

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

UNSTARRED QUESTION NO:3649

ANSWERED ON:17.04.2008

OIL PRICING POLICY

Barad Shri Jashubhai Dhanabhai

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

- (a) whether petroleum products like petrol, diesel, LPG etc. are being sold to the consumers in the country on the basis of import price despite the fact that there is huge domestic investment in the refineries in the country;
- (b) if so, the names of the beneficiaries of such huge domestic investment;
- (c) the reasons for not percolating these benefits down to the common consumers in the country;
- (d) whether the Government would consider to formulate a new oil pricing policy to safeguard the interest of the consumers in the country; and
- (e) if so, the details thereof?

Answer

Minister of State in the Ministry of petroleum and natural gas(SHRI DINSHA PATEL)

(a)to(e): While abolishing the Administered Pricing Mechanism (APM) effective 1st April 2002, the Government decided that pricing of all other petroleum products, except PDS Kerosene and Domestic LPG, would be determined by market factors. In order to provide kerosene and LPG at affordable prices, the Government formulated subsidy schemes which are in operation since April 2002.

In order to formulate a long-term pricing policy, the Government had constituted an Inter-Ministerial Committee on 'Pricing and Taxation of Petroleum Products' under the Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister. The Committee submitted its Report on 17.2.2006. The Government had 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 16.6.2006.

The interest of the consumers is already being protected by the Government under the current pricing policy. The duties on sensitive petroleum products namely petrol, diesel, domestic LPG and PDS kerosene have been rationalized to mitigate the impact of high international oil prices on their retail selling prices. The ad-valorem component of Excise Duty on unbranded petrol and unbranded diesel has been abolished with effect from 1.3.2008. The Customs Duty and Excise Duty on domestic LPG and PDS kerosene were also abolished with effect from 1.3.2005. Further, consequent to enactment of Finance Bill 2006, domestic LPG becomes "Declared Goods" under CST Act and the maximum Sales Tax/VAT rate is 4% effective 19.04.06 across all the States/Union Territories.

Moreover, in view of the steep increase in international oil prices since 2004, the Government took a conscious decision not to pass on the increase in international oil prices to the consumers. To deal with the steep escalation in international oil prices, the Government has adopted the principle of 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. 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 prices of domestic LPG and PDS kerosene which are considered as common man's fuels have not been increased since November, 2004 and March, 2002 respectively, despite steep increase in the international oil prices. Petrol and diesel prices are also highly subsidized.