhan has given the in-principle nod to the Indian Commodity Exchange (ICEX) to launch futures on petrol and diesel. "We have received the 'no objection' from the ministry," said Sanjit Prasad, MD, ICEX. However, for the move to fructify, ICEX needs clearance from Securities and Exchanges Board of India (SEBI). "If SEBI gives the go ahead, the exchange is prepared to launch the products within a day," Prasad said.

Futures are financial contracts which obligate the buyer to purchase an asset or the seller to sell an asset at a predetermined future date and price. So, futures trading involves buying specific quantities of a commodity or financial instrument at a specified price with delivery set at a specified time in the future.

For example, you can sign a contract for 100 litres of petrol at today's price that's to be delivered a month from now. All it may cost is Rs 100. It's called futures trading and can be done on a commodity exchange.

4. Crude discount: OPEC (Organisation of the Petroleum Exporting Countries), the oil cartel, sells oil at a higher rate to Asian nations, including India, than it does to Western buyers. It's called 'Asian premium'. The government is trying to get other countries on its side and hoping it will get a discount.

If all else fails, there's lady luck to bank upon. A market correction in crude prices means automatic relief. Luck factor (of falling oil prices) helped the government reap Rs 2.7 lakh crore in taxes in just one year (2016-17).