

Should diesel prices be deregulated?

Globally, as crude prices continue to rise, considering a price reform for diesel is crucial at this point. The long-term development of the country is at stake, but there are short-term worries also to address. **Mahua Roy** presents viewpoints of industry experts on this issue.



P K Agarwal
Energy Expert and Director,
The Energy and Resources Institute

I support deregulation of diesel prices. As a result of deregulation, all those bearing the burden of subsidies, viz national oil marketing companies (suppliers), Government of India, and upstream companies will benefit in the short run. And in the long run, economy as a whole will benefit. The other major pros of deregulation include reduction of fiscal deficit and, hence, improvement in macro-economic indicators of the country. It will develop a competitive market for diesel by enabling competition from private oil marketing companies. Also, it will cut out dieselisation arising out of artificially low prices of diesel. Deregulation of diesel price and, hence, full international price will force reduction in consumption by improving usage efficiency, cutting out discretionary consumption and stopping substitution of low-value fuels by diesel. Further, adverse impact of diesel on health and environment depends on quality of diesel, vehicles and their maintenance.



Kalpana Jain
Senior Director,
Deloitte Touche Tohmatsu India

The Finance Ministry has worked out a plan to bring down the debt-GDP ratio from 74 per cent to 65 per cent in three years; price decontrol can play an important role here. The deregulation of price is expected to increase the rate of inflation in short term as diesel serves as the major transportation fuel. There could be immediate price rise in commodities and other consumables. However, for long term it may be a good move because it will reduce our long-term debt and fiscal deficit. Our overall economy may become more stable in this case. Also, it would encourage efficiency in use of the fuel and cut wasteful consumption, which invariably happens with a subsidised product. Other means of directly supporting economically weaker sections of society in their fuel requirements will need to be put in place.

Deregulation is expected to bring down inflation in the long run as the economy shall no longer carry the burden of subsidy.



Mukul Gupta
Managing Director,
Chemtreat India

I would fully support deregulation of diesel prices. The government is skeptical about this move considering its immediate impact on inflation. One of the main reasons for introducing regulation of diesel prices originally was to support the vulnerable sections of society. But effectually, by increasing the gap between petrol and diesel prices, the diesel subsidy is in fact incentivising purchase of diesel cars over petrol ones! In the recent past, the sale of diesel cars and SUVs has experienced tremendous growth. Besides, many automobile companies are announcing diesel variants. It is thus important to realise that a huge amount of diesel is actually consumed as a consumer transport fuel ie, for personal use. Why should they enjoy subsidy? It is a well-known fact that diesel is more polluting than petrol. Also, exposure to particulate matter in diesel exhaust can lead to acute heart and lung diseases. One can only imagine the long-term impact of this on health and the environment.

EDITORIAL TAKE

Without doubt, deregulation of diesel will help the Indian economy in the long run. Responsible use of diesel can be expected. Also, since diesel exhaust can cause health and environment issues, one can expect lower use of diesel, if prices are deregulated. Most importantly, the fuel marketing industry will see a lot of activity. However, this deregulation needs to be introduced at a strategic time, keeping short-term inflation in mind.