Heads I win

The Govt's ad-hoc decisions on fuel pricing and taxes are helping neither consumers nor the OMCs

India's fuel consumers simply can't seem to catch a break. After looking forward to prices at the pump moderating when global future prices slumped below zero last month, their hopes were dashed when the oil marketing companies (OMCs) stayed put on retail prices. Apart from the fact that retail fuel prices in India seldom respond to global blips (they're pegged to the import basket), the 60-70 per cent slump in fuel sales volumes during the lockdown appears to have prompted OMCs to hold retail prices, to make up for falling revenues/ tax collections. Now, with global oil prices inching up again, the Centre has decided to appropriate those surpluses through a hefty increase in its excise duties (₹10 a litre on petrol and ₹13 a litre on diesel) without allowing OMCs to recalibrate selling prices. While any moderation in pump prices is now out of the window, consumers in some States may actually end up paying more as State governments effect their own rounds of VAT (Value Added Tax) hikes on fuel to pad up their Covid-depleted coffers.

Public sector OMCs and their investors haven't benefited either. After enduring a sharp slump in offtake and huge inventory losses (estimated ₹30,000-35,000 crore) in the January-March quarter, the public sector oil marketers were hoping to repair their profitability through higher marketing margins in April. But the Centre and the States will now end up appropriating the lion's share of these gains, leaving OMC finances in bad shape. Overall, if this is how oil market 'deregulation' in India works in practice, it is a moot question whom it is benefiting. Despite fuel being deregulated on paper, it has been ages since Indian consumers have paid realistic, globally linked prices at the pump. Oil marketers are perpetually on tenterhooks about their likely revenues, cash flows and profitability, with the Centre making ad-hoc decisions on pricing and taxation, not just during emergencies but events such as elections as well. Delayed payments from the Centre on regulated products are another drain on their finances.

The ideal solution to this problem, and one that would benefit all stakeholders except the Government, would be to sweep petroleum products into the GST ambit, to permit more transparent tax decisions while pricing is left to market forces. But with the Centre and State governments now clearly accustomed to milking this sector as a cash cow through myriad taxes, this idea is unlikely to be find favour. As long these gratuitous policy interventions in OMCs continue, attempts to privatise or even disinvest these entities is likely to be met with lukewarm investor response. Perhaps re-converting OMCs to fully government-owned entities is the only workable solution.