

FUEL PRICE ON A STEEP RISE IN INDIA, CAUSES AND SOCIO-ECONOMIC IMPACTS

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ABSTRACT

India imports 82% of its crude oil needs from other oil producing countries. In the recent past months, petrol and diesel prices are rising persistently. Despite many factors alleged for this price issue, crude oil price and rupee depreciation against US dollar are two major causes which contribute to retail fuel price hike. Taxes contribute 43% and 33% of the retail price of petrol and diesel respectively. It is predicted that crude oil demand in India is 500 million tonnes per year by 2040, but persistent increase in oil prices might act as a dampener for the rate of growth from now until 2040. The global oil demand will increase by 15.8 million barrel per day (bpd) and the demand growth of India will be 5.9 million bpd which is about 24 percent of the global gain.

Indian economy is very sensitive to oil prices. According to the Economic survey 2018, a 10 dollar price increase per barrel of crude oil in the global market can reduce country's GDP by 0.2 to 0.3 percent points, while increasing inflation by 1.7 percent and affect the Current Account Deficit (CAD) by 9 to 10 billion dollar. In this article, the fuel pricing system in India, various causes of fuel price hike and the positive and negative impacts which the country is facing due to fuel price rise are discussed in detail in various topics. Many suggestions are also included, to mitigate this price issue.

Keywords

Crude oil, price hike, imports, retail price, petrol, diesel, excise duty, market driven, global market.

INTRODUCTION

India is the third largest consumer of crude oil in the world and it relies on oil exporting nations for 82 percent of its oil needs^[1]. According to Petroleum Planning and Analysis Cell (PPAC), between April and July 2018 India imported crude oil worth Rs.2,64,030 crore (39 billion dollar).

After the US and China, India overtook Japan recently to become the third largest oil importing nation in the world [as per the 'International Energy Agency(IEA)' report] which imports 4.69 million

barrels of oil per day from the global markets [Table.1&Fig.1]. The consistent rising of crude oil price affect the Indian consumers and disrupt the government's financial stability. The import bill is estimated to increase by 20% to 105 billion dollar in the current fiscal from 88 billion dollar in 2017-18^[2].

According to International Energy Agency (IEA), 93 million barrels of oil consuming across the world per day^[3].

Rising international oil prices are inflating domestic transport fuel costs in a strong demand environment, since last few months found fuel prices on a steep rise. Taxes on petrol and diesel are one of the biggest source of revenue for both central and state governments^[4]. Due to variable state taxes, fuel prices are not uniform across the country.

The government has make the petroleum products as a prized commodity by levying high taxes for domestic consumers, while the foreign countries enjoying this at a cheaper price from India likewise importing crude oil, India is one of the largest exporters of refined oil and exports refined petrol and diesel at a cheaper price. Refined petroleum is one of the country's top two exports and India is the 10th largest exporters of refined petroleum in the world^[5].

Despite Indians suffer due to all time high prices of petrol and diesel, the present government is selling it to the foreign countries half of the domestic retail price.

In India, petrol and diesel are priced in the range of Rs.80-90 and from Rs.70-80 (as on 20 october 2018) respectively. According to a RTI reply, petrol is selling by the present government to 15 countries at just Rs.34 / litre and diesel to 29 countries at Rs.37/litre only^[6].

In May 2014, the excise duty per litre of petrol and diesel was just Rs.9.20/- and Rs.3.46/- respectively. But now (in 2018) it raised to Rs.12 for petrol and Rs.15.33 for diesel.

The rising demand of oil in India also make the oil price to hike. As per the forecast of OPEC (Organization of Petroleum Exporting Countries), the oil demand of India rise by 5.8 million bpd (barrels per day), between 2017 and 2040, which would be almost 40% of the global demand growth of 14.5 million bpd^[7].

As for as India is concerned, any rise in prices does affect the country's economy. The government should keep the fuel price always lower to maintain the economical stability^[8].

According to a SBI report, for every dollar change in crude oil price per barrel or every rupee fluctuation in currency exchange rate per US dollar impacts the import bill by Rs.823 core or 0.13 billion dollar. Indeed it is very bad news for a country like India that relies mainly imports^[9].

Due to rising demand of petrol and diesel, India imports 219.15 MT (million tonne) crude oil in 2017-18, which is 213.93 MT in 2016-17 and 203.13 MT in 2015-16 [Table.2&Fig.2]. It indicates the demand of oil rising an average of about 5% every year. To meet the increasing demand, government has to import more and more oil^[10].

In the name of social welfare and development expenses the central government increases the tax rate on petroleum products persistently since 2014. The excise duty levied on petroleum products has more than doubled in the last four years and government raised excise duty nine times between November 2014 and January 2016^[11].

The petrol price varies across the world due to many factors. The fuel price in crude exporting countries is lesser than importing countries^[12].

The global average of petrol price is Rs.79.89 per litre.

A list of countries where the petrol and diesel prices are high in the world is shown in the table [Table.3&3A]. One litre of petrol costs 21% of daily per capita in India

Petroleum is the largest contributor of our import bill in a year, since the country depends most of its oil demand from foreign sources. It is an essential commodity and still there is no other cheaper alternative to crude. It is the largest traded commodity in the world. The countries which export petroleum crude to India are shown in the table [Table.4&Fig.3]. Source: 3 Port Genius.

According to PPAC, in the year 2017-18 the domestic crude oil production in India is 32642 MT and it is recorded as lowest in the last seven years. It collapses the government's objective to achieve 10 percent reduction in energy import dependence by 2022^[13].

The central government has not been ready to reduce the excise duty on fuels, since fuel taxes are one of the biggest sources of income for both central and state governments^[14].

The domestic crude oil production in the last 8 years as tabulated in the table [Table.5&Fig.4]. Source: PPAC.

58% of the world crude oil is consumed by only 10 countries. Petrol and diesel prices are touching new highs and several solutions are being presented in front of the government by economists and financial experts on ways to pull the plug. The high prices of petroleum products affect the people who are living in all levels across the country. This situation should be changed and efforts should be taken to bring the fuel price under control.

All countries purchasing petroleum to the same price in global markets and decide to impose different taxes, results different prices in retail markets. People thinking that this much of price hike is imposed only in India, indeed many countries other than India having higher prices on petrol and diesel across the world.

PRICING OF PETROL AND DIESEL IN INDIA

The retail price of petrol and diesel is the price which is charges at petrol pumps for consumers. The daily revision of fuel rates or Dynamic Fuel Pricing (DFP) is the new fuel pricing tool to determined the fuel price in India. After conducting a trial for forty days in five cities, this new pricing system was introduced on 16 June 2017 (Previously fuel price was revised every fortnight) Considering the international crude oil price and the currency exchange rate against US dollar, the petrol and diesel prices are fixed on a daily basis under this system.

This system is in practice across 58000 petrol bunks in the country and every day 06.00 am the fuel prices are revised.

As for as pricing concerned automated and 4 utomated are the two categories of petrol bunks operated in India. Out of 58000 bunks, only 20% are automated and remaining is non-automated. About 90% of the retail fuel stations are state-owned in India. SMS and Online service are the methods designed by the oil companies that help consumers to know the current price of petrol and diesel. This is an obvious system that allows the oil marketing companies (OMC) to revise the fuel price (increase or decrease) depends upon the global crude oil rates and currency value, without government intervention.

PRICE SPREAD OF PETROL AND DIESEL

The retail price of petrol at Nagercoil as on 25 October 2018 is Rs.81.78/- and diesel is Rs.71.99/-. Brent crude oil price is 67.254 dollar as on 25 Oct 2018

Exchange of US dollar	=	Rs.73.20 /-
Cost of one barrel crud	=	67.254 x 73.20 = Rs.4923/-
One barrel	=	159 litre

Sl.No.	Components	Petrol (Rs.)	Diesel (Rs.)
1	Cost/Litre of crude oil (4923/159)	30.96	30.96
2	Basic OMC cost <ul style="list-style-type: none"> • Entry tax + processing and other operations cost • Fright cost +_ OMC margin 	3.62 3.31	5.91 2.87
3.	Excise duty <ul style="list-style-type: none"> • Basic excise duty/litre 	4.48 7.00	6.33 1.00

	<ul style="list-style-type: none"> • Special additional excise duty/litre • Road and infrastructure cess 	8.00	8.00
4.	Dealer's commission/litre <ul style="list-style-type: none"> • It varies from state to state 	3.66	2.52
5.	Price at dealer's outlet [addition of the above components]	61.03	57.59
6.	State VAT (Value Added Tax) <ul style="list-style-type: none"> • The VAT is varies from state to state. In Nagercoil, Tamil Nadu it is 34% for petrol and 25% for diesel. 	20.75	14.40
7.	Total fuel price at Nagercoil	81.78	71.99

The percentage of components in petrol and diesel prices is shown in the table. [Table.6&Fig.5&5A]

CAUSES OF FUEL PRICE HIKE IN INDIA

- Because of the political instability and war Saudi Arabia is facing a severe financial crisis and it needs revenue from crude oil desperately that it make a production cut to create fake supply crunch. This move has inflating the oil prices. According to IMF forecasts, to balance the fiscal deficit Saudi Arabia need an oil price of 73.3 dollar per barrel in the year 2019. But the brent crude is trading about 5 dollar below that^[15].
- The trade war between US and China affect the fuel price globally.
- The high crude oil price and the multilayer taxes such as entry tax, excise duty, state VAT etc make the fuel price hike^[16].
- The depreciation of Indian rupee against US dollar make the petrol and diesel price rise since the country imports 82 percent of its oil requirement.
- Saudi Arabia, a largest producer of crude oil in the world decided to reduce its oil production by 5,00,000 bbl/day (barrels per day), that make oil shortage in global market, which affect demand-supply ratio cause inflated oil prices since petrol and diesel prices are decided by the crude oil prices in global market.
- Rising demand make the fuel price hike. India is the fourth car manufacturer in the world in 2017 that make high oil demand in the country- *The International Organization of Motor Vehicle Manufacture 2017 statistics*.
- The economic sanctions imposed by US against Iran from 4 November 2018, create pressure on global market, since India imports 5,92,800 barrel of crude oil per day from Iran.
- The global crude oil prices and other international factors are responsible for price rise of petroleum products in India. In global market, crude oil price rises gradually in the recent months, which is from 45 dollar to 81 dollar as on 20 October 2018- *Dharmendra Pradhan, Union Minister for Petroleum and Natural gas in Economic Times, of September 2018*.
- The worst political situation among the oil producing countries like Iraq, Nigerea and Venezuela was exploited the other large oil producing countries such as Saudi Arabia, UAE, Outar. etc.

- Between November 2014 and January 2016, the central government has cut excise duty by Rs.2/- per litre on petrol and diesel only once, but they raised it 9 times^[17].
- As the petrol and diesel prices has made market driven by the government, any increase in crude oil cost in global market directly gets passed to the final consumers. The share of central and state taxes are more than 50% of the retail price. Because of the high spending requirement of the government they reluctant to reduce the taxes which leads to impacted worse on fuel price.
- Over the last two decades, the petrol pump commissions have increases significantly, ie from Rs.707- per 1000 litres in 2004 to Rs.2674+0.859% of billable price in August 2017 for petrol – PPAC^[18].

IMPACTS OF PETROL DIESEL PRICE HIKE

- About 40 percent of refined fuels used in India is diesel. Due to high fuel price, its sales reduced by 0.8% to 6.03 million tones in September 2018, which is 6.55 million tones in the previous month.
- The sales of Petrol which is widely used for transportation declined by 4.2% to 2.23 million tonnes from September 2017.
- The sales of passenger vehicles fell 5 to 6% on September 2018 due to high petrol price.
- Industrial activity also slowing down due to lower diesel consumption as it is used in industries and mining.
- Our economy is very sensitive to global oil price. For every 10 dollar per barrel increment, The GDP reduces by 0.2 to 0.3 percent.- *Partha Ghosh, An executive director, IOC, in Asia Pacific Petroleum Conference (APPC) at Singapore.*
- For same quantity, more USD need to pay, if oil price rise.
- Government has to increase subsidy to the consumers which widen the fiscal deficit.
- Since less export than import (trade deficit) generate less income and need to purchase USD in open market for the payment of oil. It makes demand on USD and hence INR depreciates.
- Due to the depreciation of INR, make the imports costlier in rupee terms results higher inflation. To control the higher inflation the RBI increase the interest rates for loans and it affect capital investments.
- The persisting hike in oil price reduces the oil demand and force the consumers switch over to alternative source of energy.
- The input cost of agriculture is likely to rise due to petrol and diesel price rise, the food prices may increase and the end users bear the brunt. Hence the agriculture sector which is already stressed is in higher risk again.

- As India relies its maximum oil needs through imports, it push the country to a trade deficit and further rise of crude oil price make widen the deficit further. The price rise of oil make the country's Current Account Deficit(CAD) deteriorate^[19].
- According to Nomura, an economist for every 10 dollar rise in oil price can lost India's GDP by 10 basic points and consumer inflation by 20 points, it affect current account and fiscal balance.
- **Inflation**
 - If oil prices increasing continuously, RBI analyze the economic situation and consider to increase the lending rate so that inflation increases further. In this situation we have forced to pay more interest on credits and loans.
 - Due to rising oil prices, the public forced to pay higher prices for their daily commodities and services needs, impacted on their savings declined.
- **GDP fall down**
 - The economic survey 2018 states that for every 10 dollar per barrel increase in the crude oil price in global market will reduce the GDP growth by 0.2 to 0.3%,. In India the economic growth rate is expected between 7% and 7.5% in FY 2019. Because of the rising oil prices this growth may affected.
- **Impacts on government revenue (Positive and Negative)**
 - The persisting rise of fuel price force the government to control petrol and diesel prices within a limit so that the government reduces the excise duty on petrol and diesel by Rs.1.50/ per litre on first week of October 2018. This reduction make negative impact on government revenue as it is a major revenue of the government. This price reduction make income loss of Rs.10.50 crore to the government make fiscal deficit by 0.1 to 3.4% of GDP in the FY 2018-19 – *Moody's statement*^[20].
 - The government asked the OMCs to reduce Rs.1.00 per litre in their pricing on petrol and diesel and it would be negatively affected the earnings of OMCs.
 - To maintain the fiscal deficit within the targeted limit government reduces the expenditure too for the public welfare projects such as g astructure, education etc, it affects the country's growth.
 - In 2014-15 the income earned by the government by excise duty was Rs.99.184 crore and state VAT revenue as Rs.1,37,157 crore. Due to rising of fuel price, these incomes has been increased as Rs.2,29,019 crore and Rs.1,84,091 crore respectively in 2017-18^[21].
 - India earns more revenue due to heavy tax levied on petroleum products and spend some extra fund for infrastructure development. In FY 2018-19, finance minister promised to spend Rs.3,96,135 crore for upgrading and creating new infrastructure in the country.

- The price increase on diesel impact on transportation cost, resulting higher price of all commodities for every rupee increase in diesel price make approximately 30-40% price hike in consumer goods like vegetables, grocery things etc, as diesel is being used by public utility vehicles. This situation affect crores of middle class and people who run their families with struggle in day by day.

SUGGESTIONS AND CONCLUSION

- ❖ Now India faced an all time high prices on petroleum products which affect the people who are living in all level across the country. This situation should be changed and efforts to be taken to bring the fuel price under control.
- ❖ Even though fall in global crude oil price in the near past months, the price of fuel in India has not reduced because the government increases the taxes on fuel persistently, whenever crude price rise in the global markets, that make the price hike further.
- ❖ When the fuel price made market driven by the government declared that, whenever crude price comes down, the proportionate reduction benefit in retail price will be passed to the consumers directly. But every time the crude price slides and the OMCs reduce fuel price, government swallow such reduction by increasing the excise duty. This is really unjustified.
- ❖ The value of import duty on crude oil would have been adjusted and that would have impacted retail price.
- ❖ Massive investment to be attracted in oil and gas sector to reduce oil import.
- ❖ Encourage domestic oil production which reduces the dependence on imports, create revenue to the government, create new jobs and thereby help the country's economy.
- ❖ The government could intervene the high oil prices and take measure to reduce the petrol and diesel prices by reducing the taxes levied on these petroleum products especially when oil price stay high.
- ❖ This is the right time to attracts the global investors to India, since the country is becoming the most likeable destination for investment in solar energy and it target to produce 40% of its energy needs from non-fossil fuel sources in 2030.
- ❖ By bringing petrol and diesel under GST, this problem can be tackled easily. But such measure is practically impossible, since it is a government's revenue matter. If given appreciation to rupee against dollar, the fuel price can be controlled easily.
- ❖ This is the time to reduce the usage of personal transport such as car, bike etc, use public transport and share autos more.
- ❖ India should switch over to solar cell cars and electric vehicles as soon as possible. Government should encourage these new automobile sectors with tax free for next some years to reduce import of crude oil and thereby a lesson to be teach oil manufacturing countries.

- ❖ Government can be reduce the fuel price by reducing the taxes charged by the central and states, or by including the fuel in the GST. But the government not to ready to do both, since the government's revenue may reduce. Recently our finance minister openly said that the excise duty has never been reduced.
- ❖ To encourage the car users, the government need to announce some percentage of subsidy and mandate the use of electric vehicles and develop a good network charging infrastructure throughout the country.
- ❖ For all problems the government says that 'Global Issue' and such statements are most irresponsible.
- ❖ Whenever the crude oil price reduces, the government and OMCs enjoying the benefits. But price rise burden will be passed on to the common consumers.
- ❖ It is difficult to India being adopt to electric vehicle, since a petrol car price in India is less than Rs.5,00,000/- and therefore people will looking to buy a EV only when the price of such vehicle fall in that range-*Blooming New Energy Finance*.
- ❖ The small adjustment that asking the OMCs to reduce Rs.1.00/- in fuel price can affect the OMCs finance and make it in a bad shape.
- ❖ A long term policy to be implemented for taxation and pricing of petroleum products. There will be a clarity about taxes on all such products with no scope of criticism, if such policy is in place. All political parties should debate the need of such policy and demand the government to implement it as early as possible.
- ❖ Whenever fuel price increases, both central and state governments revenues also increases, that support the government spending. The price rise of petrol and diesel does not affect the political leaders such as ministers, MPs, MLAs etc, because their fuel bills are paid by public through various taxes. As the cost of transportation, bus fares, train fare etc go up that hurts the poor public. It is the time for governments to cut taxes so that such social impacts (fare rise) can be reduced.
- ❖ In the name of public welfare, both central and state governments are doing injustice to poor public. Our neighbor Pakistan is too able to sell petrol at Rs:57.83/- why India cannot do it? In the name of country's development, politicians are looking after their own development.
- ❖ As per price spread of petrol, state VAT is charged on central excise, dealer commission and addition with all other components. Moreover, the excise duty (Rs:19.48/-) which goes to the centre is further shared to states at 42 percent. That means, about Rs: 8/- (42% of Rs:19.48/-) goes to states and only Rs: 11/- remains with central government. State exchequer gets about Rs: 33.10/- ie 40.47 percent of the retail price. Hence not only central excise but state taxes also to be reduced to control petrol and diesel price in India.
- ❖ The government should rationalize the taxes regime for petrol and diesel instead of asking refineries to subsidize fuel prices.

- ❖ This is the time, the country could impose fuel efficiency standards for trucks, which is not exist now or switch over to cleaner fuels like natural gas.
- ❖ To push retail consumers towards cleaner fuels, many countries fix the petrol and diesel at high prices intentionally. But India is still far from this infrastructure compare with 58,000 retail outlets, it has only 1094 CNG outlets. Besides, out of 18 crores LPG connections only 32.8 lakh consumers having piped gas. This situation has to be changed.

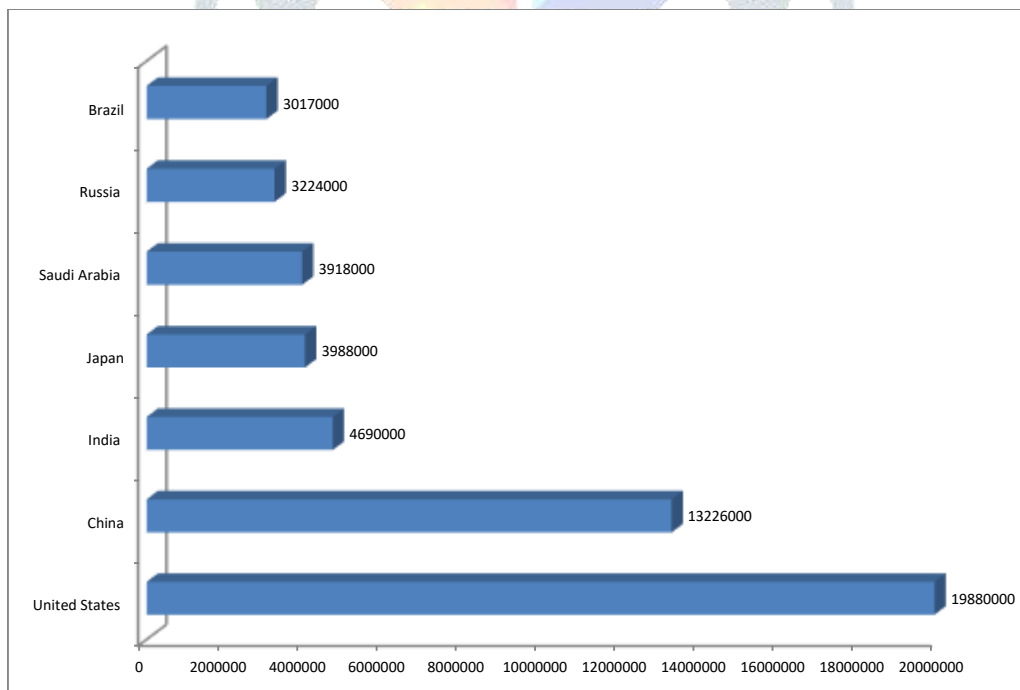
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Table – 1

The top seven countries which consumes crude oil in the world in 2017-18.

Sl.No.	Country	Oil consumption barrel per day (bpd)	Year
1.	United status	1,98,80,000	2017-18
2.	China	1,32,26,000	2017-18
3.	India	46,90,000	2017-18
4.	Japan	39,88,000	2017-18
5.	Saudi Arabia	39,18,000	2017-18
6.	Russia	32,24,000	2017-18
7.	Brazil	30,17,000	2017-18

Figure – 1



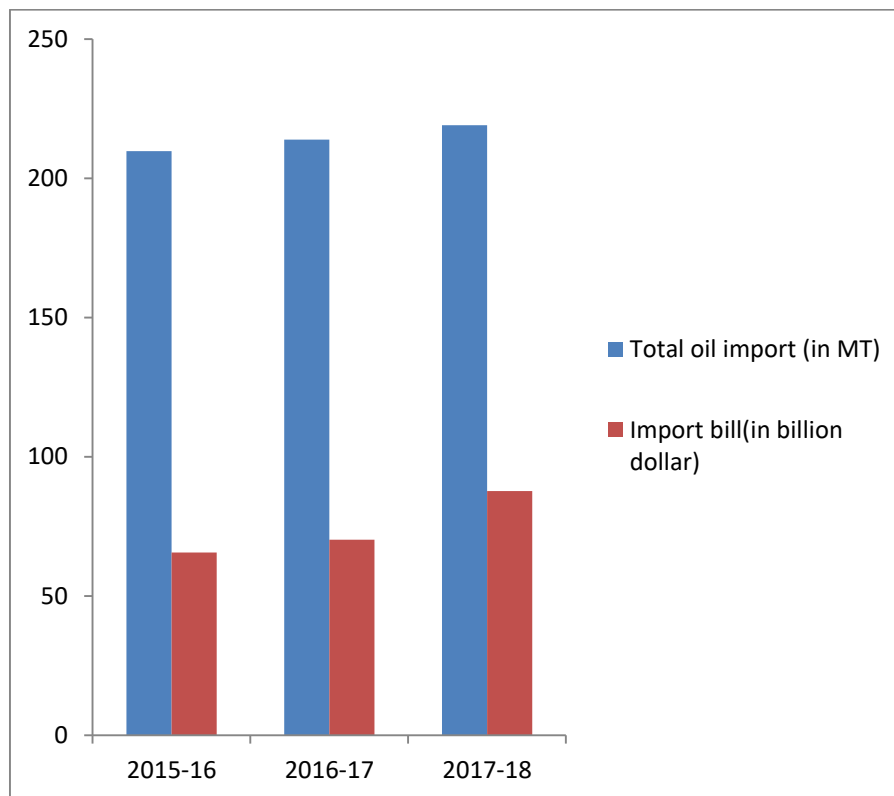
Source : International Energy Agency (IEA)

Table – 2

India's total oil import and import bill for the last three financial year

Sl.No.	Year	Total oil import (in MT)	Import bill(Rs/dollar)
1.	2015-16	209.83	4.61 lakh crore/65.61 billion
2.	2016-17	213.93	4.7 lakh crore/70.196 billion
3.	2017-18	219.15	5.65 lakh core/87.725 billion

Figure - 2



Source: PPAC Statistics-2018

Table – 3**List of countries which are having high petrol price in the world**

Sl.No.	Country	Petrol Price in (Rs.)
1.	Hong kong	161.18
2.	Norway	148.67
3.	Ireland	143.52
4.	Barbados	142.78
5.	Nether land	140.58
6.	Greece	140.58
7.	Italy	140.58
8.	Monaco	139.10
9.	Isreal	136.16
10.	Denmark	135.42

Table – 3(A)**List of countries which are having high diesel price in the world**

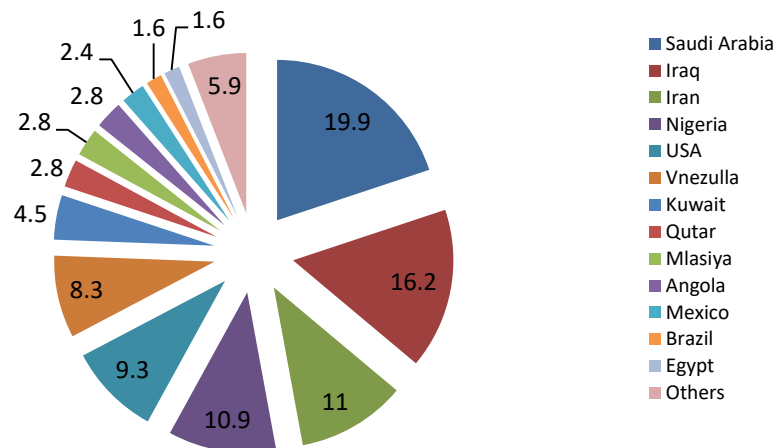
Sl.No.	Country	Diesel Price in (Rs.)
1.	Norway	143.52
2.	Island	143.52
3.	Sweedan	135.42
4.	Hong-kong	133.95
5.	Italy	132.48
6.	Swizerland	132.48
7.	UK	130.27
8.	Monaco	130.27
9.	Belgium	129.54
10.	France	129.54

*Source : global petrol price.com***Table – 4****The list of countries which are exporting petroleum crude to India**

Sl.No.	Coun ¹⁴	Petrol Price in (Rs.)
1.	Saudi Arabia	19.9

2.	Iraq	16.2
3.	Iran	11.0
4.	Nigeria	10.9
5.	USA	9.3
6.	Venezuela	8.3
7.	Kuwait	4.5
8.	Qatar	2.8
9.	Mlasiya	2.8
10.	Angola	2.8
11.	Mexico	2.4
12.	Brazil	1.6
13.	Egypt	1.6
14.	Others	5.9

Figure - 3



Source : Export Genies

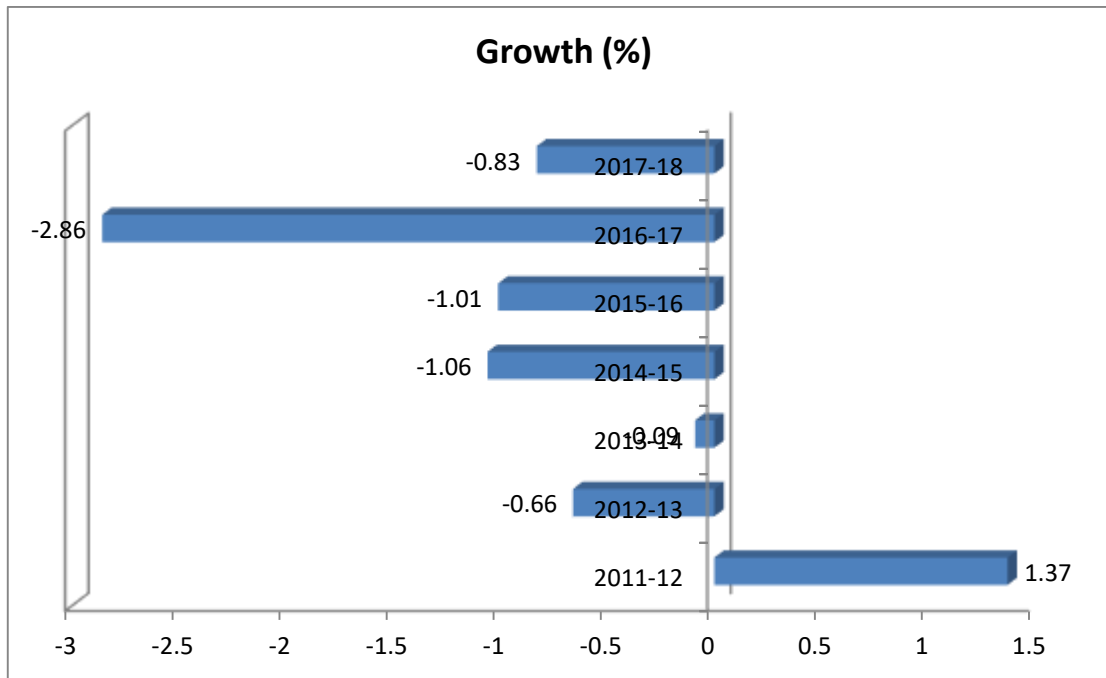
Table 5

The domestic oil production in India

Sl.No.	April- February period	Production (in MT)	Growth (%)
1	2010-11	34397	-
2	2011-12	34869	1.37
3	2012-13	34636	-0.66
4	2013-14	34603	-0.09
5	2014-15	34235	-1.06

6	2015-16	33888	-1.01
7	2016-17	32918	-2.86
8	2017-18	32642	-0.83

Figure - 4



Source : PPAC

Table – 6

The percentage of comp 16 in petrol and diesel prices

Sl.No.	Components	Petrol in percentage	Diesel in percentage
1.	Basic price	37.86	43.00
2.	Processing and transporting charges	4.42	8.21
3.	OMC and dealer margin	8.52	7.49
4.	Taxes excise +VAT	49.00	41.30

Figure - 5

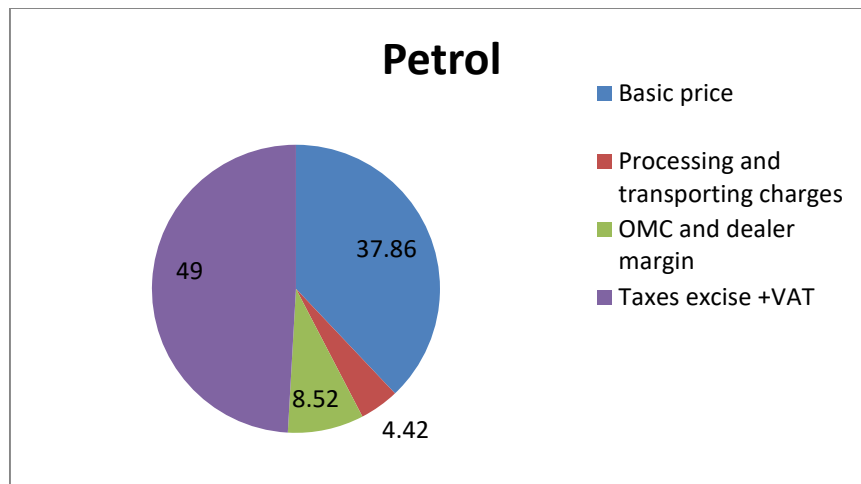
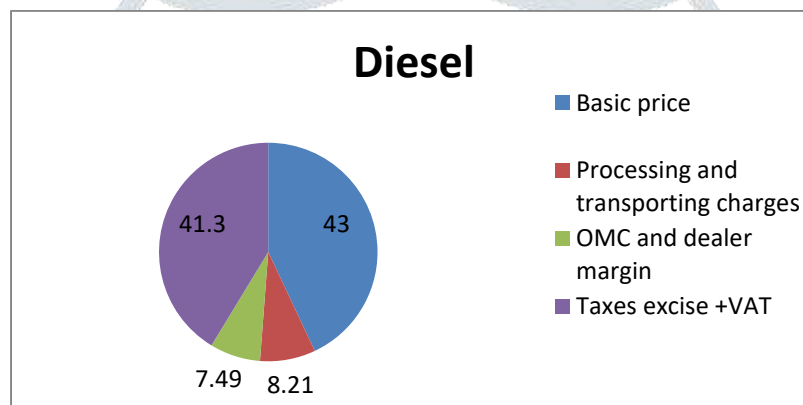


Figure - 5A



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