AIR Spotlight - Impact of Duty Reduction on Fuels and Edible Oil Prices

AIR Spotlight is an insightful program featured daily on the All India Radio Newsonair. In this program, many eminent panellists discuss issues of importance which can be quite helpful in IAS exam preparation. In this article, the topic of discussion is the impact of duty reduction on fuel and edible oil prices.

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Context:

The Government finally slashed excise duties on petrol and diesel by ₹5 and ₹10 per litre respectively and edible oil prices in the major retail markets across the country have also declined by Rs 5-20 per kg after various measures, including an import duty cut, by the government. The article will discuss the impacts of duty reduction.

Background:

There has been price build-up with regards to crude petroleum over several months. The reasons behind this increase are:

- Rise in global crude prices because OPEC and OPEC+ have tightened the supply in the market that means lesser supply and higher demand in the economy.
- When lockdown began in March 2020, the government revenue got a severe hit because all the economic activities came to a halt and global crude prices had dropped. So, both the central government and the state governments had increased the central excise duty and Value Added Tax (VAT) respectively. The idea behind increasing the taxes was that the consumers will not feel the pinch and the government revenue will be compensated marginally.
- Over a period of time, when prices went up, the tax rates were not lowered and as a result, petrol and diesel prices went up to record levels.

Tax cuts:

- The government revenue has got better and the government decided to slash the rates of taxes on petrol and diesel by Rs. 5 and Rs. 10.
- The decline in diesel prices is more than petrol because diesel has a cascading effect as it is the fuel that is used for the transportation of goods and passengers. Hence, reducing it will provide wider benefits to all sections of society.

- The government has said that the major beneficiary of duty reduction in diesel prices will be farmers who depend on diesel for their gen-sets, etc.
- The state governments have also reduced VAT on petrol and diesel. At least 22 states and union territories responded by lowering their VAT rates to various degrees. Prices vary by state, based on the prevalence of local taxes and transit costs.
- However, some states including Maharashtra, Punjab, Kerala, etc. have still not reduced VAT but the central government is expecting that they will also reduce taxes so that prices will be normalized significantly.

Impact of fuel prices:

- There are two impacts of fuel prices, direct and indirect. There are various estimates that suggest that the overall numbers of inflation are within the 4 per cent to six per cent bracket that is suggested by the Reserve Bank of India.
- The price rise at the retail level was not reflected in the inflation basket because petrol and diesel have less weightage in the commodity basket of inflation.
- From the consumer perspective, there is a term called inflationary expectation which means there is an expectation in the market that the prices will rise and this feeds into the entire consumer sentiment.
- It implies that if consumers expect prices to rise and their income level remains the same then consumers start reducing their consumption expenditure.
- With the reduction in taxes on petrol and diesel, the consumers will feel better off.
- The indirect impact will be in terms of reducing the cascading impact of high prices on other linked segments.

Duty reduction in edible oil:

- In an attempt to reign in the continuous price rise of edible oil, the Central government announced that it has cut the basic duty on crude palm oil, crude soybean oil, and crude sunflower oil to nil from 2.5 per cent.
- The ministry of consumer affairs, food & public distribution said that the agri-cess on crude soyabean oil and crude sunflower oil has been brought down from 20% to 5% while the agri-cess on crude palm oil has been reduced to 7.5%.
- The Centre's move to reduce the edible oil's duty is to check the rising trend in prices. It is also aimed at controlling inflation with retail inflation based on Consumer Price Index rising.
- The retail inflation rate for Oils & Fats comprising edible oils surged to 34.19 per cent in September 2021 against 33 per cent in August and 27.83 per cent in September 2020.

Impact on centre and states:

- If we look at all the economic parameters whether it is industrial output, or services, or exports, GST collection, etc. have been showing improvements.
- The one indicator that is not showing a positive number is inflation. Hence, the government has sought to correct that figure by slashing the tax rates.
- The reduction in petrol and diesel by Rs. 5 and Rs. 10 respectively will cost on an annualized basis between Rs 1,40,000 crore to Rs 1,50,000 crores. The cost up to March 2022 will be around Rs 60,000 to Rs 65,000 crores. So, the centre will take a hit on its finances but the GST collection and income tax collection have been good.
- On part of the states, the reduction in excise duty by the centre will reduce the funds transferred to the states. Hence, it is expected that this reduction will negatively affect the states.

Conclusion:

Despite international commodity prices being high, interventions have been taken by Central Government along with State Governments' proactive involvement that has led to a reduction in prices of edible oils and fuels.