

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

UNSTARRED QUESTION NO:5875  
ANSWERED ON:08.09.2011  
ASSISTANCE TO OIL COMPANIES  
Jawale Shri Haribhau Madhav

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

- (a) the amount of assistance provided under the India sharing system to the upstream oil companies during the last three years, company-wise;
- (b) the justification for this assistance in the wake of the grant of right to companies for hiking oil prices;
- (c) the reaction of the Government thereto;
- (d) whether the oil companies are availing subsidy on the one hand and arbitrarily raising oil prices, frequently, on the other hand; and
- (e) the steps taken by the Government to address this paradoxical situation?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS (SHRI R. P. N. SINGH)

(a) to (d): In the light of the recommendations made by the Expert Group set up to advise on a viable and sustainable system of pricing of petroleum products under the Chairmanship of Dr. Kirit S. Parikh, the price of Petrol has been made market-determined with effect from 26.6.2010. Since then, the OMCs take appropriate decisions on the pricing of Petrol in line with the international oil prices and market conditions.

However, the Government continues to modulate the Retail Selling Prices of Diesel, PDS Kerosene and Domestic LPG and their current prices are below the required market price resulting in huge under-recoveries to the OMCs on the sale of these sensitive petroleum products. The OMCs are currently incurring under-recoveries of Rs.4.57 per litre on Diesel, Rs.23.25 per litre on PDS Kerosene and Rs. 267 per cylinder of Domestic LPG based on the refinery gate prices as on 1.9.2011. At these rates, the OMCs are incurring daily under-recovery of Rs. 228 crore.

Under the burden sharing mechanism being followed, no assistance is being provided to the Upstream Oil Companies. On the contrary, Upstream Oil Companies share the burden of under-recoveries by way of giving discount to Downstream companies. Besides, Government also provides assistance to Downstream companies by issue of Oil Bonds/Cash assistance. The details of under-recoveries incurred by the OMCs and the sharing thereof during the last three years are given below:

(Rs. crore)

2008-09    2009-10    2010-11

Total Under recovery on sensitive petroleum products# 1,03,292    46,051    78,190

Burden sharing through:

Government Assistance    71,292    26,000    41,000

Discount received by Downstream Oil Companies    32,000    14,430    30,297

Under recovery absorbed by OMCs    0    5,621    6,893

# Under recovery on Petrol is up to 25.6.2010 only.

(e): In view of the alarming situation arising out of projected massive under-recoveries of the OMCs of ` 1,71,140 crore on the sale of sensitive petroleum products during 2011-12 (assuming the average price of Indian Basket of \$ 110 per barrel) and to reduce the burden of the rise in international oil prices on the consumers, Government took the following decisions on 24th June, 2011:-

(i) Elimination of 5% Customs Duty on Crude Oil and reduction in Customs Duty on petroleum products by 5%.

(ii) Reduction of Excise Duty on Diesel by Rs. 2.60 per litre. The remaining Excise Duty of Rs. 2.06 per litre on Diesel could not be reduced as it is earmarked towards Road and Education cess.

(iii) Minimal price increase of Rs. 3/- per litre on Diesel, Rs. 2/- per litre on PDS Kerosene and Rs. 50/- per 14.2 kg Domestic LPG cylinder excluding State levies.

The Government will bear an estimated annual revenue loss of Rs. 49,000 crore on account of the aforesaid duty reductions. Even after the duty reductions and the increase in retail selling prices effective 25.06.2011, the OMCs are estimated to incur under-recovery of Rs. 1,21,571 crore (assuming the average price of Indian basket of crude oil at \$ 110 per barrel) during the year 2011-12.