Impact of Diesel Price Deregulation on Diesel Car Sales in India

[a]Arun Mathew, [b]Sheeba Wilson
[a]FDP Substitute, Department of Economics Baselius College, Kottayam, Kerala, India
[b]Guest Lecturer, Dept. of Economics BCM College, Kottayam, Kerala, India

Abstract

Diesel price deregulation and its impacts on Diesel car sales in India aim to extract the after effects of diesel price deregulation policy in diesel car sales, policy executed in October 2014. The study is deeply looking into the effectiveness of policy execution, which means Diesel is a highly polluting fuel when comparing with the other fuel options and Government of India claimed that diesel subsidy highly misused by this diesel car. So this study examined the sales and taste preferences of diesel car sales after the deregulation policy. The study has given equal importance to primary as well as secondary data. The secondary data mainly gathered from different journals, annual reports of automobile companies and websites of different oil companies. From the study it was found that the Diesel price deregulation has deep impact on the Diesel car sales in India.

INTRODUCTION

Energy sources play an important role in the economic development of a country. Use of energy sources is usual in most economic activities. As a result, rice in the price of energy sources will affect the general price level. Price variations in different energy sources will affect the general price level. Price variations in different energy sources will create different types of socioeconomic impacts. Changes in petroleum product prices, especially diesel price will have an adverse effect on ordinary people. Diesel is the main fuel used in public transport and movement of essential commodities in India. Thus, changes in diesel prices will have serious socioeconomic implications. Even though price variations in all all petroleum products have their own socioeconomic impacts, it is the change in diesel prices that seriously affects the common man.

In India diesel is sold at a price lower than its actual price. In other words the subsidy given for controlling the diesel price. If subsidy is lifted, diesel price will go up. As a part of its economic reforms, the Government of India is doing away with subsidies. Government of India is now trying to abolish the subsidy on diesel in a phased manner. According to govt. of India, there is no other way to reduce India's fiscal deficit. It seems the gift is trying to attain this goal by adopting two strategies.

1. Increase diesel price in a phased manner and fix a price that includes the actual production cost and taxes.

2. Stop giving subsidized diesel to bulk consumers (Railway, State owned public transports etc.).

Deregulation means government does not control diesel prices but they are decided depending upon the price of crude oil in international market and refining costs. Deregulation of diesel prices is one of the big decisions taken by the government for the Indian oil & gas industry. It has various benefits for the public as well as private sector petroleum refiners. However, looking at the larger picture, it will also show positive

results for the Indian economy as a whole.

The government fully deregulated diesel prices in India on 2014 October. Earlier, it partially deregulated diesel prices effective from January 18, 2013 by allowing Oil Marketing Companies (OMCs) to raise the retail prices in small amounts periodically until the entire loss is made up, and by decontrolling bulk diesel prices. Petrol prices were already deregulated by the Government since mid-2010. Now that the prices of two major petroleum products have been fully deregulated, it is likely to benefit OMCs or the public sector petroleum refiners, private refiners, upstream oil and gas public sector companies, and Indian economy as a whole. Here I would like to study the impact of diesel price deregulation in diesel car sales in India with available data.

Objectives

1. To study the relationship between diesel price deregulation and vehicle sales
2. To study the change in trends in Diesel car purchasing after the deregulation.

Methodology

The study is descriptive and analytical in nature. The information required for the study was collected through field survey using interview schedule. The secondary data were collected through, audit reports, data from various vehicle dealers, periodicals, journals and Internet. Correlation method used for data analysis.

Data Analysis

Objective 1: To study the relationship between diesel price deregulation and vehicle sales

Table 1 Correlation analysis

Year	Average Diesel Price	Diesel Car Sales (%)
2010-11	Rs. 38.61	37
2011-12	Rs. 43.8	40
2012-13	Rs. 47.05	47
2013-14	Rs. 52.73	42
2014-15	Rs 52.8	37
2015-16	Rs 55.15	34
2016-17	Rs 62.17	27
2017-18	Rs 76	23

Source: Secondary Data *

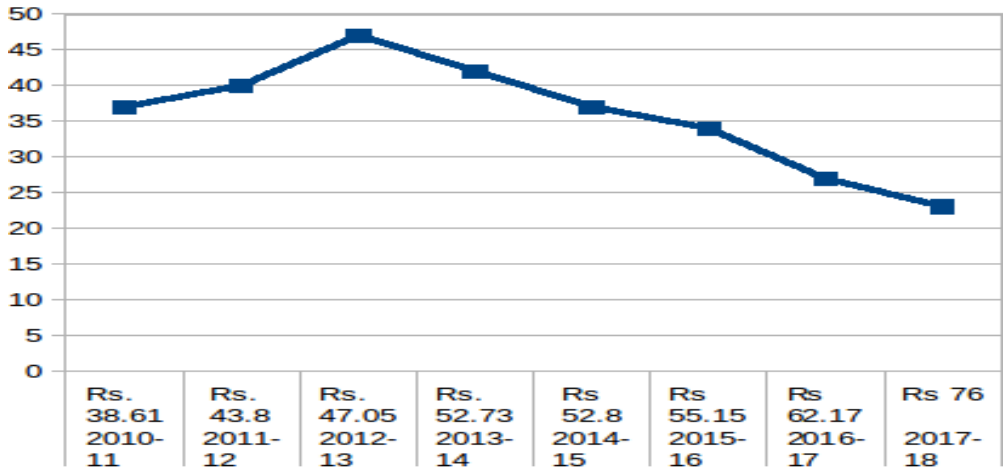
Pearson correlation coefficient is

r =-0.7923

p-value =0.0191

*www.iocl.com/products/DieselDomesticPrices.aspx, siam/industry

Figure 1 Correlation analysis



The table 1 and figure 1 clearly show that there is a negative correlation (-0.79) between diesel price deregulation and diesel car sales in India. During the period of 2012-13 showed a boom in diesel car sales generation, which is before the deregulation and having a lower price. But after the deregulation announced and price hiked, then the demand starts falling and now reduced into 23% of total car sales.

Objective 2: To study the change in trends in Diesel car purchasing after the deregulation.

Table 2: Factors Which Influence Diesel car Purchasing

Factors	**Percentage**
Power	14
Fuel Efficiency	82
Brand	4

Source: Field Survey

The table 2 shows the factors in the purchasing of a Diesel car after the deregulation process. In the case of Diesel car majority gives importance to fuel efficiency of their car. Diesel price hike generally abolished the enhanced demand for diesel cars and the market is getting down due to the high price tag of diesel cars and high diesel price.

CONCLUSION

Diesel cars were found to be more polluting than petrol cars over the life cycle because of three reasons: One, diesel fuel undergoes a more intensive refinery process. Two, diesel combusts at a higher temperature than petrol, so the components used are heavier and more robust. Three, diesel fuel is cheaper, leading to increased usage on the road. In the initial stages of deregulation, government of India claimed the removal of subsidy aims at reducing the fiscal deficit, also aims at reducing the pollution due to diesel engines. From the analysis we find that the Diesel price deregulation has deep impact on the Diesel car sales in India. The average decline in sales after deregulation is around 50% ,So the impact is very deep when comparing with the international trend,

which means a negative correlation trend in national level.

The car purchasing pattern is also changed. In diesel cars, now the price is not a big matter, the fuel efficiency holds the major preference and power has little influence. That is the conventional factors of buyers is in a path of change, this will take a long time and we will become Disposable style buyers if we go like this. The fuel (Diesel) consumption is much affected by the Diesel price deregulation. Due to the price hike, the people were changed their driving mode to a fuel saving one.
from the Sporty mode.

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