

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

UNSTARRED QUESTION NO:3132
ANSWERED ON:20.03.2008
HIKE IN THE PRICES OF PETROLEUM PRODUCTS
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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

- (a) whether the facts given by the Ministry of Petroleum and Natural Gas to support the recent fuel hike were not true;
- (b) if so, the details thereof;
- (c) the loss incurred by the Public Sector Petroleum Companies on the basis of the global price of petroleum products;
- (d) the loss incurred by the oil companies on the basis of actual production cost at refineries;and
- (e) the steps taken by the Union Government to bring transparency and not to conceal facts while hiking the fuel price?

Answer

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS (SHRI DINSHA PATEL)

(a)to(e): International oil prices have been on consistent upward trend since 2003-04. Each year, annual oil prices have averaged more than those prevailing during the previous year. Indian basket of crude oil, which averaged about \$ 23/bbl at the time of dismantling of Administered Pricing Mechanism (APM) in March 2002 and \$36/bbl in May 2004, averaged about \$ 62.5/bbl during 2006-07. The average price of Indian basket of crude oil for the current year (April'07 – 6th March'08) is \$77.79/bbl. Average price during March'08 (upto 6th March) is \$ 97.66 /bbl.

As passing on the entire impact of the increase in the oil prices to the consumers would have resulted in acute 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. Due to this, the Public Sector Oil Marketing Companies (OMCs) are incurring under-recoveries on domestic sale of these sensitive petroleum products. The under-

recoveries of OMCs on these products for the period Apr-Dec'07 are given below:
Rs./Crore

Apr-Dec`07 (estimated)

Petrol	4,564
Diesel	20,155
PDS Kerosene	13,441
Domestic LPG	9,459
Total	47,619

To deal with the steep escalation in international oil prices, the Government has adopted the principle of equitable burden sharing between the Government, the oil PSUs and consumers to protect the interests of the common man and vulnerable sections of society, as also the financial health of OMCs

In this context, the Government has made a marginal increase in petrol and diesel prices by Rs. 2/litre and Re. 1/litre respectively with effect from 15.2.2008, which is actually in the nature of restoration of the retail prices of these products to the price level operating before February, 2007. Even after this, it is estimated that the OMCs would suffer under-recoveries of over Rs. 70,000 crore on sale of these products during 2007-08. The Government has issued Oil Bonds and the Upstream Oil Companies have also contributed by offering discount on crude oil and petroleum products to partially compensate the under-recoveries of OMCs.

The cost of production / refining of individual petroleum products is not identified separately. The Rangarajan Committee on Pricing and Taxation of Petroleum Products observed that:

"Refining of crude oil is a process industry where crude oil constitutes around 90% of the total cost. Since value added is relatively small, determination of individual product-wise prices becomes problematic. The oil marketing companies (OMCs) are currently sourcing their products from the refineries on import parity basis which then becomes their cost price. The difference between the cost price and the realized price represents the under-recoveries of the OMCs."

The under-recoveries as computed above are different from the actual profits and losses of the oil companies as per their published

results. The latter take into account other income streams like dividend income, pipeline income, inventory changes, profits from freely priced products and refining margins in the case of integrated companies."