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Reversing Priorities for Transport: Greater share of Investment in moving away from Petroleum

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High petrol prices should be a wake-up call for India's policymakers and citizens. Currently, India spends nearly Rs. 274439 crores a year to import approximately 130 million metric tonnes of crude oil and petroleum products. India's production of crude oil, meanwhile, has remained steady at only around 36 to 38 million metric tonnes for several decades. Even if the efforts to find oil within and outside continue vigorously, the share of imports may increase with demand -- which might reach 250 million tonnes by 2025 or earlier.

Even if world crude production does not reduce in the near future, demand from the developing world is rising rapidly, while the demand from the EU and the US is likely to decline only marginally. China consumes 2.5 times more oil than India, 430 million tonnes, and its share is increasing. Given the high competition for global oil resources, a comprehensive programme of de-addiction from oil consumption -- which can take 25 years -- needs to begin now.

First of all, the patient has to agree that she is addicted to oil and wants to get well. An awareness campaign is needed that explains the need for reducing consumption, as a justification for increasing prices, prior to raising prices. Since we import 80 per cent of our oil, the benchmark for domestic prices has to be the global crude oil price; but somehow, explaining the need to change policies is rarely done in India. Simple arithmetic -- the formula used to determine domestic prices, and how they relate to international oil prices, exchange rates and how much is imported -- has to be conveyed. Also the fact that subsidising consumption is not viable in the long-term, unless for the very poor. Otherwise new thinking and new alternatives will not emerge. We need to explain that government subsidies increase the deficit, leading to inflation, which hurts not just oil consumers, but everyone. A very large percentage of oil subsidies are consumed by rich consumers. Of course, the high prices hurt the household budget of the poor, even if they consume less. They need to be compensated in some way.

Secondly, we have confused mobility with petroleum needs. Start with reducing demand, through better urban layouts -- reducing the need to commute, encouraging cyclists and pedestrians with proper lanes and footpaths. The provision of accessible and frequent public transport, such as buses, Metros and BRTs, for all large cities needs to be made mandatory. Low domestic oil prices promote incorrect decisions for urban design, lifestyles and locations of homes, offices, factories and infrastructure. Such economic decisions need to be based on correct oil prices. Subsidised oil prices can confuse the scenario further and increase the dependence on oil imports.

Thirdly, short and medium term measures are needed to increase vehicle fuel efficiency. Automobile companies are resisting mandatory fuel efficiency standards, and promoting larger vehicles. The dialogue between the government and industry needs to make progress. Even 20 years ago, many types of cars in Europe went 100 km in 4 to 5 litres -- available in India only now.

Fourthly, subsidies for diesel and kerosene need to be restricted only to vulnerable groups and basic needs: farmers (for tractors and irrigation), or public transport (railways and buses), or lighting kerosene lamps and cooking. Diesel comes from the same barrel as petrol; the import burden is the same. In many European countries, diesel and petrol cost nearly the same. An increase in capital cost for diesel cars should be put as "surcharge" to transfer the subsidy back to poor consumers.

Finally, in the long term, electric cars, although not accepted in the West -- because of their shorter range of travel (200 km) for each battery charge and speed (80 km/hour) -- may be acceptable to Indian consumers. Compressed natural gas for transport can give some relief.

Thus, a new paradigm is needed to reverse the priorities that emphasises awareness, capacity-building for fuel efficiency, research and development, and investment in transport alternatives. The above measures need to be budgeted, implemented and accepted by the people. The Twelfth Five-year Plan envisages Rs 300,000 crore for the oil and gas sector -- but very little towards de-addiction for oil. The priorities have to be reversed, for the sake of future prosperity and sustainability.