

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

UNSTARRED QUESTION NO:6719
ANSWERED ON:17.05.2012
SALES TAX ON PETROLEUM PRODUCTS
Singh Shri Dushyant

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

- (a) whether the Government has asked the State Governments to streamline Sales Tax on petroleum products;
- (b) if so, the details of views offered by the various State Governments thereon;
- (c) whether the Government had decided to let petrol prices be market driven at the refinery gate and at the retail level;
- (d) if so, whether this move of the Government leads to unprecedented hike in petroleum products; and
- (e) if so, the response of the Government thereon?

Answer

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

(a) & (b): Yes, Madam. All the State Governments have been requested from time to time to reduce the State taxes on sensitive petroleum products and to make the VAT rates specific to give relief to common man. In response to the appeal made by Central Government after price revision in June, 2011, 17 States/UT have reduced the rate of VAT on sensitive petroleum products in the respective States.

(c) to (e): 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 Public Sector Oil Marketing Companies (OMCs) take appropriate decisions on the pricing of Petrol in line with the international oil prices and market conditions. Even after implementation of market determined pricing, OMCs have been making price revision of Petrol in a guarded manner, at times, absorbing a part of under-recovery themselves.

The Government also took a decision 'in principle' on 25.06.2010 that the price of Diesel would be made market-determined, both at Refinery Gate and Retail Level. However, in order to insulate the common man from the impact of rise in international oil prices and the domestic inflationary conditions, 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 incidence of under-recoveries to the OMCs on the sale of these sensitive petroleum products. In view of the alarming situation arising out of projected under-recoveries of the OMCs and to reduce the burden of the rise in international oil prices on the consumers, Government took the following decisions on 24th June, 2011:-

- (a) Elimination of 5% Customs Duty on Crude Oil and reduction in Customs Duty on petroleum products by 5%.
- (b) Reduction of Excise Duty on Diesel by ` 2.60 per litre. The remaining Excise Duty of ` 2.06 per litre on Diesel could not be reduced as it is earmarked towards Road and Education cess.
- (c) Minimal price increase of ` 3/- per litre on Diesel, ` 2/- per litre on PDS Kerosene and ` 50/- per 14.2 kg Domestic LPG cylinder excluding State levies.

Even after the duty reductions and the increase in retail selling prices effective 25.06.2011, the OMCs have incurred under-recovery of ` 1,38,541 crore during the year 2011-12. Further, based on the refinery gate prices as on 16.5.2012, the OMCs are currently incurring under-recoveries of ` 13.64 per litre on Diesel, ` 32.31 per litre on PDS Kerosene and ` 503.08 per cylinder of Domestic LPG. At these rates, the OMCs are incurring daily under-recovery of ` 509 crore.