

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

UNSTARRED QUESTION NO:4208
ANSWERED ON:22.03.2013
PRICING OF PETROLEUM PRODUCT
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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

- (a) the criteria for fixing prices of petroleum products in the country;
- (b) whether the Ministry of Finance has termed present formula pertaining to pricing of petrol, diesel and other petroleum products as faulty;
- (c) if so, the details thereof;
- (d) whether due to the price fixed on the basis of the present formula, the subsidy amount has increased; and
- (e) if so, the details thereof and the corrective measures taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS (SMT. PANABAAGA LAKSHMI)

(a) As per the prevailing pricing policy, the Public Sector Oil Marketing Companies (OMCs) pay Trade Parity Price (TPP) for purchase of Diesel and Import Parity Price (IPP) for purchase of PDS Kerosene from refineries. The IPP/TPP is determined based on the prices prevailing in the international market. The following elements are taken into account while calculating the Retail Selling Price (RSP) of petroleum products:

- # Price paid to refinery
- # Inland freight up to the market
- # Marketing Margin
- # LPG Bottling charges
- # Dealer/ Distributor commission
- # Excise duty
- # Value added tax and local levies

However, in order to insulate the common man from the impact of rise in oil prices in the international market and the domestic inflationary conditions, the retail selling prices of Diesel (to retail consumers), PDS Kerosene and Subsidized Domestic LPG are being modulated by the Government and their prices not being increased in line with the movement of prices in the international markets, resulting in under-recovery to the OMCs. Based on the Refinery Gate Price effective 16.03.2013 for Diesel (to retail customers) and 1.3.2013 for PDS Kerosene and Subsidized Domestic LPG, the OMCs are incurring under recovery of rs 8.64/ litre on sale of Diesel, rs 33.43/ litre on PDS Kerosene and rs 439.00 per 14.2 kg cylinder of Subsidized Domestic LPG.

The prices of petroleum products other than Diesel (to retail customers), PDS Kerosene and Subsidized Domestic LPG are market determined and the prices of such products including Petrol are being revised by the OMCs as per the international oil prices and prevailing market conditions.

(b) & (c) Ministry of Finance (MoF) has suggested that (a) under-recovery on sale of subsidized Diesel and PDS Kerosene be calculated on Export Parity based pricing (EPP) and (b) under-recovery on sale of Subsidized Domestic LPG be calculated on a combination of Import Parity (IPP) & Export Parity based pricing. The suggestion of MoF is under examination.

(d) & (e) During the year 2008-09, studies were conducted by the Cost Accounts Branch, Department of Expenditure, Ministry of Finance in coordination with the Petroleum Planning and Analysis Cell (PPAC) of Ministry of Petroleum and Natural Gas to work out the amount of under-recovery of the OMCs under the Trade/Import Parity Price Method and Actual Refinery Cost Method. Similar study was also conducted for the period April-September, 2010. The comparative statement of under-recovery amount under both mechanisms is given below:

Comparative Statement Of Under Recovery under IPP/ TPP and Actual Cost Mechanism

(rs crore)

Under-Recovery 2008-09 April - September, 2010

As per IPP/ TPP method 1,03,292 31,367

As per actual Cost of production 1,05,653 31,891

Difference (-)2361 (-)524

As may be seen from above, the under recovery worked out under Actual Cost Mechanism was more than that of under the existing formula based on TPP/IPP.