

# The environmental cost of diesel subsidy

Every time petrol prices rise, oil companies end up losing more money. How? The price differential between petrol and diesel increases further; people start buying diesel-powered vehicles so oil firms bleed more. Even worse, we all bleed because dieselisation adds to toxic pollution in our cities. This, in turn, adds to the health burden and costs.

This is all very well accepted. Yet, nobody has done anything to fix it. It makes more sense for a car buyer today to buy an expensive car – perhaps even a Mercedes-Benz – and run it on diesel. It makes even more sense to buy a fuel-guzzling sports utility vehicle or SUV and run it on subsidised diesel. According to the Indian government's own estimates, the use of diesel in personal vehicles has zoomed over the years – passenger cars alone account for 15 per cent of current diesel consumption today. The agricultural sector uses less — 12 per cent. In other words, the myth of keeping diesel prices low for reasons of public policy has been busted. In fact, keeping diesel price low but allowing its use in the private transport sector is clearly a deliberate attempt to use the poor person's fuel to subsidise the rich.

Oil companies also say that under-recoveries on diesel are now costing them big time. It is estimated that Rs 67,500 crore annually is lost to under-recoveries on account of diesel alone — roughly 60 per cent of the companies' total losses. Assuming that private cars consume 15 per cent of the diesel, the direct subsidy to such car owners is over Rs 10,000 crore. Clearly, this is Indian-style socialism: taxing the poor to pay the rich. With every increase in the price of petrol, this gap widens. It is currently Rs 30 per litre or more. And each time this happens, it leads to increased dieselisation — bad for oil companies; worse for the environment.

The car companies' claim that modern diesel vehicle is clean is far from the truth. Data on emission show that current diesel cars on average emit seven times more particulates and three to five times more nitrogen oxides than petrol cars. There is sufficient evidence that tiny particulates – PM 2.5 – emitted from a diesel vehicle are toxic and carcinogenic. This toxin is firmly associated with a significant increase in cases of asthma, lung diseases, chronic bronchitis and heart damage. Long-term exposure can even cause lung cancer. The increased level of nitrogen dioxide contributes to the formation of deadly ozone, which hurts and damages our lungs. So, diesel vehicles, however fancy, are costing us our health.

Today, Europe, which promoted diesel vehicles, is paying a heavy price. It is struggling to meet air quality standards, even though it has invested heavily in the cleanest of fuels and has fitted vehicles with every kind of anti-pollution gizmo like particulate traps and de-nox catalyst. Diesel also has higher levels of black carbon, which is today understood to be a key contributor to climate change. In the US, the world's car Mecca, where emission standards and prices do not differentiate between fuels, there is no market for diesel cars.

So why does Indian policy continue to provide this perverse incentive to pollute? Ironically, no policy allows this. It is simply a loophole: car manufacturers struck gold when they realised that they could sell more vehicles if they ran them on cheaper and subsidised fuel. They have exploited the fact that diesel price is kept low because of its use for transportation of essential goods and for public transport — trucks use some 37 per cent of the diesel consumed and buses use another 12 per cent. They also know that dual pricing of fuel – different diesel prices for buses or tractors and cars – cannot be operated. So they merrily hide behind the helplessness of policy to fix this distortion.

Government agencies know this is wrong. They make all the right noises about the need to fix this price distortion. Market analysts glibly talk about the need to deregulate diesel and free it from government control. They say this because they know that even though they sit in power, they cannot change the price control on this fuel, which is also essential for railways, public good transport and agriculture. But they use this convenient cover to do nothing about the most glaring of distortions — its use by the rich and for private transport.

But given the rising economic cost and pollution, this option of doing nothing cannot be acceptable any more. The options is: either equate the price and emission standards or ban production of personal diesel vehicles. If that is not possible, then the government should tax diesel vehicles – 200 to 300 per cent of the price of the vehicle – to remove the existing fiscal distortion in price and policy. Again, even government committees say this should be done.

Clearly, the lobby for big diesel is powerful. It sits in glitzy chambers of commerce, which can bend policy to suit purse and purpose. Sad and deadly (Sunita Narain, Business Standard 14-11-11).