

# Hike in Petrol Price: Causes and its Impact On The Price of FMCG Products

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## ABSTRACT:

India being one of the largest and growing consumer of energy in the world has been relying heavily on crude oil for its production of energy and consumption purposes. The growing demand and increasing fuel prices have always been an issue for the general public. This study aims to understand the causes and impacts for the rising prices in recent times that have been influencing the economy as whole and provide solution to cope with this externality. India is currently facing rising price of its fuel - Petrol and Diesel. There are multiple factors that contributed to this increase. This proposed research aspires to look into the major causes that have contributed to this rise, whether the Government has a major role to play in this pricing game and what are the possible impacts of this on the FMCG sector.

**Keywords:** Petrol Prices, Crude Oil, Fuel price, FMCG

## I. INTRODUCTION:

The current round of petrol price hikes by oil marketing companies(OMCs), petrol and diesel prices across the country have skyrocketed. According to experts, the ongoing rise in petrol price would have a significant impact on individuals and the economy as a whole. The steady rise in petrol prices has not only fanned inflation concerns over the past few months, but has also altered spending patterns of consumers. This is the common context all over the world especially in India, newspapers and notifications in our smartphones have been inundated with the never ending news of the rising prices of Petrol and Diesel in India. Since the middle of 2018, petrol and diesel prices were on an accelerating pace of hike and recently it crossed 100 rupees/litre. At this point of time, it is imperative to have a close look into the major reasons of this Fuel Prices- the causes; as well as how people are affected by this - the impact. The purposes of this study is to

predicting the key sectors such as FMCG sector which would be mostly affected by the rising the fuel prices.

## II. REVIEW OF LITERATURE

**BHATTACHARYA & BATRA, 2009** In this research paper, the author tries to figure out how international oil prices affect domestic inflation and output growth in India. The analysis focuses on two primary scenarios: first, when gasoline costs are directly proportional to worldwide fuel prices, and second, when fuel prices are reliant on government policies that are updated from time to time

**ANAND, CAODY, MOHOMMAD, THAKOOR, & P WALSH, 2013** The focus of the research is on the country's fuel pricing policies, as well as the need for and alternatives for fuel subsidy reform. The study examines the extent of fuel subsidies in effect in the county, as well as the domestic fuel price increases necessary to offset the subsidies, as well as the impact these price increases will have on inflation and family average earnings.

## III. OBJECTIVES OF STUDY

- 1- To study the factors affecting fuel prices in India
- 2- To study the impact of rising fuel prices on FMCG sector

## IV. RESEARCH METHODOLOGY

The research has been carried out using both primary and secondary data. Responses were collected with the help of questionnaire and a total of 120 responses have been collected via Google Form. The primary data through questionnaires were used to find out the reasons behind hike in petrol price and its impact on FMCG sector. The data so collected through the questionnaire were further analyzed using graphs and charts. For the

brief analysis about surge in petrol price, some data have also been collected through secondary sources such as published articles in various websites. The Secondary Data were used to find out the causes behind the rise in the petrol price.

## V. FACTORS AFFECTING FUEL PRICES IN INDIA

The rising prices of petrol and diesel have been a major concern for the citizens of the country. There are a number of factors that affect the fuel prices in India. Some of the most important factors that affect the prices of petrol in India can be summed up as follows:

### 1- Cost of crude oil:

Crude oil, often known as unrefined oil, is a global commodity. The price of this commodity has a direct impact on the price of petrol in our country. The price of crude oil fluctuates whenever the demand and supply of the commodity alter. Furthermore, worldwide political ties, as well as future reserves and supply, have a direct impact on crude oil prices.

### 2- Price charged to dealers:

The Oil Marketing Companies purchase and distribute crude oil (OMCs). The price charged by OMCs to dealers has a significant role in determining the price of fossil fuels. This price is determined by a variety of factors, including freight costs, refining costs, and so on.

### 3- Commission for dealers:

The fuel dealers are paid a commission by the Oil Marketing Companies, or OMCs. This commission covers the earnings, costs, and profit of the petrol pump owners. This is one of the factors that goes into determining the cost of petrol.

### 4- Central excise duty:

The excise charge on petrol and diesel is imposed by the government. It's important to remember that the central excise charge is a fixed sum rather than a percentage. As a result, the duty does not change in accordance with the price of fuels. The Indian government has hiked excise tax by a factor of ten in the last few years. Petrol has a current duty of Rs.32.98 per litre, while diesel has a duty of Rs.31.83 per litre. Regardless of whether the price of crude oil rises or falls, this amount remains constant.

### 5- Sales Tax or Value Added Tax (VAT):

The state governments are in charge of levying this tax. The VAT, or sales tax, is determined after a few other variables are taken into account, such as the excise duty levied by the government, dealer commissions, and so on.

### 6- Taxes imposed by the government:

The Indian government levies a tax on both petrol and diesel. Certain policies may lead to changes in the tax system at the national level. The marginal returns from fossil fuels and the recovery of losses are the major drivers of change in this system. The price of petrol fluctuates as a result of these levies.

### 7- Demand for fuel:

With the rising number of two-wheelers and four-wheelers on Indian roadways, demand for both petrol and diesel has increased as well. Because Indian oil refineries have to purchase crude oil on the international market in order to convert it into petrol and diesel, supply cannot always be ensured. As a result of the principles of economics, when supply is limited and demand is high, the price of both fuels is certain to rise.

### 8- Consumption ratio of refineries:

The crude oil that is imported into India is transferred to refineries to be processed. If the number of refineries is reduced, the total amount of petrol or diesel available for sale will be reduced as well. This would also imply that the supply of petrol would be reduced, raising the price of the fuel.

### 9- Valuation of INR against USD:

The value of the Indian Rupee against the US Dollar is one of the key factors that influences the price of petrol and diesel in India. The crude oil used to refine petrol and diesel is purchased on the international market and paid for in dollars. As a result, the USD's strength against the INR is a direct factor. The cost of acquiring crude oil will rise if the US dollar strengthens. As a result, the finished product's price will be greater as well.

### 10- Logistics

One of the most important variables in retail fuel cost is logistics. Petrol and diesel carried across longer distances to towns or regions far from depots will be more expensive than in areas closer to the storage area of the oil company.

## VI. REASON BEHIND CURRENT RISE IN PETROL PRICE

### 1- Tax effect on oil prices

India imports most of its oil to fulfill its local needs. While worldwide crude costs have climbed dramatically in the last six months, hefty local taxes are a key factor in the high selling price of petrol. Fuel is subject to excise duty and cess imposed by the Union government, as well as a VAT imposed by the state. Currently, taxes account for 58 percent and 52 percent of the retail selling price of petrol and diesel respectively. The last time India's fuel prices rose was between 2010-11 and 2013-14, when the United Progressive Alliance (UPA) was in power. However, at the time, the increase was mostly due to a significant increase in worldwide oil prices, which had reached all-time highs. During those years, the average price of barrel of crude oil was above 100 dollar.

### 2- Government hesitant to lower petroleum taxes.

Despite rising worldwide costs, the Modi government and states have been hesitant to reduce rates because these levies are an important source of income. In 2020-21, the Modi administration received Rs 3.89 lakh crore in excise duty, up 62 percent from Rs 2.39 lakh crore in 2019-20, with the majority of the revenue coming from taxes and cess on petrol. Despite the fact that petroleum consumption fell by 9 percent in 2020-21 owing to mobility restrictions caused by the Covid-19 epidemic, tax receipts increased which is related to the increase in petroleum product taxation in May 2020.

The Modi administration had raised fuel prices by Rs 10 and diesel rates by Rs 13 at the time. The exchequer typically gains approximately Rs 13,000-14,000 crore for every Re 1 increase in tax on fuel and diesel.

The states are in the same boat. In 2020-21, most states raised the VAT on petrol and diesel to boost income at a time when other sources of revenue were being hit by the economic downturn. States received more than Rs 2 lakh crore in 2019-20 and Rs 1.35 lakh crore in April-December 2020-21 from VAT on petroleum products, according to statistics from the petroleum ministry.

### 3- The government-managed pricing mechanism has been abolished, but government restrictions remain in place.

The regulated pricing structure for petroleum and diesel was discontinued in India in June 2017. This meant that oil firms were permitted to adjust petrol prices on a daily basis in response

to global oil price fluctuations. According to statistics compiled by Care Ratings, the fuels companies actually lowered prices three times in March and once in April, compared to 16 price rises in February.

In a market like India, where state-owned oil marketing companies control over 90 percent of the market, no increase in petrol costs before elections is unsurprising. During events like as elections, petroleum firms can adjust these rates on a daily basis. Despite this, during the months of March and April, which coincided with assembly elections in four states and one Union territory, fuels companies opted not to raise rates even once.

Even though crude prices rose just \$3.5 in May compared to April, oil firms hiked prices 16 times, indicating that they were attempting to make up for the two months when local pricing did not correctly reflect international prices.

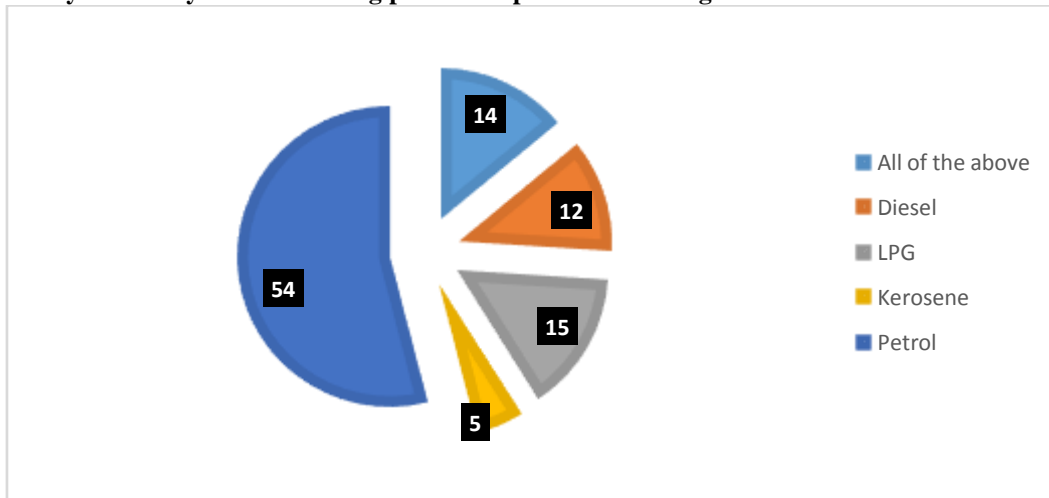
### 4- Inflation impact

Fuel price increases have increased to India's inflationary pressures, which reached 6 percent in May. The MPC had already expressed concern about the impact of rising petrol prices on overall input costs earlier this month. It had encouraged the central government and state governments to work together to reduce petrol tariffs. In May, India's petrol inflation rate was 11.6 percent, compared to 7.9 percent in April and 4.5 percent in March. There are also fears that a rise in petrol costs would have a negative impact on discretionary spending, as consumers reduce discretionary spending to accommodate rising fuel expenses.

## VII. ANALYSIS AND INTERPRETATION

The surge in petrol price, no matter how established are the people, they are experiencing major effects and have to re-work on managing their day to day life. Most of them are facing the challenge to keep rotating their financial wheels amidst the uncertainty. The impact of the hike in price of petrol and FMCG products on each individual may be brutal due to the scarce resources and cash reserves. A small survey has been done, the targeted audiences are the consumer of FMCG products. A sample of 120 respondents has been collected with the help of a questionnaire.

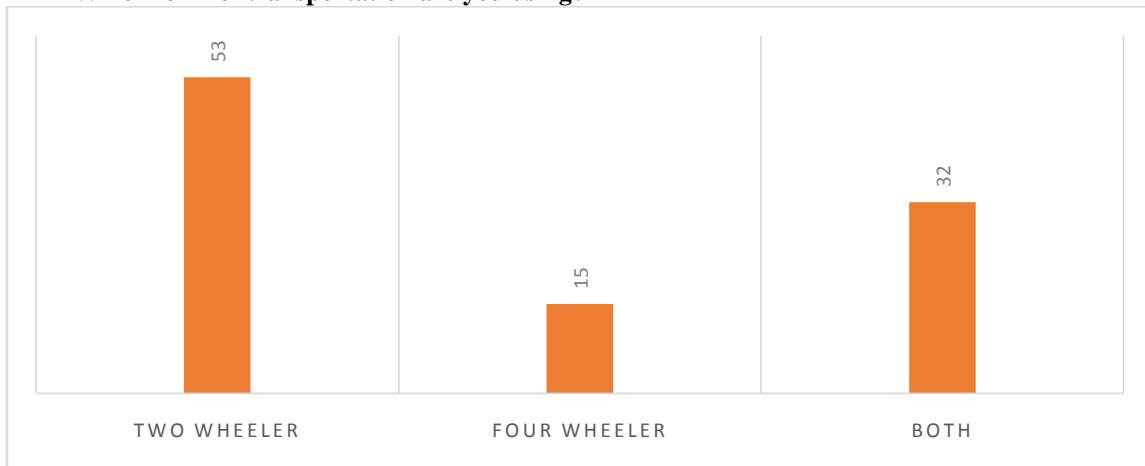
1- Do you use any of the following petroleum products on a regular basis?



Out of the 120 responses collected 54 percent of the respondents are using the petrol. 15 percent were using LPG & 14 percent were using all the products. There is 12 percent using diesel &

only 5 percent kerosene alone. Thus majority of them are using petrol that is why petrol has such a big demand.

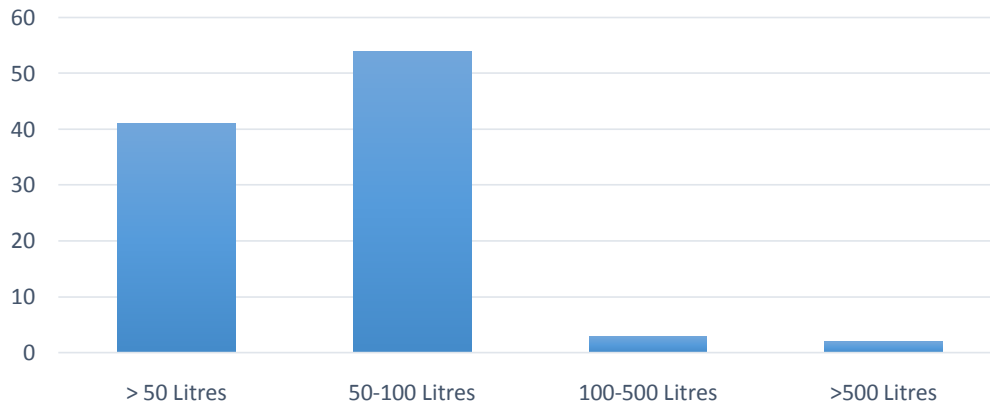
2- Which form of transportation are you using?



In this 32 percent of the respondents are having both two wheeler & three wheeler vehicles. Only 53 percent is having two wheeler alone & 15 percent are having four wheeler alone. Thus the

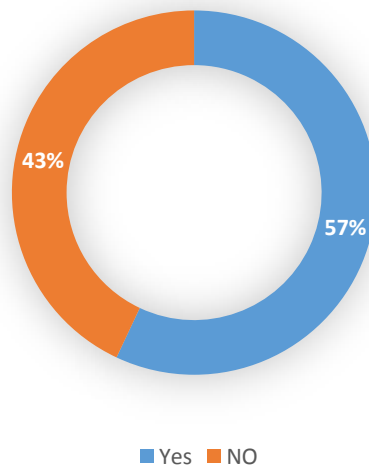
majority are using two and both two wheeler and four wheeler vehicles from which we can understand how much quantity of petroleum is needed for fulfilling it.

**3- How much petrol/ diesel do you use on a monthly basis?**



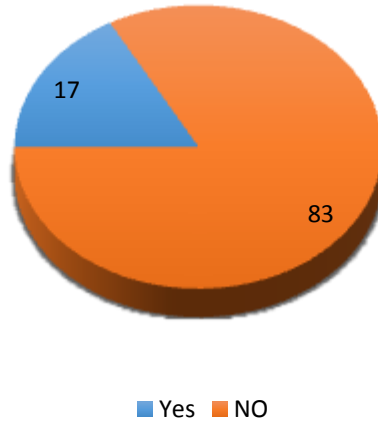
54 percent of the respondents needs 50 to 100 litres of petrol/diesel for a month. 41 percent of them needs only below 50litres. Only 15 percentneeds 100 to 500litres of petrol every month.

**4- Do you set aside any budget for the purchase of petrol, diesel, or LPG?**



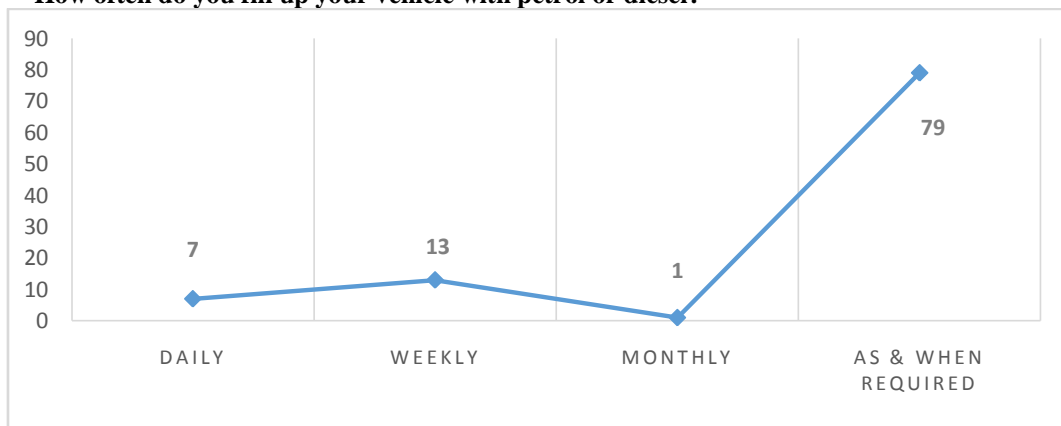
57 percent of respondents are putting a budget for petrol every month. Thus it shows that these expenses became a budgetary expense to the people & they are well aware of these situations.

5- Is the real monthly expenditure within the budgetary expenditure due to the price spike?



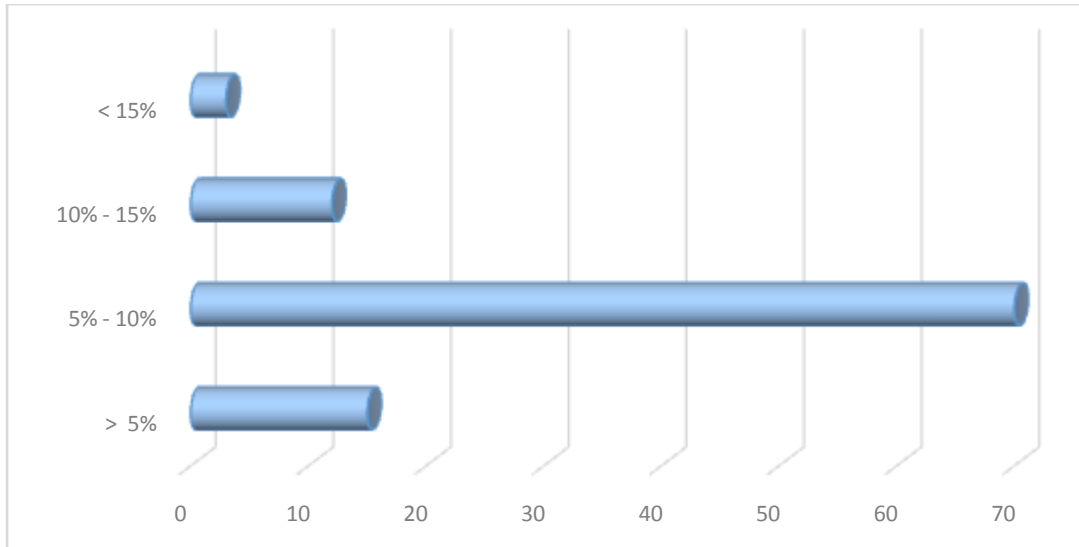
83 percent of these respondents are agreeing that due to these price hike their expenses are getting higher and they aren't able to with stand their expenses in their budget

6- How often do you fill up your vehicle with petrol or diesel?



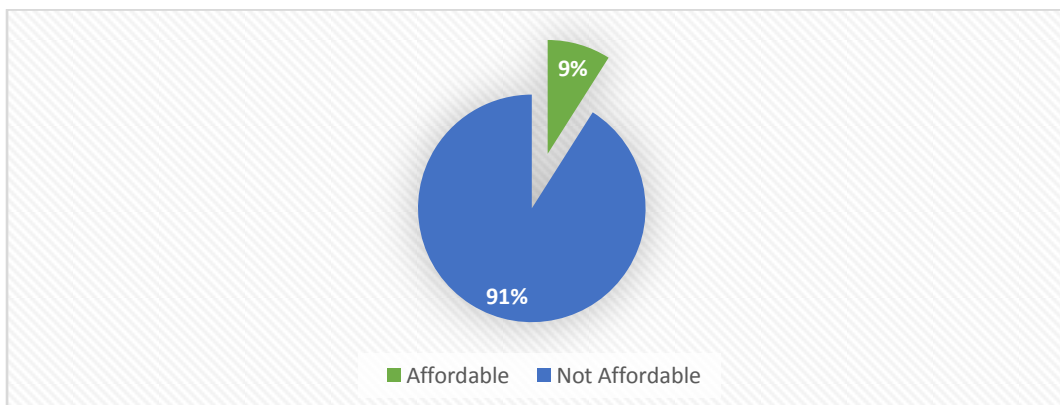
79 percent of the respondents agree that they are filling petrol as & when they required. Only 7 percent of them needs daily,13 percent only needs once in a week & remaining1 percent fills petrol monthly.

**7- In a particular month, what proportion of your income do you spend on petroleum products?**



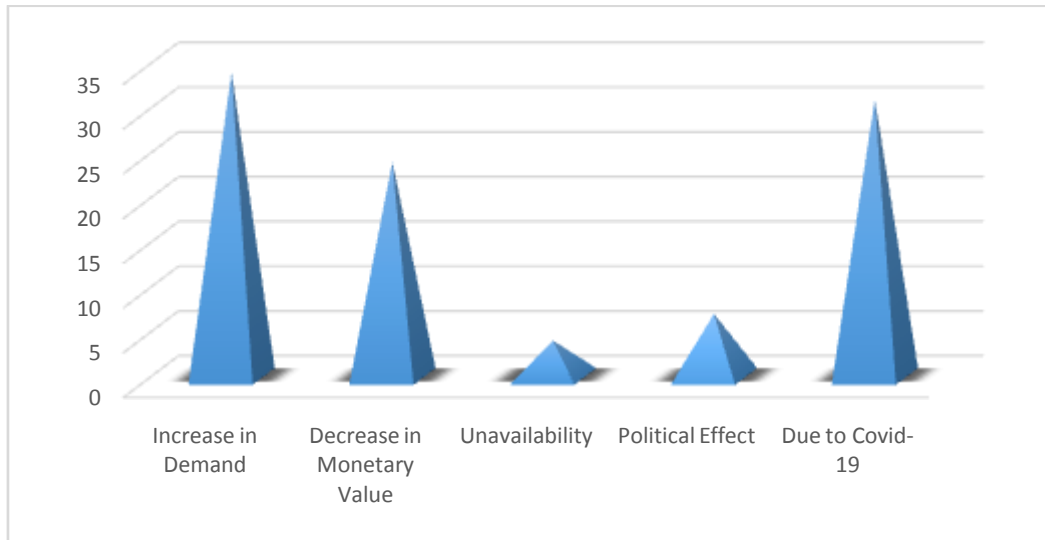
70 percent of the respondents are spending 5 -10 percent of their salary for satisfying petrol needs. 15 percent of them needs only below 5 percent of salary & 12 percent of them needs 10-15 percent of their salary. Only 3 percent needs above 15 percent of their salary.

**8- What are your opinions on the price hikes in petroleum products during the previous two to three years?**



91 percent of the respondents agreed that it is not affordable for them to cope with the hike in petrol price during last 2 to 3 years. Only the remaining 9 percent are ready to afford petrol at this price.

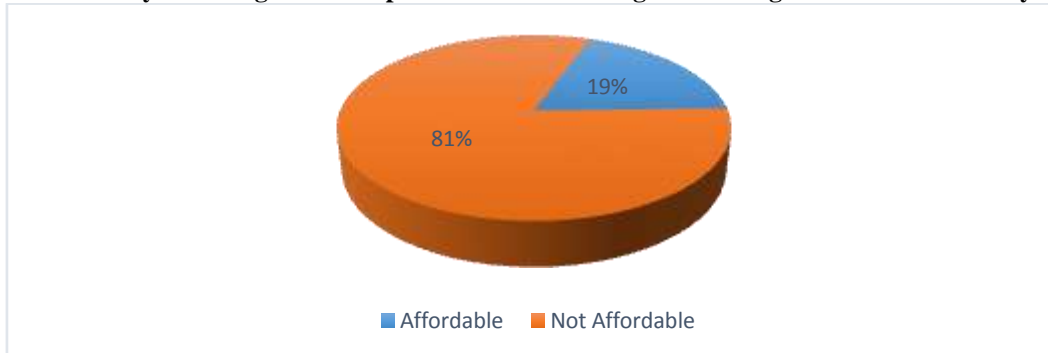
**9- What, in your opinion, is the cause of the rise in the price of petroleum products in India?**



As everyone knows the demand of petroleum is increasing day by day, the respondents also agree with this situation. 34 percent of them agreed that the reason is increase in demand. 4

percent of them agreed that as it is not renewable energy, it is unavailable. From the remaining 15 percent says that it is due to political effect & 24 percent says due to decrease in money value.

**10- What are your thoughts on the price hikes in FMCG goods during the last two to three years?**

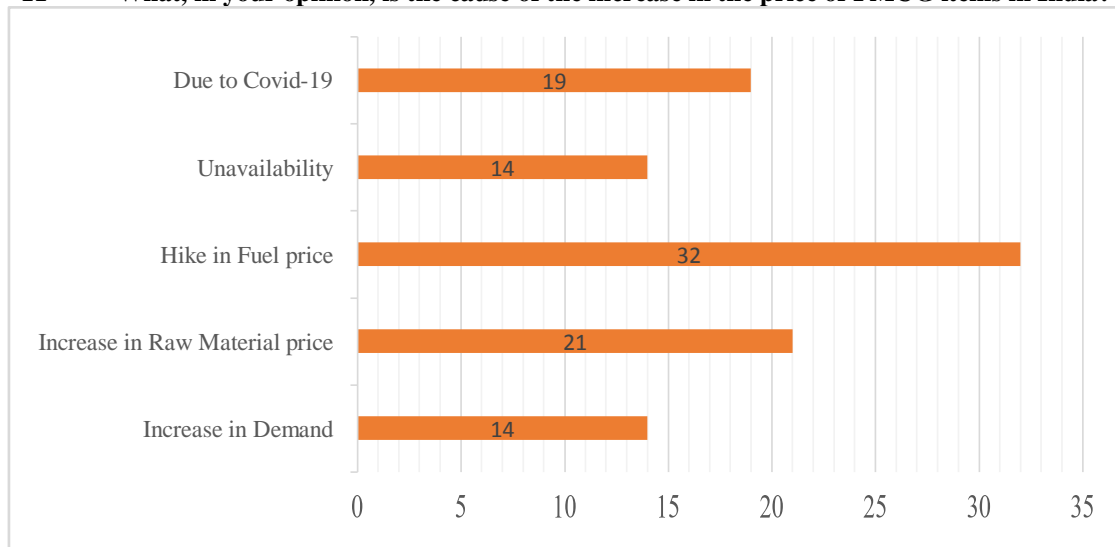


81 percent of the respondents agreed that it is not affordable for them to cope with the hike in petrol price which led to the gradual increase in the

price of FMCG products during last 2 to 3 years. Only the remaining 19 percent are ready to afford FMCG goods at this price.



**11- What, in your opinion, is the cause of the increase in the price of FMCG items in India?**



As everyone knows the demand of petroleum is increasing day by day, the respondents also agree that the reason behind the hike in price of FMCG products is due to various reasons. 14 percent of them agreed that the reason is increase in demand. 32 percent of them agreed that hike in petrol price is directly affecting the price of FMCG products. 14 percent of them agreed that due to gap in Demand-Supply chain price of FMCG products is increasing. From the remaining, 19 percent says that it is due to Covid-19 effect & 21 percent says it is due to increase in price of raw materials. So from the above responses collected it can be concluded that rise in price of FMCG products is mostly due to the hike in petrol price.

**VIII. FINDINGS**

1. According to Global Financial Services, a \$10 per barrel increase in price worsens India's fiscal and current account balances by 0.1 percent and 0.4 percent of GDP, respectively. While presenting the Economic Survey Report to the parliament, the Finance Minister stated that a \$10 rise in oil price might result in 1.7 percent GDP inflation in the country.
2. The cost of transportation for most FMCG and other vital products will rise as the price of petrol rises. With the rise in the price of petrol, the price of FMCG items will rise as well. At the consumer level, this has a direct influence.

**IX. SUGGESTIONS**

1. In terms of national policy, the government has stated that the price increase is temporary and due to global factors, and that they are working

hard to stop excessive leakage of foreign reserves and reduce the tax quota on oil pricing, citing the large dependence on fuel as a necessity for the Indian population's consumption, and that the government's provision of such resources is critical.

2. Since a result of the global dispute, the government can raise the issue with the US government, as the main cause for rising prices is the implementation of the Iran nuclear deal, which has resulted in higher demand for oil.

**X. CONCLUSION**

The price of petrol is directly proportional to the price of crude oil on the international market. As a result, the country's recent surge in fuel prices might be attributed to a variety of reasons. While the government can play a role in lowering prices, blaming the government alone for the increase is unfair. As a result, we may infer that the government has a role to play in the country's fuel prices, but it is not the only determinant of fuel prices. Bringing petrol and diesel under the GST regime is another long way to go, but it will be accomplished in the near future. In the coming years, however, this would not be achievable. As mentioned earlier, the declining Indian rupee and rising fuel prices have an adverse connection. As a result of current trends, Petrol Prices at INR 100 per liter are likely to be normalized in the near future. The consequences of the same would be both beneficial and detrimental. Increased use of public transportation and demand for sustainable energy would result in more eco-friendly resources in the foreseeable future.

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### QUESTIONNAIRE

- 1- Name:
- 2- Age:
- 3- Do you use any of the following petroleum products on a regular basis?  
Petrol  Diesel  Kerosene LPG All the above
- 4- Which form of transportation are you using?  
Two wheeler Four wheeler Both
- 5- How much petrol/ diesel do you use on a monthly basis?  
Below 50litres 100litres  100-500litres above 500litres
- 6- Do you set aside any budget for the purchase of petrol, diesel, or LPG?  
Yes No
- 7- Is the real monthly expenditure within the budgetary expenditure due to the price spike?  
Yes No
- 8- How often do you fill up your vehicle with petrol or diesel?  
Daily Weekly Monthly as& when required
- 9- In a particular month, what proportion of your income do you spend on petroleum products?  
Below 5% 5% - 10% 10% - 15% Above 15%
- 10- What are your opinions on the price hikes in petroleum products during the previous two to three years?  
Affordable Not Affordable
- 11- What, in your opinion, is the cause of the rise in the price of petroleum products in India?  
Political effect Decrease in money value Unavailability Increase in demand Due to Covid-19
- 12- What are your thoughts on the price hikes in FMCG goods during the last two to three years?  
Affordable Not Affordable
- 13- What, in your opinion, is the cause of the increase in the price of FMCG items in India?  
 Increase in Raw material price Hike in fuel price Unavailability  
Increase in demand  Due to Covid-19
- 14- Any other opinion, if any?