

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

UNSTARRED QUESTION NO:915
ANSWERED ON:29.07.2010
HIKE IN PRICES OF PETROLEUM PRODUCTS
Karunakaran Shri P.

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

- (a) whether the recent petroleum and petrol product price hike has been made without proper assessment and on the basis of vague term as 'under recoveries';
- (b) if so, the details thereof and the reasons therefor;
- (c) whether the Government has any plan to revise or scrutinize the assessment; and
- (d) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS(SHRI JITIN PRASADA)

(a)&(b): In the light of the recommendations made by the Expert Group headed by Dr. Kirit S. Parikh, which inter-alia, after proper assessment of the financial position of the Public Sector Oil Marketing Companies (OMCs) advised a viable and sustainable system of pricing of petroleum products, the prices of Petrol and Diesel have been made market-determined with effect from 26.6.2010. 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. However, to reduce the under-recovery burden of the OMCs, the Government decided to increase the retail price of PDS Kerosene by only Rs.3 per litre and that 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 induce market competition, encourage Oil Marketing Companies to reduce cost, improve efficiency and enhance service standards and thereby provide greater benefit to the consumers.

The term 'under-recovery' has been defined by the Rangarajan Committee constituted by Government earlier to go into the issues relating to pricing and taxation of petroleum products. The Oil Marketing Companies (OMCs) source their products from the refineries on trade parity/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.

(c)&(d) : Does not arise in view of (a)&(b) above.