

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

STARRED QUESTION NO:77

ANSWERED ON:29.07.2010

PRICING MECHANISM FOR PETROLEUM PRODUCTS

Karunakaran Shri P.;Singh Shri Rakesh

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

- (a) whether the Government has decided to dismantle the administered price mechanism for petroleum products;
- (b) if so, the details thereof and the reasons therefor;
- (c) whether the Government is aware that this policy would largely affect the common man;
- (d) if so, the mechanism proposed to be devised by the Government to protect the interests of the common man; and
- (e) the benefits likely to accrue to the oil marketing companies due to this policy change?

Answer

MINISTER OF PETROLEUM AND NATURAL GAS(SHRI MURLI DEORA)

(a)to(e): A statement is laid on the Table of the House.

Statement referred to in reply to parts (a)to(e) of Lok Sabha Starred Question No. 77 asked by Shri Rakesh Singh and Shri P. Karunakaran to be answered on 29th July, 2010 regarding "Pricing Mechanism for Petroleum Products".

(a)to(e): With effect from 1.04.2002, the Administered Pricing Mechanism (APM) for petroleum products was dismantled and it was decided that the pricing of all petroleum products, except PDS Kerosene and Domestic LPG, would be market-determined. However, in view of the steep increase and high volatility in the international oil prices since 2004-05, the Government was modulating the retail selling prices of the four sensitive petroleum products; namely Petrol, Diesel, PDS Kerosene and Domestic LPG sold by the three Public Sector Oil Marketing Companies (OMCs); namely, Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation, to protect the consumer from the inflationary impact of international oil prices.

The Government had constituted an Expert Group under the Chairmanship of Dr. Kirit S. Parikh to examine the current pricing policy of the four sensitive petroleum products and to advise on a viable and sustainable system of pricing of petroleum products. The Expert Group submitted its Report to the Government on 3rd February 2010.

In the light of the recommendations made by the Expert Group, the Government has decided to make the prices of Petrol and Diesel market-determined. As a result, the price of Petrol went up by Rs.3.50 per litre. In the case of Diesel, however, it was decided that for the present, the price would be increased by only Rs.2 per litre. It has also been decided that in case of a high rise and volatility in the international oil prices, Government will suitably intervene in the pricing of Petrol and Diesel.

In view of the importance of the household fuels, namely PDS Kerosene and Domestic LPG, the Government has decided that the subsidies on these petroleum products will continue. To reduce the under-recovery burden of the OMCs as also to protect the common man, the Government decided to increase the retail price of PDS Kerosene by only Rs.3 per litre and of Domestic LPG by only Rs.35 per cylinder (at Delhi), with corresponding increases in the rest of the country. This is against the required increase of Rs.18.82 per litre in PDS Kerosene and Rs.261.90 per cylinder in Domestic LPG.

The primary objective behind the pricing reforms undertaken by the Government is the growing imperative for fiscal consolidation, the need for reducing the subsidy burden on petroleum products so as to allocate more funds to social sector schemes for the common man, and for ensuring country's energy security in the long term. Market-determined pricing of Petrol and Diesel is expected to strengthen market competition, encourage OMCs to reduce cost, improve efficiency and enhance service standards and thereby provide greater benefit to the consumers.