

**GOVERNMENT OF INDIA  
PETROLEUM AND NATURAL GAS  
LOK SABHA**

UNSTARRED QUESTION NO:3093

ANSWERED ON:06.12.2007

COMMITTEE ON PRICES FIXATION OF PETROLEUM PRODUCTS

Pandey Dr. Laxminarayan;Reddy Shri Karunakara G.;Rijju Shri Kiren;Tripathi Shri Chandramani

**Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:**

- (a) whether the investors have to suffer losses due to lack of a fixed or long terms policy regarding price fixation of petroleum products;
- (b) whether the investors are losing interest in the Government oil companies due to the above said reasons;
- (c) if so, the details thereof;
- (d) whether the Government have constituted a Committee for making a comprehensive policy pertaining to prices of petroleum products and taxes;
- (e) if so, the details thereof; and
- (f) the time by which the Committee will submit its report?

**Answer**

MINISTER OF PETROLEUM AND NATURAL GAS (SHRI MURLI DEORA)

(a) to (c) : The global prices of crude oil and petroleum products have remained high and volatile since 2004. As passing on the entire impact of the steep increase in the oil prices to the consumers would have resulted in hardship to the common man, the retail selling prices of sensitive petroleum products namely petrol, diesel, PDS Kerosene and domestic LPG have not been increased in tandem with the international oil prices. There has been no increase in the price of PDS Kerosene and Domestic LPG over the last three years. The Public Sector Oil Marketing Companies (OMCs) are incurring under-recoveries on domestic sale of sensitive petroleum products due to increase in the prices of crude oil and petroleum products in the international market. The Government has adopted the principle of equitable burden sharing between the Government and the oil PSUs to protect the interests of common man, vulnerable sections of society and also the financial health of OMCs. In this context, the Government has approved the following measures to partially compensate the OMCs for their under-recoveries for the year 2007-08:

(a) Issuance of Oil Bonds to the tune of 42.7% of the total estimated under-recoveries; and

(b) The Upstream Oil Companies to bear approximately 1/3rd of the under-recoveries by offering discounts on crude oil and petroleum products.

(d)to(f): Yes, Sir. The Report of the Rangarajan Committee on pricing and taxation of petroleum products was received by the Government on 17.2.2006. The recommendations made in this report can be divided broadly into three groups as under:-

1. On pricing of petrol and diesel:

(i) Shift to a trade parity pricing formula for determining refinery gate as well as retail prices;

(ii) Government to keep at arms length from price determination and to allow flexibility to oil companies to fix the retail price under the proposed formula; and

(iii) Reduce effective protection by lowering the customs duty on petrol and diesel to 7.5%.

2. On pricing of domestic LPG and PDS kerosene:

(i) Restrict subsidized kerosene to BPL families only;

(ii) Raise the price of domestic LPG by Rs. 75/cylinder;

(iii) Discontinue the practice of asking upstream companies to provide upstream assistance, but instead collect their contribution by raising the OIBD cess from the present level of Rs. 1,800/MT to Rs. 4,800/MT; and

(iv) Government meeting the balance cost of subsidy from the budget.

3. On restructuring excise duties:

Shift from the present mix of specific and ad-valorem to a pure specific levy and calibrating the levies at Rs. 5.00/litre of diesel and Rs. 14.75/litre of petrol.

The Committee had recommended that each of the first two sets of recommendations should be implemented as integrated packages.

The Government has accepted the following recommendations of Dr. Rangarajan Committee Report:

(i) Pricing of petrol and diesel on Trade Parity basis which shall be a weighted average of Import Parity and Export Parity prices in the ratio of 80: 20.

(ii) Reduction of custom duty on petrol and diesel from 10% to 7.5%.

(iii) In principle revision to restrict subsidized PDS Kerosene to BPL families only.

Accordingly, the pricing of petrol and diesel was changed from Import Parity to Trade Parity basis (weighted average of import and export parity price in the ratio of 80:20). The custom duty on petrol and diesel was reduced to 7.5% from 10% with effect from 16.6.06.