9

STANDING COMMITTEE ON

PETROLEUM & NATURAL GAS

(2011-12)

FIFTEENTH LOK SABHA

MINISTRY OF PETROLEUM & NATURAL GAS

CHALLENGES OF UNDER-RECOVERIES OF PETROLEUM PRODUCTS

NINTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

21 December, 2011/ Agrahayana, 1933 (Saka)

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Presented to Lok Sabha on ***22.12.2011***

Laid in Rajya Sabha on ***22.12.2011***

सत्यमेव जयते

LOK SABHA SECRETARIAT

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(2010-11)

Shri Aruna Kumar Vundavalli - Chairman

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28 Shri Tapan Kumar Sen
29 Smt. Gundu Sudharani
30 Prof. Ram Gopal Yadav
31 Dr. Prabha Thakur

COMPOSITION OF THE STANDING COMMITTEE ON PETROLEUM & NATURAL GAS
(2011-12)

Shri Aruna Kumar Vundavalli - Chairman

Lok Sabha

2 Shri Vikrambhai Arjanbhai Madam Ahir
3 Shri Badruddin Ajmal
4 Shri Ramesh Bais
5 Shri Sudarshan Bhagat
6 Shri Sanjay Singh Chauhan
7 Smt. Santosh Chowdhary
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10 Shri Mukeshkumar Bheravdanji Gadhvi
11 Shri Dilipkumar Mansukhlal Gandhi
12 Dr. Thokchom Meinya
13 Shri Mahabal Mishra
14 Shri Kabindra Purkayastha
15 Shri M.B. Rajesh
16 Shri C.L. Ruala
17 Shri Brijbhushan Sharan Singh
18 Shri Dhananjay Singh
19 Shri Uday Pratap Singh
20 Shri C. Sivasami
21 Shri Thol Thirumaavalavan

Rajya Sabha

22 Dr. Akhilesh Das Gupta
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27 Smt. Gundu Sudharani
28 Dr. Prabha Thakur
29 Prof. Ram Gopal Yadav
30 Vacant
31 Vacant

Secretariat

1. Shri A.K.Singh - Joint Secretary
2. Smt. Anita Jain - Director
3. Smt. Mriganka Achal - Committee Officer

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Natural Gas having been authorised by the Committee to submit the Report on their behalf present this Ninth Report on 'Challenges of Under-recoveries of Petroleum Products'.

2. The Committee took evidence of the representatives of the Ministry of Petroleum & Natural Gas at their sittings held on 4 February and 23 November, 2011.

4. The Committee considered and adopted the Report at their sitting held on 20 December, 2011.

4. The Committee wish to express their thanks to the representatives of the Ministry of Petroleum and Natural Gas and the concerned Public Sector Undertakings/Organisations for placing their views before them and furnishing the information desired in connection with examination of the subject.

5. The Committee also place on record their appreciation for the invaluable assistance rendered to them by the officers of the Lok Sabha Secretariat attached to the Committee.

New Delhi;
21 December, 2011
Agrahayana, 1933 (Saka)

ARUNA KUMAR VUNDAVALLI,
Chairman,
Standing Committee on
Petroleum & Natural Gas.

REPORT

PART-I

INTRODUCTORY

The international crude and product prices have been extremely volatile since mid 2004. As India imports around 80% of its crude oil requirement for meeting domestic demand for petroleum products, changes in international oil market have a decisive impact on the domestic market. The Indian basket of crude oil, which averaged $79.25 per barrel during 2007-08, had gone up to an unprecedented level of $142.04 per barrel on 3rd July 2008 before declining sharply. Thereafter, the crude prices have again been steadily increasing largely due to the global economic recovery and increase in demand from the emerging economies. The average price of the Indian basket of crude oil for the financial year 2010-11 has been $85.09 per barrel against the average price of $ 69.76 per barrel during 2009-10.

1.2 As the Government don't permit Public Sector Oil Marketing Companies (OMCs) to pass the full cost of imports on to domestic consumers of major oil products, i.e. petrol, diesel, domestic LPG (i.e. LPG used by the households) and PDS kerosene, Oil Marketing Companies(OMC's) have shown large under-recoveries in their account. According to the information provided by the Ministry of Petroleum and Natural Gas, during the year 2010-11, the Public Sector Oil Marketing Companies (OMCs) have incurred under-recoveries of Rs.78,190 crore on the sale of sensitive petroleum products. The details of total under-recovery for the year 2010-2011 on Petrol (upto 25.6.2010), Diesel, PDS Kerosene and Domestic LPG are given below:-

PDS Kerosene	19,485
Domestic LPG	21,772
Total on PDS Kerosene and Domestic LPG	41,257
Petrol	2,227**
Diesel	34,706
Total on Petrol and Diesel	36,933
Total	**78,190**

(i) *Gross under-recoveries without considering cash assistance and upstream assistance.

(ii) ** Under-recovery on Petrol is only up to 25.6.2010

In a presentation to the Committee the Ministry informed the projected under-recoveries of the oil marketing companies for the year 2011-12 is as high as Rs. 1,32,016 crore assuming an average crude price of US $ 110 per barrel. The item wise projected under-recoveries of OMCs for the year 2011-12 as under:-

HSD	PDS-SKO	Dom LPG	Total
74,317	27,557	30,142	1,32,016

OMCs have already incurred an under-recovery of Rs.64,900 crore during April-Sept.2011.

1.3 The term "under-recovery" has been used by the Government for "losses" experienced by the public sector oil marketing companies due to incomplete cost recovery on selling of petroleum product in the market. Report of the high powered Committee on financial position of oil companies under Shri B.K. Chaturvedi have also observed that the refining-cum-oil marketing companies IOCL, BPCL, HPCL stand to lose to the extent that they are unable to pass on to the customer the increase in cost on account of more expensive crude oil due to restraints on the retail selling prices of refined products imposed by the Government.

1.4 The concepts of “Under Recovery” and “Loss” were also examined by “Committee on Pricing and Taxation of Petroleum Products” - chaired by Dr. C. Rangarajan, Chairman PM’s Economic Advisory Council. The Committee observed that:

> “Refining of crude oil is a process industry where crude oil constitutes around 90% of the total cost. Since value added is relatively small, determination of individual product-wise prices becomes problematic. The oil marketing companies (OMCs) are currently sourcing their products from the refineries on 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.

The under-recoveries are different from the actual profits and losses of the oil companies as per their published results. The latter take into account other income streams like dividend income, pipeline income, inventory charges, and profits from freely priced products and refining margins in the case of integrated companies".

(A) PRICING OF PETROLEUM PRODUCT

Determination of Refinery Gate Price (RGP)

1.5 Prices of petroleum products in the Indian domestic sector are decided at two levels, first for sale transactions from refineries to marketing companies and second for sale transactions from marketing companies to the end consumers. The refinery gate price is the price at which the refineries sell products to the marketing companies and retail selling price on which oil marketing companies sell petroleum product to the consumers.

(a) Administered Price Mechanism

1.6 During 1976-2002, based on the recommendations of Expert Committees, the Government pursued cost-plus Administered Pricing Mechanism (APM) for the sector including refining. Under the APM, prices in the hydrocarbon sector were controlled at four stages production, refining, distribution and marketing on the principle of compensating normative cost and allowing a pre-determined return on investments.

1.7 The Cost of Crude oil processed by Refineries was fixed taking into account:

- Delivered cost of crude oil;
- Normative refining cost; and
- 12% post-tax return

The total cost of crude oil processed was allocated to individual products based on a set of indices. Oil Marketing Companies (OMCs) were also allowed normative marketing and distribution costs and 12% post-tax return.

1.8 According to a note submitted by the Ministry, APM was found to be increasingly unsuitable for the long term growth and efficiency of oil industry due to following reasons.

- Lack of adequate financial resource generation by oil companies for investments in E&P, creation of new refining capacity, development of marketing & distribution network;
- Lack of incentives for investment in technological upgradations or cost minimization;
- Existence of inherent regulatory controls - not conducive for entry of private capital and thereby greater market competition; and
- Failure in achieving consumer friendly and internationally competitive vibrant petroleum sector.

1.9 In view of the above, the Ministry informed that the Government constituted a Strategic Planning Group on Restructuring of Oil Industries (R Group) to make policy recommendations so as to meet the strategic objectives of developing a financially sound and internationally competitive hydrocarbon sector. Based on the R Group's Report (September 1996), the Government decided to abolish APM and replace cost-plus retention pricing of petroleum products produced by domestic refineries by Import Parity Pricing (IPP).

(b) Import Parity Price/Trade Parity Price

1.10 Import Parity Price (IPP) was introduced in 1998 to calculate refinery gate prices. Since complete dismantling of APM in April 2002, prices of four sensitive petroleum products (Petrol, Diesel, PDS Kerosene and Domestic LPG) for sale by refineries to the oil marketing companies continued to be governed by IPP.

1.11 Import parity price (IPP) basically means the price that the actual importer would pay for the product in case he would have actually imported the same at the respective ports in India. The elements considered in the IPP are as under:

<u>Import Parity Price (IPP)</u>

(i) FOB (free on board) price of product at Arab Gulf.
(ii) Ocean freight from Arab Gulf to respective Indian ports
(iii) Customs Duty at applicable rates

(iv) Insurance charges
(v) Ocean Loss, LC charges, Port dues and wharfage
(vi) Landed cost at port = sum of the above elements

1.12 In June 2006, based on the recommendations of the Rangarajan Committee, the Government changed the pricing of Petrol and Diesel to Trade Parity Pricing (TPP) basis. Trade Parity Price (TPP) consists of 80% of IPP and 20% of Export Parity Price (EPP). For this purpose, EPP comprises of FOB price of the product plus Advance license benefit as per Foreign Trade Policy.

1.13 Elaborating on the rationale of taking Trade/Import Parity Price as refinery gate price, the Ministry in a written reply stated,

> "The refinery gate price is the price at which the refineries sell products to the marketing companies. During 1976-2002, based on the recommendations of Expert Committees, the Government pursued cost-plus Administered Pricing Mechanism (APM) for the oil sector, including refining. However, as APM was found to be increasingly unsuitable for the long term growth and efficiency of oil industry, based on the R Group's report (September 1996), the Government decided to abolish APM and replace cost-plus retention pricing of petroleum products produced by domestic refineries with Import Parity Pricing (IPP).
>
> More than 90% of the cost of production of a refining company is due to the cost of crude oil and around 83% of the country's crude oil requirement is met through imports. Further, price of indigenously produced crude oil is also based on the price of crude oil in the international oil market. Accordingly, since the cost of production of an Indian refining company is based on imports, the prices for the finished products at the Refinery Gate (RGP) are also required to be determined on the principles of import parity, with linkage to the prices for the respective products in the international oil market.
>
> During June 2006, the Government advised oil companies to determine RGPs of Petrol and Diesel on the basis of Trade Parity Principle instead of the Import Parity Principle, as recommended by Rangarajan Committee Report. According to the Committee, in order to provide relief to consumer as also to rationalize pricing in the context of exports of the order of 20% of production of these products by our refineries, a more appropriate pricing model for Diesel and Petrol will be the trade parity price. Trade Parity Price consists of 80% Import Parity and 20% Export Parity Price. Export Parity Price consists of FOB at Arab Gulf and Advance License Benefit (i.e Customs Duty on Crude).

It may kindly be noted that since April 1998, no compensation has been provided to the Refining sector by Government in any form. All the refineries, whether PSU or Private, are fully exposed to the volatilities of prices in the international oil market. In view of the uncertainty in the oil markets and its impact on the refining margins, it has become imperative for the domestic refineries to rationalize costs and improve operating efficiency."

1.14 As regards the Trade Parity Price used for Petrol and Diesel and Import Parity Price for LPG and Kerosene and their implication for selling price of these products, the Ministry stated in a note as under:

"Normally Import Parity Pricing (IPP) is applied to those products in which the country is a net importer. Similarly, Export Parity Pricing (EPP) is applied for products in which the country is a net exporter. India has been a net importer of LPG and Kerosene; therefore, IPP for Domestic LPG and PDS Kerosene is reasonable. However, in the case of Petrol and Diesel, instead of EPP, Trade Parity Pricing (TPP) has been applied since 15th June, 2006 following the recommendations of the Rangarajan Committee. According to the Committee, the argument that domestic refiners are not at a disadvantage compared to foreign refiners, would be unrealistic. Therefore, the Committee recommended TPP as a weighted average of Import and Export Parity Prices, which will provide some degree of protection to domestic refiners".

1.15 Regarding the extent of variation between Export Parity Prices and Import Parity Prices of petroleum products, the Ministry stated the following:

"Export Parity Price (EPP) represents the price which the oil company can realize on export of their products at ex-Indian ports. Oil Marketing Companies have reported that they compute EPP as Free on Board (FOB) price of the product plus benefit of duty free import of crude oil normally known as Advance License Benefit. Therefore, EPP takes into account FOB price at Arab Gulf plus Advance Licence benefit equal to the Customs Duty on crude".

1.16 Based on the IPP and EPP of Diesel, PDS Kerosene and Domestic LPG for September 2010, the extent of variation between EPP and IPP are produced as below:

Comparison Between Import Parity and Export Parity Prices

	Diesel (BS-III) (Rs./KL)	PDS Kerosene (Rs./KL)	Domestic LPG (Rs./MT)
Import Parity Price (IPP)*	27,608.67	25,138.54	28,414.91

Export Parity Price (EPP)*	26,290.71	25,867.21	29,270.80
Difference between IPP-EPP*	1317.96	(-) 728.67	(-) 855.89

Variation between IPP and EPP is on account of the following:
*Ocean Freight, Customs Duty, Insurance, etc. **In Case of IPP**
*****Advance License Benefit (ALB) on crude oil imports **In case of EPP**
*****IPP of Kerosene and LPG is lower than EPP due to NIL Customs duty on these products compared to 5% ALB.
*IPP of diesel is higher than EPP due to 7.5% Customs duty on diesel
*TPP of diesel is lower than the IPP by Rs. 263.59/KL

1.17 When asked the reasons for not going in for realistic cost mechanism while determining RGP and instead using a concept which is wholly notional, the Ministry apprised the Committee of problems associated with determination of individual product wise prices of petroleum products and how these problems are overcome by going in for Import Parity Price/Trade Parity Price. The Ministry furnished the following:

> "In a Petroleum Refinery, crude oil is processed through a series of primary and secondary processing units to produce various petroleum products. Some products are directly produced while others are produced as a result of blending of two or more streams coming out of primary or secondary processing units. Further, identical product gets produced from primary as well as secondary processing units. As two crudes are processed at the same time, cost allocation becomes impossible. Further, as all the products are stored in the same tank, allocation of cost of production to these finished products having same realizable value with different cost of production is not appropriate. Due to the reasons stated above, the cost of refining/production of individual product are not identifiable separately.
>
> Even to comply with the accounting as well as cost accounting requirements, where the cost of petroleum products are required to be derived, petroleum industry has been allocating the total cost of production on various petroleum products produced during the period in proportion of their net sales realization. Such net sales realization is based upon Import/Trade Parity prices as is being followed at present.
> The Import Parity Prices are derived based upon widely traded and quoted prices of petroleum products in international markets. As such, these prices reflect the competitive conditions of supply and demand characterizing each individual product and they help refineries to optimize turnover over and above cost."

1.18 When enquired if any study has been done to work out the difference in refinery gate prices when calculated on cost of production mechanism (as was prevalent before 2002) and trade parity price mechanism, the Ministry in a written note stated:-

> "During the year 2007-08 and 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 MOP&NG to work out the amount of under-recoveries of the Public Sector Oil Marketing Companies (OMCs) under the Trade/Import Parity Price Method and Actual Refinery Cost Method. Similar study was also conducted for the period April-September, 2010.
>
> 2. The comparative statement of under-recovery amount under both the mechanisms is given below:

Comparative statement of under-Recovery under IPP/ TPP and Actual Cost mechanisms

(Rs. crore)

	2007-08	**2008-09**	**April-Sept 2010**
As per IPP/ TPP method	77,123	1,03,292	31,367
As per actual cost of production	70,579	1,05,653	31,891
Difference	**6,544**	**-2,361**	**-524**

> 3. As may be seen from above, only small differences were observed in the under-recovery amount worked out under both the mechanisms. In fact, the under-recovery amount calculated by the Cost Accounts Branch of Ministry of ,I Finance, under the actual cost mechanism for 2008-09 and during April-September 2010 was higher as compared to the under-recovery amount under IPP/ TPP method."

1.19 On a pointed query on the rationale behind including other charges i.e. insurance charges, ocean loss, LC charges, ocean freight charges etc, in determining refinery gate prices of the product, the Ministry gave the following justification:-

> "Since more than 90% of the cost of production of a Refining Company is based on imports with linkage to the price of crude oil in the international oil market, the prices of the finished products at the Refinery Gate is also required to be determined on the principles of import parity with linkage to the price of the respective product in the international oil market (including all elements which would be incurred

during actual import of products.). Further, since these costs are actually incurred by OMCs on import of crude oil, which is ultimately refined and sold as petroleum products, these levies are included while calculating the Refinery Gate Price of these products."

1.20 When asked how much these components increase the refinery gate price of the petroleum products, the Ministry informed:-

"The impact of elements of ocean freight, insurance charges, ocean loss, LC charges and port dues etc. included in RGPs applicable during the 1st fortnight of October 2011 for four sensitive petroleum products for the Mumbai Port is given below:

Impact of specific components Included in RGP at Mumbai Port

Product	Unit	
Petrol	Rs./Ltr.	0.55
Diesel	Rs./Ltr.	0.60
PDS Kerosene	Rs./Ltr.	0.68
Domestic LPG	Rs./Cyl.	25.57

1.21 During the course of evidence the Committee inquired the reasons for including costs other than FOB price in the refinery gate prices when it is market determined, the Secretary stated:-

"Sir, when we say it is market determined petrol price, in fact, the exact word used by the EGOM was `deregulated' and here when we say market determined, it is international market determined. It is noted on the demand and supply principle. In fact, no doubt, we talk in terms of crude price and the product price, but basically all the product prices are fixed according to the respective product price in the international market. When we fix the product price of petrol it is the international product price of petrol which determines the petrol price here. So, is the case with diesel, kerosene and LPG."

(B) *OPERATING EFFICIENCY OF REFINERIES*

1.22 On a query how TPP mechanism has improved efficiency of refineries, the Ministry stated:-

> "The Public Sector OMCs refineries have significantly increased their refining capacity and improved their physical performance over the years as is evident from the following parameters:
>
> a) Refinery capacity, which was 114.6 MMT in 2002 today stands at 193.4 MMT.
> b) New refinery has been commissioned under joint venture (JV) at Bina, Madhya Pradesh.
> c) The new refineries being set up at Bathinda (JV of HPCL & Mittal Energy), Paradip (IOC Refinery) and the series of capacity augmentation programs presently underway, will see the country's capacity rise to 237 MMT by 2012.
> d) Refinery capacity utilization, which was 94% in 2002-03 has gone beyond 100% in 2010-11.
> e) Over a period of time, the PSU refineries have upgraded themselves to process larger volumes of High Sulphur (HS) crude oils which are generally cheaper than sweet crudes, thereby helping in increasing the operating efficiency of PSU refine ries. HS crude share which was 42% in 2002-03, has gone upto 65% in 2010-11.
> f) Specific energy consumption has improved from 89 mmbtu/ bbl in 2002-03 to 70.5 mmbtu/ bbl in 2010-11.
>
> Hence refineries have made consistent efforts to improve efficiency which will help them improve their performance."

1.23 On a query regarding the refinery cost in India vis-a-vis other countries, the Secretary during the course of evidence informed that the normal refinery cost in India is US $2 per barrel which is quite competitive compared to the international cost.

1.24 On another query regarding the gross refinery margin per barrel of the oil marketing companies and the difference between private and public sector companies, the Ministry stated the following:-

> "GRM depends on many factors one is complexity of the refinery because of which they can process cheap crude while old refineries like Digboi and Barauni they can only process costly crudes. Secondly, there are various products which comes out during processing the crude having positive spread on some products and negative spread on other, this is entire basket of crude having losses as well as profits. Thirdly, GRM also

depends upon maintenance charges, shut down period location and cost of crude."

Regarding the differences of GRM in various refineries, Ministry submitted as under:-

"In the year of 2009-10 the average GRM of all refineries in India including IOCL, BPCL, HPCL, MRPL and CPCL was 4.24 while in Singapore it was 3.53. In the year 2010-11 GRM of Indian refineries was 5.68 whereas it was 5.20 in Singapore. In the first half of the year 2011-12 GRM of Indian refineries was 3.83 and in Singapore it was 8.57."

1.25 As regards the reasons for higher GRM of private refineries vis-à-vis public sector refineries, the representatives from the PSU gave the following reasons:-

1. "Size of refinery i.e. economy of scale – capacity of Reliance refinery is 33 MMTPA compared to public sector refineries which are in range of 1 to 7 MMTPA.
2. Private refineries being new, have latest technologies and can process any type of crude
3. The private refineries bring crude through VLCC and hence have freight advantage.

   The representatives further informed that BPCL, Mumbai has to pay 3% octroi tax on crude oil to Brihen Mumbai Municipal Corporation (BMC) at advalorem basis. They are paying to BMC Rs.1,140 crore every year as entry tax".

(C) *Transportation through Very Large Crude Carriers (VLCCs)*

1.26 As the transport cost of importing crude oil in very large crude carriers (VLCCs) would be much less than importing it through smaller tankers, the Committee desired to know the relative cost benefits of importing crude oil through Very Large Crude Carriers (VLCCs) and small tankers and why the Government have opted for the option of smaller tankers.

1.27 In this regard, the Ministry of Petroleum and Natural Gas, in a written note, submitted to the Committee as under:

"Very Large Crude Carriers (VLCC) is a widely used crude oil carrier and is one of the largest segments of crude oil tankers in the world which can carry about 270 TMT of crude oil. Freight benefit of transporting cargos through VLCC flows on account of economy of volume. The shipping strategy of oil companies has always been to maximize transportation of imported crude oil in VLCC.

1.28 However, some quantities are required to be carried in smaller tankers owing to reasons as under:

- "Infrastructural limitations at load ports. For instance VLCC cannot load in Far East Asian region (Malaysia and Brunei). Similarly laden VLCC cannot transit through Suez Canal. Therefore, smaller tankers have to be utilized for carrying cargos from Far East Asian region and Mediterranean region.
- Port in Mumbai has infrastructure constraints (draft restrictions and port jetty limitations) which do not allow VLCC to berth in Mumbai. Hence, refineries in Mumbai are constrained to import crude oil through smaller size of vessels.
- At Visakhapatnam, commissioning of the Single Point Mooring (SPM) system shortly, will enable receipt of crude oil through VLCC's.
- Some of the suppliers, especially PETRONAS, have term contract lined up with parcel size of Max. 68 TMT. Hence it does not make economic sense to load the same in a vessel of 2 million barrels size as it will lead to dead freighting. Therefore, smaller vessels are preferred in such cases."

(D) ***IMPACT OF RUPEE VALUE ON CRUDE OIL PRICES***

1.29 As the refinery gate price is dependent on crude oil/product price in international market the Committee inquired the co-relation between fluctuation in the price of crude oil in the international market and value of rupee vis-à-vis dollar and its impact our domestic petroleum product prices, the Ministry stated:-

> "The crude oil price fluctuations are determined by the prevalent demand/supply scenario of crude and other related factors in the international market including speculation. On the other hand, the rupee dollar exchange rate depends on the host of other factors including a overall trade balance, competitiveness of Indian economy vis a vis others, international and Indian money market conditions.
>
> In case there is deprecation in rupee value, the under recovery of POL products increases. Similarly, the under-recovery increases when price of crude oil products goes up in international market."
>
> Regarding its impact on domestic petroleum prices, the Ministry stated,
>
> " The estimated annual impact of increase in petroleum product prices by $1/bbl in international market and depreciation in Rupee-US Dollar exchange rate by Re.1/$ on under-recoveries of OMCs on sale of sensitive petroleum products is given below:

Annual Impact of Increase in Product Prices by $1/bbl and
Depreciation in Exchange Rate by Rs. 1/$

Product	**Increase in product price by $1/ bbl**	**Depreciation in exchange rate by Re.1/ USD**
	Annual Impact (in crores)	
Petrol	520	1350
Diesel	2590	6370
PDS Kerosene	340	860
Domestic LPG	450	1120
Total	**3900**	**9700**

(Based on product prices corresponding to crude price of $110/bbl and exchange rate of Rs.45/$.)"

(E) ***<u>PETROLEUM PRODUCTS VIS A VIS CRUDE OIL PRICES</u>***

1.30 The Committee wanted to know the comparative increase comparative increase in petroleum products prices with increase in crude oil prices in international market, the Ministry stated:-

> "In the international market, the prices of petroleum products normally move in tandem with the crude prices. However, price of each product depends upon its inventory level, demand and supply constrains, seasonal fluctuations etc. For instance prices of FO (Fuel Oil) generally increase in western countries during winter months due to higher demand of the product for heating purpose.
>
> 2.The changes in average Petrol and Diesel prices vis-à-vis crude price in the international market during the last 3 years is given below:

Changes in Crude and Product Prices in International market

($/bbl)

Year	**Indian Basket of Crude Oil**	**Petrol**	**Diesel**
	FOB Price	**FOB Price**	**FOB Price**
2008-09	83.57	89.42	101.75
2009-10	69.76	76.23	74.67
2010-11	85.09	92.43	95.66
2011-12(up to Sept.11)	111.11	122.01	124.68

Notes: 1. The composition of Indian Basket of Crude represents average of Oman & Dubai for sour grades and Brent (Dated) for sweet grade in the ratio of 65.2:34.8 for 2011-12.

2. Price of petrol is of 92RON grade for Singapore market, whereas price of Diesel (0.5% Sulphur) is of Arab Gulf market (as assessed by Platts)."

1.31 Regarding the value addition in refined products, Ministry stated:-

"Normally, the value addition on POL products is measured by the difference in the price of crude oil & petroleum products called 'spread'. The average spread between crude price and prices for Petrol, Diesel and Naphtha in international market since 2008-09 is given below:-

Average prices of Crude and Products and Spreads on Products

($/bbl.)

Year	Dubai Crude	Petrol		Diesel		Naphtha	
		FOB Price	Spread	FOB Price	Spread	FOB Price	Spread
(a)	(b)	(c)	(d=c-b)	(e)	(f=e-b)	(g)	(h=g-b)
2008-09	82.77	89.42	6.65	101.75	18.98	74.46	-8.31
2009-10	69.57	76.23	6.66	74.67	5.10	66.89	-2.68
2010-11	84.14	92.43	8.30	95.66	11.53	82.62	-1.52
2011-12 (upto Sept.11)	108.83	122.01	13.18	124.68	15.85	104.23	-4.60

Note: Price of petrol is of 92RON for Singapore market whereas price of Diesel (0.5% Sulphur) and Naphtha is of Arab Gulf market (as assessed by Platts).

The negative spread in Naphtha shows that the price of products is not cost plus in international market. The price of petroleum products is subject to demand and supply conditions of each product."

1.32 Further clarifying on the issue, CMD, BPCL during evidence stated :-

"The crude prices and the produce prices ideally should move in tandem, but many times what happens is that product prices are determined by supply-demand scenario while crude prices are determined by market conditions, OPEC controls. It is traded in the stock market. There are various other forces and there are speculators who decide the crude prices. So, there are occasions when the crude prices go up, but the product prices do not go up in the same proportion. Now there are times, depending on the supply-demand situation, when their prices differ. There are three products, namely, diesel, ATF kerosene and petrol. They are normally priced at above the crude price. If we look at it t oday, at times the difference between diesel and crude price is between $ 15 and $ 20, but at times, it comes down to $ 6 or $ 7, depending on supply-demand situation, but there are many other products like fuel oil which is traded at $13 or $ 14 less than the crude. Today, naphtha and petrol prices are less than that of crude while LPG price is higher. The difference between the crude price and the product realization is the GRM of the oil company. If the crude price today is $108, it is the FOB price. The landed price to a refinery depends on the location of the refinery."

1.33 Explaining on fuel loss in processing of crude oil, the Secretary during the course of evidence stated:-

"……….. Out of the crude we are making 9 or 10 products. Out of that some products are deregulated which means the price is determined by the market.
……… Crude is a raw material. Suppose one hundred litres of crude is taken. Out of that the total product which comes out is 90 litres. So, 10 litres get wasted or it gets consumed in the whole process. Basically, 90 litres carry the weight of 100 litres."

1.34 While going into further details of Import Parity Pricing mechanism, the Committee desired to know whether the Import Parity Pricing of petroleum products all over the world constitute the same components as it constitute in India like FOB price of product at Arab gulf, ocean freight, insurance charges and ocean loss etc. and asked the Ministry to provide the details as to how the countries like USA, China, Pakistan, Thailand, Canada, etc. determine Import Parity Price of petroleum products. In this regard, the Ministry submitted as follows:

"The components included in pricing of petroleum products in countries like USA, China, Pakistan, Thailand, Canada is as given below:

USA and Canada:

USA and Canada have market determined pricing mechanism.

China:

The National Development and Reform Commission (NDRC) set wholesale and retail guidance price. China implemented a new pricing mechanism in January 2009 which allows for price adjustment when the 22 day rolling average of a reference basket of crude changes more than 4%. Despite this, the Government continues to regulate prices due to inflationary concerns.

Thailand:

Prices are indexed to market levels but still regulated by the Government. Thailand's state-owned oil and gas conglomerate PTT has been adjusting fuel prices in line with the market".

(F) ***RETAIL SELLING PRICES AND UNDER RECOVERIES OF PETROLEUM PRODUCTS***

1.35 Oil Marketing companies source the petroleum products from refineries at refinery gate price and sell the four sensitive petroleum products to consumers at retail selling price as determined by the Government. The Retail selling prices among other components include taxes and duties by Central and State Government. Considering the inflationary impact of increase in prices of sensitive petroleum products the "price is moderated by the Government which results in under-recoveries in OMC.

The Government has constituted various committees from time to time on pricing of petroleum products

Rangarajan Committee Recommendations

- A Committee on Pricing and Taxation of Petroleum Products was appointed under the chairmanship of Dr. C. Rangarajan in Oct.2005.
- The Committee submitted its report in Feb 2006.

Recommendation	Decision
RGP for Petrol & Diesel should be based on Trade Parity pricing (TPP) with weightage of 80% of IPP and 20% of EPP	RGP of Petrol and Diesel shifted to TPP effective 16.6.2006
Customs Duty on Petrol and Diesel should be reduced from 10% to 7.5%	Customs Duties reduced effective 15.6.2006.
Adjust RSP of Dom. LPG to the market level and eliminate subsidy altogether.	Not implemented
Increase OIDB cess from Rs.1800/MT to Rs.4800/MT to meet OMCs' under-recoveries	Cess was enhanced by the Government to Rs. 2500/MT effective 01.03.2006.

Government to meet the entire subsidy from fiscal budget.	Government's contribution towards OMCs' under-recoveries was 49% in 2006-07, 46% in 2007-08, 69% in 2008-09, 57% in 2009-10 and 52% in 2010-11.

1.36 The Government further constituted an Expert Group under the Chairmanship of Dr. Kirit S. Parikh to examine the current pricing policy of the four sensitive petroleum products namely Petrol, Diesel, PDS Kerosene and Domestic LPG and to advise on a viable and sustainable system pricing of petroleum products. The Committee submitted its report on 3rd February 2010. In their Report, Dr. Kirit S. Parikh recommended prices of petrol and diesel prices should be market determined both at the refinery gate and at the retail level. In regard to kerosene and LPG the Committee has recommended that price of PDS kerosene should be increased by Rs. 6 per litre and domestic LPG by at least Rs.100 per cylinder.

In consideration of the recommendations made by the Expert Group, the Government has implemented the following effective, 26.06.2010:

- The price of Petrol, both at the Refinery Gate and the Retail level, has been made market determined. The retail selling price of Petrol was increased by `3.50/litre at Delhi with corresponding increases in the rest of the country.

- The price of Diesel has been made market determined, both at the Refinery Gate and at the Retail level. However, for the present, the retail selling price (RSP) of Diesel was increased by `2/litre at Delhi with corresponding increases in the rest of the country.

- The RSPs of PDS Kerosene and Domestic LPG have been increased by `3/litre and `35/cylinder at Delhi, with corresponding increases in the rest of the country.

1.37 It was apprised by the Ministry of Petroleum and Natural Gas that the above decisions helped to bring down the total under- recoveries of OMCs during 2010-11 as OMCs have got the freedom to fix the retail price of Petrol, based on commercial considerations. However, the challenge of managing the under-recoveries on account of Diesel, Domestic LPG and PDS Kerosene still remains.

1.38 When asked about the implications of the deregulation of the prices and whether the Government would allow market determination of prices of petroleum products regardless of the level of prices of crude oil in the international market, the Ministry have apprised the Committee as under:-

> "The primary objectives behind the pricing reforms undertaken by the Government were:
>
> (i) The growing imperative for restoring fiscal balance of Government's budget which is critical for long-term growth and stability of the country;
>
> (ii) The need for reducing the subsidy burden on certain petroleum products in order to allocate more funds to social sector schemes such as health education and food security; and
>
> (iii) Improving the financial health of the public sector OMCs who are instrumental in maintaining the country's energy security.

1.39 The Committee were further apprised that before the price increase effective 26.06.2010, the OMCs were incurring under-recovery of Rs. 3.11 per litre on Petrol. At an average crude oil price of $75 per barrel during 2010-11, the under-recoveries on Petrol were projected to be Rs. 7000 crore. As a result of aligning the price of Petrol to the market the public sector OMCs under-recoveries are now confined to Rs. 2227 crore on Petrol which occurred during the period 1st April 2010 to 25th June 2010. As regards the total under-recoveries of the public sector OMCs, these were estimated to be reduced by around Rs. 13,700 crores on account of the increase in the retail selling prices of Diesel by Rs. 2/litre, PDS Kerosene by Rs. 3/litre and Domestic LPG by Rs. 35/cylinder effective 26.06.2010.

1.40 Asked about the required increase in the Retail Selling Princes, based on Refinery Gate Prices as on 1.02.2011, the Ministry of Petroleum and Natural Gas informed the Committee as under:

Rs. Per Litre/Cylinder

	Diesel	PDS SKO	Dom. LPG
Under-Recovery	8.20	20.57	356.07
Current RSP (at Delhi)	37.75	12.73	345.35
Desired increase in RSP at Delhi	9.23	21.60	356.07*

*VAT on Domestic LPG in Delhi is NIL

1.41 To protect the interest of the common man against abnormally high and volatile prices, the Committee were informed that the Government has also decided that in case of a high rise and volatility in the international oil prices Government will suitably intervene in the pricing of these products.

1.42 Regarding the procedures adopted by developed and developing countries such as USA, Japan, China, South Korea, Malaysia, etc. which are depended on import of crude oil and petroleum products, to solve the problem of reasonable price of petroleum products, the Ministry in a written note, submitted the following:

> "Developed countries like USA, Europe and Japan represent a well-developed, competitive oil market system in the world in which the Government's role is limited to that of a facilitator. The wholesale and retail prices of oil products are determined through competitive forces in the market encompassing a large number of private players. However, to ensure adequate availability of energy in the domestic economy and maintain stability and growth, the Government adjusts taxes and subsidies on certain petroleum and non-petroleum energy products. For instance, in case of Japan, the market sets the prices. However, the Government has adopted specific tax rates (as opposed to Ad valorem rates) for oil and petroleum products, thereby pre-empting the cascading impact of rising oil prices in international markets.
>
> Developing countries such as China, India, which are increasingly dependent on oil imports, have been working towards establishing a market-determined oil pricing system. But, periods of high oil prices have restrained them. Accordingly, the Governments in oil importing developing countries have been generally taking direct and discretionary measures of fixing domestic petroleum prices, and reducing taxes/increasing subsidies to reduce the adverse impact of high oil prices on their domestic economies. China implemented a new pricing mechanism in January 2009 which allows for price adjustment when the 22 day rolling average of a reference basket of crude changes more than 4%. Despite this, the Government continues to regulate prices due to inflationary concerns. In order to cope with high oil prices, the Korean Government introduced a series of short-term measures in June 2008. These measures included tax rebates and fuel subsidies.
>
> The domestic market in Malaysia is under Administered Prices Mechanism (APM) set out by the Government. The pricing of petroleum products is based on cost-plus method. As the Government provides large scale subsidies to specified consumers, any rise in production costs means rise in subsidies. Even in the traditionally oil exporting countries like Malaysia and Indonesia, there is a conscious effort by the

Governments to increase prices and reduce subsidies so as to improve their fiscal balance".

1.43 Asked to give detailed illustrations on how the retail selling price of 1 litre of petrol and diesel is arrived at including share of various components the Ministry furnished the following:-

The Price buildup of Petrol & Diesel from FOB onwards as of 01.10.11 is given below:-

Price Buildup of Petrol and Diesel effective 1.10.2011

Sr. No.	Elements	Unit	Petrol	Diesel
1	FOB Price at Arab Gulf - BS III equivalent	$/bbl	119.27	122.04
2	Add: Ocean Freight from AG to Indian Ports	$/bbl	1.39	1.67
3	C&F (Cost & Freight) Price	$/bbl	120.66	123.72
		Rs./Litre	36.17	37.26
4	Import Charges (Insurance/Ocean Loss/ LC Charge/Port Dues)	Rs./Litre	0.34	0.35
5	Customs Duty (2.50% + 3% Education cess)	Rs./Litre	0.94	0.97
6	Import Parity Price (at 29.5º C)	Rs./Litre	37.45	38.58
7	Export Parity Price (at 29.5º C)	Rs./Litre	35.75	36.76
8	Trade Parity Price (80% of (6)+20% of (7))	Rs./Litre	37.11	38.22
9	Add: Premium for BS-IV Grade over BS-III	Rs./Litre	0.42	0.04
10	Refinery Gate Price (RGP) (8+9) (Price Paid by the OMCs to Refineries)	Rs./Litre	37.53	38.26
11	Add : Inland Freight and Delivery Charges	Rs./Litre	0.72	0.71
12	Add : Marketing Cost of OMCs	Rs./Litre	0.65	0.65

13	Add : Marketing Margin of OMCs	Rs./Litre	0.85	0.76
14	Desired Price (before Excise Duty, VAT and Dealer Comm.)	Rs./Litre	39.75	40.38
15	Less: Under-recovery to OMCs	Rs./Litre	0.32	6.90
16	Price Charged to Dealers (Depot Price) (Excluding Excise Duty & VAT)	Rs./Litre	39.42	33.48
17	Add : Specific Excise Duty	Rs./Litre	14.78	2.06
18	Add : Dealer Commission	Rs./Litre	1.50	0.91
19	Add : VAT (including VAT on Dealer Comm. applicable for Delhi - Petrol 20%, Diesel 12.50% + Air Ambience Charges Rs.250/KL)	Rs./Litre	11.14	4.46
20	Retail Selling Price at Delhi	Rs./Litre	66.84	40.91

Note: Fortnightly RGP is weighted average of all Indian Pricing Ports.
Rupee Dollar Exchange Rate = Rs.48.47

(G) ***TAXATION ON PETROLEUM PRODUCTS***

1.44 Enquired about the total contribution of oil sector by way of Central taxes and States taxes during the last 3 years and the extent of returns made by the Government toward oil sector by way of oil bonds, cash transfers etc., the Ministry of Petroleum and Natural Gas submitted the following:

Contribution to Exchequer by Petroleum Sector
and amount of assistance/ subsidy provided by Government

(Rs. Crore)

	Particulars	**2008-09**	**2009-10**	**2010-11**
(A)	**Central Exchequer**			
	Customs Duty	6299	4563	24136
	Cess On Crude Oil	6758	6559	6810
	Excise Duty	54117	62480	68040
	Royalty	3146	3859	3652
	Corporate Tax	12031	17935	17146
	Dividend	4504	8066	9807
	Tax On Dividend	1077	1864	2354
	Petroleum Profit	4710	5471	3610
	Others Includes Service Tax	870	982	942
	Contribution to Central Exchequer	**93513**	**111779**	**136497**

(B)	**State Exchequer**			
	Sales Tax	63349	64999	78689
	Royalties	2451	3349	4636
	Dividend To State Govt.	20	17	21
	Octroi, Duties Incl. Electricity Duty	1941	1888	2163
	Entry Tax / Others	525	1829	3488
	Contribution To State Exchequer	**68285**	**72082**	**88997**
	Total Contribution To Exchequer	**161798**	**183861**	**225494**
(C)	**Payout by the Central Government to OMCs**			
	Oil Bonds/ Cash assistance by Govt. towards OMCs' under recoveries	71292	26000	41000
	Subsidy on PDS SKO and Domestic LPG	2688	2770	2904
	Freight Subsidy on PDS SKO and Domestic LPG	22	22	22
	Total Payout to OMCs	**74002**	**28792**	**43926**

1.45 Asked about the revenue collected on account of cess on crude oil and how the Government is utilizing this amount contributed to central exchequer, the Ministry stated.

> "Ministry of Finance, Department of Revenue has informed that the revenue collected from cess on indigenous crude during 2010-11 is about Rs.8,860 crore. The Cess on crude oil is meant for funding the Oil industry. Section 2(k) of the Oil Industry Development Act, 1974 (OIDB) defines this term to include all activities by way of prospecting or exploring for or production of mineral oil, production and marketing of all products downstream of an oil refinery and the production of fertilizers and petrochemicals and all activities directly or indirectly connected therewith. Government uses the proceeds of the cess amount for all these activities".

1.46 The Committee had desired to know the steps taken by the Government for rationalization of Central taxes on crude oil and petroleum products. In this regard the Ministry apprised the Committee of the following:-

(i) Tariff Rationalization – Customs Duty

	Effective 19.8.2004	**Effective 1.3.2005**	**Effective 14.6.2006**	**Effective 5.6.2008**	**Effective 27.2.2010**
CRUDE OIL	**10%**	**5%**	**5%**	**Nil**	**5%**

PETROL	**15%**	**10%**	**7.5%**	**2.5%**	**7.5%**
DIESEL	**15%**	**10%**	**7.5%**	**2.5%**	**7.5%**
PDS KEROSENE	**5%**	**Nil**	**Nil**	**Nil**	**Nil**
DOMESTIC LPG	**5%**	**Nil**	**Nil**	**Nil**	**Nil**

(ii) Tariff Rationalization – Excise Duty

	Effective 16.6.2004	Effective 19.8.2004	Effective 1.3.2005	Effective 1.3.2007	Effective 1.3.2008	Effective 5.6.2008	Effective 27.2.2010
Petrol	**AD-valorem + Specific**				**Specific**		
Rate	**26% + Rs.7.50/ Litre**	**23%+ Rs. 7.50/ Litre**	**8% + Rs. 13.0/ Litre**	**6% + Rs. 13.0/ Litre**	**Rs. 14.35/ Litre**	**Rs. 13.35/ Litre**	**Rs. 14.35/ Litre**
Effective Duty * (Rs./Litre)	**11.97**	**11.90**	**14.59**	**14.66**	**14.78**	**13.75**	**14.78**
Diesel	**AD-valorem + Specific**				**Specific**		
Rate	**11% + Rs. 1.50/ Litre**	**8% + Rs. 1.50/ Litre**	**8% + Rs. 3.25/ Litre**	**6% + Rs 3.25/ Litre**	**Rs, 4.60/ Litre**	**Rs, 3.60/ Litre**	**Rs, 4.60/ Litre**
Effective Duty * (Rs./Litre)	**3.32**	**3.01**	**4.80**	**4.69**	**4.74**	**3.71**	**4.74**

PDS SKO	**16%**	**12%**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
Dom. LPG	**8%**	**8%**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

1.47 According to press note issued by the Government of India, the Ministry of Petroleum and Natural Gas, further informed that the Empowered Group of Ministers (EGoM) on under-recoveries met on 24th June, 2011 under the chairmanship of the Finance Minister to consider the alarming situation arising out projected massive under-recoveries of the Oil Marketing Companies of Rs. 1,71,140 crore for the year 2011-12 in the wake of high international crude oil prices. It took the following decisions to meet the situation:

(a) Elimination of 5% customs duty on crude oil (and on all petro-products also by 5 percentage points). This will entail a loss of about Rs. 26,000 crore to the Government for the full year.

(b) Reduction in excise duty on diesel (HSD) from Rs. 4.60/litre to Rs. 2/litre. This will entail a revenue loss of about Rs. 23,000 crore to the Government for the full year. It could not be reduced any further as the balance excise duty is on account of additional excise duty which is earmarked for Central Road Fund and and Education Cess.

(c) Minimal increase in product prices to reduce the under recoveries of the Oil Marketing Companies. The price of diesel will be increased by Rs. 3/litre, PDS kerosene by Rs. 2/litre and of domestic LPG by only Rs. 50 per cylinder excluding state levies such as VAT. These price revisions will reduce the under recoveries of OMCs to the extent of approximately Rs. 21,000 crore.

1.48 As regards the Ministry of Petroleum and Natural Gas persuading the Ministry of Finance to reduce the level of Central Taxes on Petroleum products to moderate their prices. The Ministry submitted the following in a written reply:

> “The Central Govt. has taken a number of measures to rationalize taxes and duties on Petrol and Diesel to keep the consumer prices of these sensitive petroleum products within reasonable limits. Custom Duty and Excise Duty has been progressively reduced on crude oil and petroleum products. Excise duty was made specific on Petrol and Diesel in June 2008 to curtail the impact of high oil prices in the international markets on the retail selling price.
>
> Several steps have been taken by the Central Govt. to rationalize taxes on PDS Kerosene and Domestic LPG also. Effective 1st March 2005 Customs

and Excise Duties on PDS Kerosene and LPG packed domestic have been reduced to nil. LPG (Domestic) was made a "Declared Goods" under CST Act and the maximum Sales Tax/VAT rate is 4% effective 19/4/06 across all States/Union Territories. This has reduced the Sales Tax levied by States to 4% as against VAT rate of 12.5% levied by most of the States.

As regards State taxes the Central Government has requested the State Governments to rationalize their taxes on sensitive petroleum products namely Petrol, Diesel, PDS Kerosene and Domestic LPG and also to shift from the ad-valorem tax rates to specific tax component for providing relief to the consumers".

1.49 In this connection, Ministry of Petroleum and Natural Gas further submitted as under:-

"Regarding the central and the state tax collection roughly Rs.1,36,000 crore is being collected by the Government of India. It was collected in year 2010-11. Roughly Rs. 88,000 crore has been collected by the State Government. The tax which is collected by States is going to the States. It does not come back to oil marketing companies. Out of Central Government taxes, Rs.1,36,000 crore they have this year sacrificed Rs.50,000 crore. The collection during the period 2011-12, will come down to around Rs.86,000 crore."

1.50 Regarding the details of the rate of sales tax/VAT imposed by different States on sale of petroleum products in the Country, the Ministry submitted the following:

<u>State wise Recoverable Sales Tax / VAT Rates as of 01.02.2011</u>

Sr. No.	State	Petrol	Diesel	PDS Kerosene	Domestic LPG
1	Punjab	27.5% + Rs 1000/KL (Cess) + 10% Addl. Tax	8.8% + 10% Addl. Tax	5%+10% Addl. Tax	4%
2	Jammu & Kashmir	20% + Rs.3000 /KL (Employment Cess)	12% + Rs.1000/KL (Employment Cess)	5%	4%
3	Himachal Pradesh	25%	14%	NIL	4%
4	Delhi	20%	12.50% + Rs. 250/KL (Air Ambience charges)	5%	NIL

5	Haryana	20% + 5% Addl. Tax	8.8%+5% Addl. Tax	5%+5% Addl. Tax	NIL
6	Chandigarh	20% + Rs.10 /KL (Cess)	12.5% + Rs.10 /KL (Cess)	5%	NIL
7	Assam	27.50%	16.50%	5%	4%
8	Chattisgarh	25%	25%	4%	NIL +1 % Entry Tax
9	Orissa	18% + 1% Entry Tax	18%+1% Entry Tax	4%+1% Entry Tax	4% + 1% Entry Tax
10	West Bengal	25% + Rs.1000 /KL (Cess)	17% - Rs. 290/KL (Rebate) + Rs.1000/KL (Cess)	NIL	4%
11	Jharkhand	20%	18%	4%	4%
12	Maharashtra	25%+Re.1/Ltr. (Additional Surcharge)	23%	5%	NIL
13	Madhya Pradesh	28.75%+1% Entry Tax	23%+1% Entry Tax	5%	4%+ 6.47% Entry Tax
14	Goa	20%	18%	5%	NIL
15	Tamil Nadu*	30%	21.43%	4%	4%
16	Kerala	29.01% + 1% Social Security Cess	24.69%+1% Social Security cess	4%+1% Social Security Cess	4%
17	Pondicherry	15.00%	14.00%	NIL	1%
18	Rajasthan	28% + Rs.500 /KL (Cess)	18% + Rs. 500/ KL (Cess)	5%	NIL
19	Gujarat	23% + 2% Cess	21% + 3% Cess	NIL	NIL
20	Uttar Pradesh	26.55%	17.23%	4%+1% Addl. Tax	NIL
21	Bihar	24.50%	18.36%	4%	1%
22	Uttarakhand	25%	21%	4%+0.5% Addl. Tax	NIL
23	Karnataka	25% + 5% Entry Tax	18% + 5% Entry Tax	5%	1%
24	Andhra Pradesh	33%	22.25%	4%	4%
25	Meghalaya	20%+2%Surcharge	12.5%+2%Surcharge	5%	4%

26	Manipur	20%	13.50%	5%	4%
27	Nagaland	20%	12%	5%	4%
28	Sikkim	15%+Cess Rs.2/ltr.	7.5%+Cess Rs.2/ltr.	Nil	4%
29	Tripura	15%	10%	Nil	1.5%
30	Arunachal Pradesh	20%	12.5%	4%	4%
31	Mizoram	18%	10%	Nil	2%

*The Government of Tamil Nadu has reduced the Sales Tax on Petrol from 30% to 27% w.e.f. 2.3.2011

1.51 The Committee were informed that State level taxes form a significant part of the retail-selling price of Petrol and Diesel. VAT/Sales Tax is being levied by State Governments on an ad valorem basis, i.e., as a percentage of the price of the product. At a time of rising prices, ad valorem taxes have a cascading impact on the retail price of petroleum products. The Ministry further informed that State Governments have been requested to rationalize their taxes on sensitive petroleum products namely Petrol, Diesel, PDS Kerosene and Domestic LPG and also to shift from the ad-valorem tax rates to specific tax component for providing relief to the consumers. As a result, the Government of National Capital Territory of Delhi has reduced the VAT rate on Diesel from 20% to 12.5% w.e.f 20th July 2010. The Government of Bihar has reduced VAT on PDS Kerosene from 12.5% to 4% w.e.f. 12.7.2010. The Government of Goa has reduced the VAT rates on Petrol, Diesel and Domestic LPG w.e.f. from 17th July 2010. The Government of West Bengal has reduced Sales Tax on PDS Kerosene from 4% to Nil w.e.f. 01.09.2010".

1.52 In regard to rationalization of the tax structure by States on various petroleum products, Ministry of Petroleum and Natural Gas stated as below:-

> "Ministry of Finance has informed that State Governments have power to levy tax on sale or purchase of goods within a State by virtue of Entry 54 of the State List of the Seventh Schedule of the Constitution and Central Government can't interfere in State's power to decide rate of tax on sale of goods, in general. However, Central Government has declared liquefied petroleum gas for domestic use (LPG) and crude oil as 'Declared Goods' and thus has ensured that State Governments don't levy tax more than 4% on sale of these two goods. This limit of 4% is proposed to be

increased to 5% now and amendment to this effect has been introduced in the parliament through Finance Bill 2011".

1.53 When asked about the fact as to how Government is collecting huge revenue by taxing petroleum products and remitting a little by way of payment towards under-recoveries, the Secretary, Ministry of Petroleum and Natural Gas submitted before the Committee during evidence:

"It is because the Central Government would be collecting in the current year about Rs. 1,12,000 or Rs. 1,13,000 crore as import duty and customs duty which is the largest earning from any sector in India. The largest sector is the petroleum sector. Even in the Budget when Excise duties are announced, for everybody else the Excise are announced, but for the petroleum sector it is something separate. The petroleum sector is dealt with separately. Similarly, for the State Governments the highest revenue earner apart from liquor in some States is Sales Tax from petroleum products. So, the Government of India is making about Rs. 1,12,000 crore upfront on taxes in the current year and after great difficulty and struggle and so on we may get some Rs. 30,000 crore".

1.54 Further, when the Committee desired to know the percentage of different Central and State taxes in the selling price of Petroleum Products in India vis-à-vis developed/developing countries such as USA, U.K., Japan, China, South Korea, Thailand etc., the Ministry in a written reply have submitted the following:

"The percentage of taxes in the selling price of Petroleum Products in India vis-à-vis developed/developing countries such as USA U.K. Japan, Thailand & Pakistan etc. is given in the table below:

Indian Rupees/ Litre

	PETROL				**DIESEL**			
Particulars	**RSP**	**Ex - Tax Price**	**Taxes**	**% of Taxes**	**RSP**	**Ex - Tax Price**	**Taxes**	**% of Taxes**
India*	58.37	31.76	26.61	46%	37.75	26.39	11.36	30%
France	83.55	32.57	50.98	61%	60.58	34.23	26.35	43%
Germany	86.26	32.14	54.12	63%	64.09	35.16	28.94	45%
Italy	84.35	35.59	48.76	58%	63.72	37.68	26.04	41%
Spain	72.90	34.60	38.30	53%	58.12	36.88	21.24	37%
UK	85.48	30.82	54.66	64%	74.97	33.05	41.91	56%
Japan	72.23	38.24	33.99	47%	61.84	41.03	20.81	34%
Canada	47.93	33.26	14.67	31%	48.11	36.38	11.73	24%
USA	34.14	29.26	4.88	14%	37.39	31.75	5.65	15%

Pakistan	38.40	27.56	10.84	28%	41.22	30.16	11.06	27%
Thailand	56.17	30.63	25.53	45%	44.30	32.84	11.46	26%”

RSP stands for Retail Selling Price

* Retail Selling Price at Delhi effective 16.1.2011

1.55 The Committee were also informed that the Retail Selling Prices of PDS Kerosene and Domestic LPG are the lowest in the region:-

Rs. Per Litre/Cylinder

	Delhi	**Pakistan**	**Bangladesh**	**Sri Lanka**	**Nepal**
PDS Kerosene	14.83	48.89	33.08	31.60	47.40
Dom. LPG	399.00	932.59	511.87	1044.78	820.40

Even in case of Petrol and Diesel, their prices are much lower than the prices in several European countries.

Prices in India Rs./Litre

	India (Delhi)	Germany	United Kingdom	Italy	Nepal	Pakistan
Petrol	66.42	103.20	104.60	107.50	65.26	48.64
Diesel	40.91	79.54	90.48	82.85	47.40	53.82

(H) ***SUBSIDY ON DIESEL***

1.56 The Ministry has informed that on the retail selling price of diesel, the OMCs are incurring an under recovery of more than Rs.10/litre as on 23.11.2011.

Enquired about the percentage consumption of diesel by agriculture, transport and other sectors, the Ministry stated

“As per the Report of The Expert Group on ‘A Viable and Sustainable System of Pricing of Petroleum Products’, user wise percentage of consumption of diesel by various sectors is as under:

S. No.	**End-use Sectors**	**% of Total Sales**
(I)	**(II)**	**(III)**
1	Transport, of which	70
a	Passenger Vehicles	15
b	Truck	37
c	Buses/ STUs	12
d	Railways	6
2	Agriculture	12
3	Industrial Applications	10
4	Power Generation	8
	Total	**100**

1.57 Since the diesel passenger vehicles like SUVs consume 15% of total sales and take advantage of subsidy on diesel, the Committee enquired it how the Government propose to make them pay more for the diesel or if there is any proposal to levy one term tax on diesel cars, the Ministry stated,

> "At present there is no proposal for introducing dual pricing of Diesel. In so far as levy of one term tax of Diesel car, Ministry of Finance, Department of Revenue has informed that there is no such proposal".

1.58 The Committee were informed that, as per Kirit S. Parikh Report 12% of total diesel consumption goes to agriculture sector used by tractors, thrashers, tillers, harvesters, pump sets etc., and the Government also set Minimum Selling Price (MSP) for the agriculture product. In this regard, the Committee wanted to know through subsidy on diesel and fixing MSP, whether Government is providing double subsidy to the agriculture sector and asked Ministry to present their views. The Ministry of Petroleum and Natural Gas, in a written reply furnished the following:

> "As indicated in the Report of the Expert Group, the cost of Diesel in agriculture would be accounted for by the Government while fixing the MSP for major products. MSP is relevant for those farmers who have marketable surplus of farm produces to be sold in the market. However, there are hundreds of small and marginal farmers who may not be covered under the MSP programme of the Government. However, in June 2010, Government had decided that the price of Diesel will also be made market-determined, both at the Refinery Gate and at the Retail level".

(I) ***SUBSIDY FOR SKO AND LPG***

1.59 Petroleum products, particularly diesel has played an important role in changing Indian economy from an agriculture based economy to an industrial economy. Prices for Kerosene which is mainly supposed to be used by poor people to cook their food and light their houses, and diesel, mainly supposedly to be used by farmers, industry and transporters have been kept low. Since Government subsidises kerosene, it provides a lucrative, though illegal opportunity of selling kerosene in the open market. Kerosene is also used to mix in diesel as prices of diesel are three times the price of kerosene.

1.60 The Ministry informed that the Government is planning to provide subsidies and price discounts through direct cash transfers to entitled consumers on certain petroleum products. In this regard, the Ministry of Petroleum & Natural Gas has signed a Memorandum of Understanding (MOU) with the UIDAI (Unique Identification Authority of India). It is envisioned that once a beneficiary is allotted Aadhar (UID) number after collection of his biometric details, distribution of subsidized petroleum products i.e. PDS SKO & LPG would be made only after authentication of the biometric details of the beneficiary. This will prevent intrusion of any unauthorized person in the channel of distribution, which in turn will ensure delivery to the entitled persons alone.

1.61 The Committee were informed that as per Kirit S. Parikh and Chaturvedi Committee Report, there is a continuous decline in the percentage of households using kerosene and over a period of time, income level of States have increased whereas allocation of kerosene through PDS is intact. In this regard, the Committee asked the Ministry to give State-wise allocation of Kerosene through Public Distribution System (PDS) and LPG connection issued by the OMCs during the last few years and the resultant lower allocation of Kerosene to States through PDS.

1.62 In regard to the steps taken by the Government to bring down the volume of Kerosene consumption during the last five years, the Ministry submitted the following information:

> “State-wise allocation of Kerosene through Public Distribution System (PDS) during the last three years from 2007-08 to 2008-09 is given as under:

PDS SKO ALLOCATION (excluding additional/ad hoc allocation) (MTs)

STATE	2007-08	2008-09	2009-10
ANDHRA PRADESH	517158	517158	517067
ANDMAN & NIKOBAR	5816	5816	5658
ARUNACHAL PRAD.	9257	9257	9169
ASSAM	258007	258007	257875
BIHAR	647430	647430	643743
CHANDIGARH	**13067**	**9999**	**7180**
CHHATTISGARH	146938	146938	145812
DADRA&NAGARHAV	2782	2782	2785
DAMAN & DIU	2118	2118	2072

DELHI	**168484**	**160935**	**135226**
GOA	19212	19212	19208
GUJARAT	743759	743759	742618
HARYANA	145619	145619	144820
HIMACHAL PRADESH	**50537**	**49409**	**45463**
JAMMU & KASHMIR	76044	76044	75320
JHARKHAND	211175	211175	210950
KARNATAKA	461478	461478	461309
KERALA	216308	216308	216296
LAKSHADEEP	795	795	795
MADHYA PRADESH	488609	488609	487823
MAHARASHTRA	1276876	1276876	1276502
MANIPUR	19907	19907	19742
MEGHALAYA	20401	20401	20358
MIZORAM	6217	6217	6180
NAGALAND	13312	13312	13317
ORISSA	314977	314977	314312
PUDUCHERRY	12257	12257	12248
PUNJAB	237192	237192	234685
RAJASTHAN	398913	398913	398404
SIKKIM	5582	5582	5566
TAMILNADU	558929	558929	558391
TRIPURA	30832	30832	30738
UTTAR PRADESH	1241772	1241772	1240705
UTTARAKHAND	89849	89849	89839
WEST BENGAL	752103	752103	751485
ALL INDIA	**9163712**	**9151967**	**9103666**
Reduction	**0.00**	**-0.13**	**-0.53**

Regarding new LPG connections issued by OMCs during the last 5 years and upto September, 2011, the Ministry furnished the following:-

New Enrolment-Domestic

(Numbers in Lakhs)

STATE/UT	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (APR-SEP)
CHANDIGARH	0.11	0.11	0.11	0.08	0.12	0.06
DELHI	1.07	1.22	1.66	1.36	2.00	0.89
HARYANA	1.19	1.66	1.95	1.46	2.09	1.10
HIMACHAL PRADESH	0.41	0.58	0.57	0.51	0.64	0.51
JAMMU & KASHMIR	0.60	0.72	0.72	0.57	0.76	0.38
PUNJAB	1.71	2.70	2.60	2.13	2.74	1.41
RAJASTHAN	1.85	2.24	2.87	2.66	4.48	3.05
UTTAR PRADESH	5.02	5.92	6.16	5.46	9.72	4.72
UTTARAKHAND	0.57	0.66	0.75	0.54	1.18	0.71
SUB TOTAL NORTH	**12.53**	**15.82**	**17.39**	**14.77**	**23.72**	**12.82**
ANDAMAN & NICOBAR	0.07	0.04	0.04	0.17	0.03	0.02
ARUNACHAL PRADESH	0.06	0.08	0.08	0.05	0.10	0.06
ASSAM	1.69	0.93	1.09	0.61	0.96	0.60
BIHAR	1.16	1.40	1.79	1.37	3.10	1.55

JHARKHAND	0.57	1.04	1.03	0.51	0.75	0.41
MANIPUR	0.09	0.09	0.11	0.02	0.09	0.04
MEGHALAYA	0.07	0.08	0.09	0.04	0.06	0.05
MIZORAM	0.07	0.09	0.07	0.03	0.03	0.05
NAGALAND	0.08	0.10	0.12	0.03	0.08	0.04
ORISSA	0.77	1.07	0.94	0.64	0.98	0.73
SIKKIM	0.06	0.05	0.05	0.06	0.10	0.11
TRIPURA	0.12	0.13	0.13	0.04	0.08	0.12
WEST BENGAL	2.03	2.98	3.31	3.07	4.52	2.51
SUBTOTAL EAST	**6.83**	**8.08**	**8.86**	**6.64**	**10.87**	**6.29**
CHATTISGARH	0.79	1.02	0.76	0.46	0.80	0.41
DADRA & NAGAR HAVELI	0.01	0.02	0.02	0.05	0.07	0.06
DAMAN & DIU	0.01	0.01	0.04	0.02	0.03	0.02
GOA	0.15	0.17	0.19	0.16	0.22	0.07
GUJARAT	1.81	2.06	2.75	2.48	3.27	1.67
MADHYA PRADESH	2.16	2.77	2.81	2.04	3.18	1.72
MAHARASHTRA	5.96	6.53	8.04	7.23	8.55	5.24
SUB TOTAL WEST	**10.88**	**12.58**	**14.61**	**12.43**	**16.13**	**9.19**
ANDHRA PRADESH	4.98	4.08	6.32	4.82	11.23	6.32
KARNATAKA	2.50	3.14	3.96	3.61	6.83	3.40
KERALA	2.23	3.11	3.43	2.87	4.55	2.54
LAKSHADWEEP	0.00	0.00	0.00	0.00	0.00	0.00
PUDUCHERRY	0.11	0.16	0.23	0.17	0.37	1.28
TAMILNADU	4.87	6.89	10.07	7.87	12.51	7.20
SUB TOTAL SOUTH	**14.69**	**17.39**	**24.01**	**19.34**	**35.49**	**20.75**
GRAND TOTAL	**44.92**	**53.86**	**64.86**	**53.18**	**86.21**	**49.05**

1.63 The Committee were apprised that the Government is encouraging use of Liquefied Petroleum Gas (LPG), which is a cleaner fuel as compared with Kerosene in rural areas by setting up of rural distributorships with the launch of the Rajiv Gandhi Gramin LPG Vitran Yojana. Government intends to enhance LPG coverage in remote and low service areas and correspondingly reduce the allocation of PDS SKO."

1.64 Further, the Committee enquired how the Government is ensuring that the subsidized kerosene through PDS reach to BPL families and used for lightening and cooking only and not for other purposes. The Government submitted the following reply:

> "Allocation of Public Distribution System (PDS) Kerosene is made by the Ministry of Petroleum & Natural Gas to different States/Union Territories (UTs) on a quarterly basis for distribution under the PDS for cooking and illumination only. Further distribution within the States/UTs through their PDS network is the responsibility of the concerned State Government/UT Administration Authorities. As per clause 3(1) of the PDS Superior

Kerosene Oil (SKO) Control Order, 1993, the State Governments may by specific order permit any person to use Kerosene other than cooking and illumination.

However, in order to check diversion of SKO for unauthorized use and its black marketing the OMCs undertake regular and surprise inspections at kerosene dealerships and take action under the Marketing Discipline Guidelines (MDG) and Dealership Agreement". (Written reply, Page no. 33)

1.65 A NCAER study has estimated that 35% of subsidized kerosene made available though PDS is diverted to adulterate diesel which is valued at Rs. 10,000 crore based on current prices. If crude prices go up and the difference between Kerosene and Diesel prices rises, this might lead to more adulteration.

To reduce the Superior Kerosene Oil (SKO) from being diverted for adulteration, the Secretary, Ministry of Petroleum and Natural Gas, during the course of evidence, submitted as under:

"The issue of kerosene is becoming extremely serious because they are selling kerosene at Rs. 12.70 and the price of petrol is Rs. 57 or Rs. 58. So, their estimation is that in the old days, 38 or 40 % was being diverted, today, may be even 60 per cent could be diverted for adulteration. Unless we would request you to consider some increase in price is really necessary to bring something must be done to reduce the allocation of kerosene to States so that at least this quantum of vast subsidy that is being given for purely adulteration purpose is reduced".

1.66 The Committee were also apprised of the disparity between diesel and PDS kerosene prices as on 23.12.2011, the RSP of diesel is Rs. 40.91/litre and Rs. 14.83/litre that for PDS kerosene, it is the wide gap that encourages diversion of PDS Kerosene for unintended uses and negates the efforts in regard to fuel quality upgradation.

1.67 The Ministry has informed that the total under-recovery on LPG during 2010-11 was Rs. 1940 crore and is projected to increase to Rs. 30,142 crore in 2011-12. The OMCs are incurring on under-recovery of Rs. 356 per cylinder on sale of LPG. In this regard, the Committee in their 8th Report on Demands for Grants (2011-12) had recommended that to offset huge losses made on account of subsidized domestic LPG cylinder, the Government may consider to do away with providing subsidized LPG to rich and affluent people having an income of more than 6 lakhs per annum including those holding constitutional posts and public representatives like MPs/MLAs/MLCs etc. On being enquired the action taken on the specific recommendation of Committee, the Secretary during the course of evidence informed that matter is under the consideration of EGoM.

(J) ***BURDEN SHARING OF UNDER-RECOVERIES***

1.68 In response to a query of the Committee, the Ministry informed that the burden of under-recoveries is presently shared equitably by the stake-holders i.e. (i) by Government, through Issue of Oil Bonds, (ii) by Public Sector upstream oil companies, through price discounts on crude oil and products to OMCs; (iii) by OMCs, bearing a portion of the under-recoveries, and (iv) by Consumers, through minimal price increase.

1.69 The details of under-recoveries of the OMCs have been shared by the stakeholders as shown below:

Under-recoveries and Burden Sharing

(` Crore)

Company	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Total Under Recovery	**9,274**	**20,146**	**40,000**	**49,387**	**77,123**	**103,292**	**46,051**	78,190
Government -Issue of Oil Bonds/cash assistance	-	-	11,500	24,121	35,290	71,292	26,000	41,000
Upstream Oil companies - Discount from Upstream Companies	3,123	5,947	14,000	20,507	25,708	32,000*	14,430	30,297
% of under-recoveries				42%	33%	31%	31%	33%
Borne by OMCs	6,151	14,199	14,500	4,759	16,125	0	5,621	6,893
				9%	21%	Nil	12%	22%

*In addition, import losses compensated by upstream sector amounting to ` 943 cr. for year 08-09.

During the period 2003-04 to 2009-10, the Government altogether gave a financial assistance of 1,68,203 crore and the upstream oil PSUs contributed 1,15,715 crore by way of discounts towards under-recoveries of the OMCs.

1.70 Asked about the criteria followed for sharing of the burden of under-recoveries and the reasons for its variation from year to year, the Ministry of

Petroleum and Natural Gas, in a written reply, informed the Committee as under:-

"The Government has evolved a Burden Sharing Mechanism since 2003-04 to ensure that the burden of under-recoveries incurred by OMCs is shared by all the stakeholders; namely the Government, the Public Sector Oil Companies and the consumers in the following manner:

- Government through issue of Oil Bonds/Cash Subsidy
- Domestic upstream oil companies through price discounts to OMCs
- OMCs to bear a portion of the under recoveries and
- Consumers to bear minimal price increases.

The general criteria adopted to distribute the under-recoveries among the stakeholders are as follows:

i. The upstream PSU oil and gas companies will bear around one-third of the total under-recoveries;
ii. The remaining will be apportioned between the Government and the OMCs depending on the feasibility of the Government to allocate funds from budgetary sources and capacity of the OMCs to absorb a part of their under-recoveries".

As regards budgetary support, compensation to OMCs is decided by the Government based on various factors like feasibility of the Government to allocate funds from budgetary sources and capacity of the OMCs to absorb a part of their under-recoveries. The actual burden sharing ratio has varied from year to year on this account".

1.71 Asked to give details of actual cost of production of crude/barrel by ONGC and OIL and their selling price of OMC, the Ministry furnished the following information:-

"The details of actual cost of production of crude/ barrel as provided by ONGC and OIL for the period 01.04.2010 to 31.03.2011 are given in table below:

Particulars	**ONGC**		**OIL**	
	$/bbl	**Rs./MT**	**$/bbl**	**Rs./MT**
Direct Cost of production (Operating cost)	13.08	4,413	7.83	2,550
Royalty	5.44	1,837	9.10	2,963
Cess & NCCD	7.77	2,623	8.02	2,609
Other (Sales Tax , Octroi & BPT)	1.00	339	2.29	746
Borrowing Cost	-	-	0.09	29
Overhead & Depreciation/Depletion	10.58	3,571	6.38	2,078
Total	**37.87**	**12,783**	**33.71**	**10,975**

The details of selling price of crude realized by ONGC and OIL for the above period is given below:-

	Crude Oil Price realized ($/BBL.)		
	Gross Price	**Discount to OMCs**	**Net Price Realized**
ONGC	89.41	35.64	53.77
OIL	86.12	27.58	58.54”

1.72 Asked about the fate of the amount of the under-recovery borne by the OMCs to the extent of Rs.68,248 crore since 2003-04 and whether they were treated as loss for the OMCs. The Ministry, in a written reply, have submitted the following:

> “The under-recoveries are in the nature of loss of revenue/income by the OMCs on sensitive petroleum products. Accordingly, the amount of under-recoveries absorbed by the OMCs since 2003-04 provides a measure of income/revenue foregone by the OMCs”. (Written reply, Page no. 16)

1.73 Further, the Committee desired to know whether any developed/developing country have any policy of giving subsidy on petroleum products to their people and if so, what policies are being followed by them to cope with the burden of under-recoveries of their OMCs. The Ministry, in a written reply, submitted as follows**:**

> "Universal subsidy to all consumers of petroleum products such as Petrol and Diesel has been provided by countries by keeping the domestic retail prices below cost / world reference prices. While oil producing and exporting countries like Iran, Saudi Arabia, Russia and Venezuela have been traditionally providing subsidy to domestic consumers by keeping domestic prices below the world reference prices or costs, the developing oil importing countries have resorted to price controls when oil prices ruled high since 2005.
>
> Besides fuel subsidies to targeted groups have been provided by both developed and developing countries, particularly in times of high oil prices. Agriculture, public and goods transport and fisheries are among the sectors that have benefitted from targeted price intervention in some countries. In this regard, certain examples are given below:
>
> i) USA has established in 1987 the Low Income Home Energy Assistance Programme (LIHEAP), which offers one-time financial

assistance to qualifying low-income households who require support in paying their home heating or cooling bills.

ii) Japan does not have a permanent scheme for fuel subsidy. However, in 2008, the Japanese Government extended subsidy on purchase of fertilizers and on fuel oil used by fishing boats.

iii) In South Korea, while the domestic prices of petroleum products are market-determined, there are subsidies to vulnerable groups. In June 2008, the Government of Korea took short-term measures including tax rebates and fuel subsidies. Under the tax rebate programme, the Government gave back money equivalent to half of the oil price increase to low income earners (i.e., annual income less than 36 million won), comprising mostly of workers. The consumption tax on heating oil (kerosene, propane and LNG) was reduced by 30% for the winter season. Additional fuel subsidies were extended to people living below the subsistence level. The period of application of fuel subsidies to public transport, taxi, truck, vessels and the disabled persons was also extended.

iv) In June 2008, the Chinese Government decided to provide subsidy to farming, fishing and urban transport as also to low-income households.

v) Malaysia, a net exporter of oil, has kept domestic fuel prices at lower levels. The Government of Malaysia provides additional fuel price subsidies to fishermen, vessels, and transport operators with fleet card.

vi) Indonesia's energy price caps and subsidies keep prices for individual consumers below market levels for Kerosene, automotive Diesel oil for transport and 88 RON Petrol".

1.74 The Ministry has further stated that certain developing countries directed their national oil companies to sell petroleum products below costs who in turn sought compensation from the respective Government. The World Bank Study (2009) has reported that 14 out of 49 countries reported loss by their respective national oil companies. For instance, the Government of China paid partial compensation to SINOPEC and CNPC during 2005 to 2008. Yet these two refiners still suffered a combined loss of over $ 20 billion. In 2007-08, fuel price subsidy paid from the Iran's budget was about $ 6.5 billion as against the total implicit subsidy of around $ 32 billion. Indonesia's Petramina managed almost the entire subsidy programme of the Government.

1.75 Elaborating further, the Ministry stated that there is, however, conscious effort on the part of both oil exporting and oil importing countries to rationalize petroleum subsidies so as to improve fiscal stability of the countries. For instance, the Governments in Iran, Russia, Malaysia and China have announced policy programmes for fuel price reform, i.e., domestic prices moving towards a market determined pricing system".

1.76 When asked about the Government's payout to the OMCs, the Ministry informed that Special Oil Bonds were issued in part compensation of under-recoveries of the Public Sector OMCs on the sale of sensitive products, i.e. Petrol, Diesel, Domestic LPG and PDS Kerosene. The Oil Bonds were issued in lieu of giving compensation in cash and these bonds were generally of tenure above 15 years.

1.77 Details of Oil Bonds issued to Public Sector Oil Marketing Companies since 2005-06 are as follows:

IOCL

(Rs. Crore)

	05-06	**06-07**	**07-08**	**08-09**	**09-10**	**10-11**	**Total (As on 22.12.10)**
Bonds held as on 1st April of financial year	0	9376	16816	18553	29649	19404	0
Received during the financial year	9376	13943	11484	41712	6207	0	82723
Sold during the financial year	0	6503	9747	30616	16453	2464	65783
Closing as on 31st March	**9376**	**16816**	**18553**	**29649**	**19404**	**16940**	**16940**

BPCL

(Rs. Crore)

	05-06	**06-07**	**07-08**	**08-09**	**09-10**	**10-11**	**Total (As on 22.12.10)**
Bonds held as on 1st April of financial year	0	1763	5389	7484	15751	11241	0
Received during the financial year	2163	5248	4618	18123	2065	0	32217
Sold during the financial year	400	1622	2523	9856	6575	0	20976

Closing as on 31st March	**1763**	**5389**	**7484**	**15751**	**11241**	**11241**	**11241**

HPCL

(Rs. Crore)

	05-06	**06-07**	**07-08**	**08-09**	**09-10**	**10-11**	**Total (As on 22.12.10)**
Bonds held as on 1st April of financial year	0	3122	6182	5902	12770	9534	0
Received during the financial year	3122	4930	4255	16107	2034	0	30448
Sold during the financial year	0	1870	4535	9239	5270	1436	22350
Closing as on 31st March	**3122**	**6182**	**5902**	**12770**	**9534**	**8098**	**8098**

1.78 The Ministry further apprised the Committee that the coupon rates of Special Oil Bonds are fixed based on the prevailing rates of corresponding Government Securities for similar maturity plus 20-25 basis points (0.20-0.25%). Considering the large quantity of the Oil Bonds, they cannot be liquidated at a single instance. To avoid significant discounting of bond value they have to be disposed off in tranches. According to Ministry of Petroleum and Natural Gas due to this time lag and depending on the market scenario and the appetite of the secondary market, it has been found that the Special Oil Bonds had to be generally sold at a discount.

1.79 Asked how the OMCs can actually redeem these bonds for their capital expenditure plan, the Committee were apprised by Ministry of Petroleum and Natural Gas in a written replies as under:-

> “These bonds can be redeemed on maturity and can be used for capital expansion plans provided there is adequate internal resources available for financing working capital during the intervening period (up to maturity). Since the bonds are issued by the Government as part of compensation against under-recovery of OMCs, they are essentially in the nature of revenue receipt and to that extent working capital of OMCs remains blocked until disposal of the bonds. In view of this, OMCs have to look for suitable opportunity for disposal of the bonds in the market. It may be noted that the bonds do not have SLR status as a result of which banks are unwilling to buy such bonds from OMCs’. However, they are

considered as an eligible security for investment by Provident Funds and Insurance companies. Thus, the market and appetite for oil bonds is limited".

1.80 The Ministry of Petroleum and Natural Gas informed the Committee that the issue of SLR status to oil bonds was taken up with the Ministry of Finance who responded as under:-

"Classification of Government Securities as SLR is made by the Reserve Bank of India (RBI) under the provisions of Banking Regulation Act. As a policy, RBI has been treating securities issued outside the borrowing programme (e.g. oil bonds, fertilizer bonds, etc.) as non-SLR securities. However, to compensate for the non-SLR status, a 20-25 bps spread above the g-sec rate of comparable maturity is being allowed in respect of such securities. The investment in these bonds by the Insurance Companies, Provident Funds, Gratuity Funds, and Superannuation Funds etc. are treated as an eligible investment."

Since 2009-10, the Government is providing Cash assistance to the OMCs towards the share of the Government for compensating the under-recoveries to the OMCs.

1.81 The Ministry further informed that the details of oil bond issued to public sector Oil Marketing Companies indicated that as on 22.12.2010 the oil bonds held by IOCL, BPCL and HPCL were amounting to Rs. 16940 crore, Rs. 11241 crore and Rs. 8098 crore respectively. Considering large quantity of oil bonds held by OMCs, the Government have stated that these cannot be liquidated at a single instance and the bonds also do not have Statutory Liquidity Ratio status.

1.82 In view of these instruments which are not encashed by the OMCs having a long lock-in period, the Committee desired to know how the Government ensure that these instruments are used by Oil Marketing Companies for their capital expansion plans and to meet their cash requirements. The Ministry, in their reply, submitted as under:

"The Government had issued oil bonds totaling to Rs.1,42,203 crore towards partial compensation of the under recoveries suffered on sale of sensitive petroleum products by PSU OMCs from the year 2005-06 to 2008-09. The OMCs have been disposing off the bonds in the secondary market and through Special Market Operations that were initiated by RBI from time to time to help the OMCs. The cash generated from the disposal of these special oil bonds is used to meet the working capital/capex requirements of the Oil Marketing Companies.

In the past, due to efforts of the Government, Reserve Bank of India (RBI) had commenced Special Market Operations (SMO) from time to time to infuse liquidity in cash starved OMCs. As part of the SMO operations, RBI was selling dollars to OMCs through State Bank of India at market rate (i.e. RBI reference Rate) and purchasing equivalent value of oil bonds from OMCs at a spread of 25 basis points over corresponding G-Sec yields. The Special Market Operations had not only improved the access of public sector OMCs to foreign exchange in trying times but also facilitated disposal of oil bonds in significant quantity to tide over the difficult situation".

1.83 The Ministry further informed that the compensation of under-recoveries is not received by the OMCs in time and their quarterly financial results show very inconsistent results. Further, in the absence of any fixed policy for compensation for under-recoveries, the estimates of profit in the year could not be properly done which further lead to imposition of interest and penalty by tax authorities. In this regard, the Committee desired to know how the Ministry of Finance would ensure that oil marketing companies are paid under-recoveries on quarterly basis to overcome these problems faced by them. Replying to this, the Ministry of Petroleum and Natural gas submitted the following:

"Ministry of Finance, Department of Expenditure has conveyed that the quantum of compensation payable to Oil Marketing Companies depends on various factors, such as, price of crude oil in international market, demand & consumption of sensitive petroleum products in the country, financial condition of Upstream Companies to absorb a part of losses by offering discounts etc. As such, it is not practically feasible to quantify the amount of cash compensation payable to OMCs beforehand. In any case, Ministry of Finance approves cash compensation two to three times a year, based on consultations with MoP&NG after analyzing all the factors mentioned above, keeping in view the requirement of OMCs to declare their quarterly results."

1.84 The Committee desired to know what capital expansion plans have been implemented by the Public Sector and Private Sector OMCs during 3 years and how the worsening debt equity rate of public sector OMCs has affected their capital expansion plan during the last 5 years. The Ministry of Petroleum and Natural Gas, in a written reply, submitted the following :

"The public sector OMCs i.e. IOCL, BPCL and HPCL have been carrying out ambitious projects including new refineries, technological upgradations and capacity enhancements schemes, green fuel projects, expansion of distribution and marketing infrastructure. The actual amount of capital expenditure incurred by IOCL, BPCL and HPCL during the last three years (2007-08 to 2009-10) is given below:

(` Crore)

	2007-08	**2008-09**	**2009-10**
IOC			
Plan	4889	10353	12256
Non Plan	1874	1678	2007
Total	**6763**	**12031**	**14263**
BPC			
Plan	820	1976	3090
Non Plan	1452	1267	1123
Total	**2272**	**3243**	**4213**
HPC			
Plan	1725	1295	3082
Non Plan	1732	1358	1858
Total	**3457**	**2653**	**4940**

The Capital Expenditure of OMCs during 2010-11 is as under:-

(` Crore)

	IOC	BPC	HPC	Total
Annual Plan BE 2010-11	12825	3022	3924	19771

1.85 The OMCs' mounting under-recoveries have compelled them to borrow heavily, to meet their cash flow requirements. As compared to the total borrowings of Rs. 67,332 crore as of March 2008, OMCs' borrowings ballooned to Rs. 88,063 crore, at the end of March 2010. The position of borrowings as on 30th June 2010 was ` 85,993 crore. The combined interest burden of OMCs during 2009-10 was `3,441 crore. This is reflected in the deteriorating debt-equity ratios of OMCs, as shown below:

Debt Equity Ratios of OMCs

OMC	**Debt-Equity Ratio**	
	As on 31.03.2009	**As on 31.03.2010**
IOC	1.02:1	0.88:1
BPC	1.75:1	1.70:1
HPC	2.12:1	1.84:1

Although the public sector OMCs have continued their capital expenditure plans during the past 5 years, worsening of debt-equity ratio has impacted the financial position as well as ability to raise funds by the company. An unfavorable debt-equity ratio constrains OMCs' ability to raise funds from the market at cheaper rate of interest, resulting in financial burden for the companies."

(K) ***PROFIT EARNED BY OMCS***

1.86 On a query regarding the extent of income earned by the OMCs from their other streams like pipeline income, inventory charges, profits from freely priced products and refining margins, the Ministry of Petroleum and Natural Gas submitted the following:

"The profits earned by the different divisions of the public sector OMCs during the last 5 financial years are given below:

Indian Oil Corporation Limited (IOCL) **(Crore)**

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Refineries Division	4711	4835	11139	1968	3424
Pipelines	296	417	441	2541	2835
Free Products	1926	1996	1548	2950	2200
Other - Marketing Division	(-)1343	2639	(-)4469	6267	2865
R & D Centre/ IBP	0	(-)14	(-)15	(-)18	(-) 5
Corporate	1303	2183	1756	-566	1622
Inventory Gain/(Loss)	835	(-) 65	1227	(-) 4861	2692
Sub-Total	**7728**	**11991**	**11627**	**8281**	**15633**
Less: Interest	1022	1506	1547	3952	1527
PROFIT BEFORE TAX (PBT)	**6706**	**10485**	**10080**	**4329**	**14106**
Tax	1791	2986	3117	1379	3885
PROFIT AFTER TAX (PAT)	**4915**	**7499**	**6963**	**2950**	**10221**

Hindustan Petroleum Corporation Limited (HPCL) **(`crore)**

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Refineries	384	1735	2730	346	740
Pipeline	110	123	123	330	411
Free Products	356	300	737	1413	928
Others – Mktg	(-) 510	585	(-) 2053	2059	220
Corporate	33	23	194	383	(-) 431

Inventory Gain/(Loss)	88	(-) 375	143	(-) 1734	1160
Sub-Total	**461**	**2391**	**1874**	**2797**	**3029**
Less: Interest	176	423	766	2083	904
PROFIT BEFORE TAX (PBT)	**285**	**1967**	**1108**	**712**	**2125**
Tax	(-) 121	396	(-) 26	137	824
PROFIT AFTER TAX (PAT)	**406**	**1571**	**1134**	**575**	**1301**

Bharat Petroleum Corporation Limited (BPCL) (`Crore)

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Refineries	200	1291	2389	2219	495
Pipeline	124	125	175	196	232
Free products	406	1047	895	1269	909
Others - Marketing	(-) 561	418	(-) 2213	2433	54
Corporate	280	318	977	(-) 700	870
Inventory Gain / (Loss)	205	102	1046	(-) 2247	817
Sub-Total	**654**	**3301**	**3269**	**3170**	**3377**
Less: Interest	247	533	672	2166	1011
PROFIT BEFORE TAX (PBT)	407	2768	2597	1004	2366
Tax	116	962	1017	268	828
PROFIT AFTER TAX (PAT)	291	1806	1580	736	1538”

(Written reply, Page no. 20)

1.87 The Ministry in a presentation summed up the financial position of OMCs as under:-

OMCs Financial Position

(Rs Crore)

Government and Upstream Oil PSUs Assistance to OMCs				
	2008-09	**2009-10**	**2010-11**	**Apr-Sep 2011**
Govt. Assistance	71,292	26,000	41,000	15,000*
Upstream assistance	32,000	14,430	30,297	21,633
Total Assistance	1,03,292	40,430	71297	36,633

* On 11.11.2011. Government has sanctioned an additional compensation of 15000 crpre towards compensation of under-

Profit after Tax (PAT)

Company	2008-09	2009-10	2010-11	Apr-Sep 2011
IOC	2,950	10,221	7,445	(-) 11,204
BPC	736	1,538	1,547	(-) 5,791
HPC	575	1,301	1,539	(-) 6,445
Total	4,261	13,060	10,531	(-) 23,440
Loss of OMCs without compensation	(-) 97,247	(-)21,833	(-)57,442	(-)60,073

(L) ***<u>TRANSPARENCY IN PRICE MECHANISM OF PETROLEUM PRODUCTS</u>***

1.88 When asked about efforts made by Ministry of Petroleum and Natural Gas to bring transparency in the price mechanism of the petroleum product, the Ministry stated:-

> "1. The price of petrol has been made market determined w.e.f. 26.06.2010. Since then, the Public Sector Oil Marketing Companies (OMCs) take appropriate decision on the pricing of Petrol in line with the international oil prices and market conditions.
>
> 2. The following information/data have been hosted on the website of PPAC/MoP&NG:-
>
> i) The international quotes of Crude Price (Indian Basket) and under recovery incurred by OMCs. These details are updated on daily/fortnightly basis.
>
> ii) The Price build of Diesel, PDS Kerosene and Domestic LPG at Delhi along with explanation of terms considered in Price build up. These details are updated on fortnightly/monthly basis.
>
> **iii)** 3. All three public sector OMCs are also hosting Price build of Diesel, PDS Kerosene and Domestic LPG on their website."

PART-II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

Rising Trend of Under recoveries

2.1 The Committee are concerned to note the rising trend of under recoveries of OMCs in the last few years due to high volatility of crude oil price in international market. Since domestic prices of petroleum products are linked with international crude oil prices which is steadily increasing and the Government does not permit passing the impact of full cost of imports on domestic consumers, under recoveries of OMCs have increased from Rs.20,146 crore in 2004-05 to Rs.78190 crore in 2010-11 and is projected to be as high as Rs.1,32,016 crore in 2011-12.

Though the Committee understand that under recoveries do not always signify losses to OMCs, they have put a major dent on the profitability of the companies which in turn have adversely affected their healthy growth and also harmed interests of investors of the company. The rising trend of under recoveries has also posed a major challenge to the Government, who have to on the one hand, see that OMCs work in a competitive atmosphere for healthy growth of this important sector and on the other ensure that common man is not unduly burdened due to inflationary impact of increase in prices of sensitive petroleum products.

The Committee, therefore, desire that Government to tread cautiously in the matter and taking into due consideration of all the stakeholders, devise ways for protecting the interests of the common man.

Refinery Gate Price –APM prices vs. TPP/IPP

2.2 The Committee note that during 1976-2002, pricing of sensitive petroleum products was based on Administered Pricing Mechanism (APM). Under APM, cost of Crude oil processed by Refineries was fixed taking into account the delivered cost of crude oil and the normative refining cost. Further, besides normative marketing and distribution costs, Oil Marketing Companies (OMCs) were also allowed 12% post-tax returns. The Committee have been informed that the APM was reported to be increasingly unsuitable for the long term growth and efficiency of oil

industry due to lack of adequate financial resource generation and incentives for investment in technological upgradations or cost minimization and for achieving consumer friendly and competitive vibrant petroleum sector. As such APM was fully dismantled with effect from 1st April 2002 and since then refinery gate prices of four sensitive petroleum products viz. petrol, diesel, LPG and kerosene are being governed by IPP/TPP which includes beside FOB price of petroleum products in the Arab Gulf, other components namely ocean freight, custom duty, insurance charges etc. in case of IPP and advance licensing benefits in case of EPP.

While going into merits of cost plus mechanism and TPP/IPP mechanism, the Committee were informed that actual cost of refinery/production of individual product was not identifiable separately due to operational procedures and TPP/IPP mechanism based on widely traded and international market price reflect the competitive conditions and help refineries to optimize turnover and over and above cost. The Committee while accepting the contentions of the Ministry for going in TPP/IPP mechanism are, however, of the view that when the refinery gate prices has been aligned to international market prices there is no justification of including other costs in TPP/IPP on the reasons that these costs have been incurred by refineries while importing crude oil.

Moreover the value of these components is less than 2% of the finished product cost and the refineries will not be much affected on exclusion of these components from the refinery gate prices.

The Committee, therefore, strongly recommend that the components other than FOB price of petroleum products at Arab Gulf should not be included in the refinery gate price which will bring down the cost of petroleum products and consequently reduce the under recoveries of OMCs.

Operating efficiencies of refineries

2.3 The Committee note that the petroleum products prices in the international market do not always move in tandem with the crude oil prices but depend on the demand and supply constraints, seasonal fluctuations etc. The Committee have also been informed that out of 9 to 10 products that are produced from crude oil , three products are priced above crude oil prices and rest are traded below the crude prices. Moreover, there is around 10% fuel loss in processing of crude oil which increases the cost price of the finished products.

On consideration of the material submitted and deposition by representatives, the Committee are convinced that in current international marketing scenario where there are narrow margins, the Indian refineries have to be very efficient in order to compete and be viable and profitable. The Committee, however, find that the public sector refineries are mostly of small capacity and suffer from inherent disadavantages like locational disadvantages, old technologies which has adversely affected the GRM of the refineris.

The Committee were further informed that BPCL, Mumbai are paying 3% octroi to BMC for bringing crude oil to refinery. So far Rs.1140 crore are being paid annually on this account which has dented the profitability of the company.

The Committee recommend that expert group be constituted to evaluate the performance of each refinery taking into account various constraints faced by them and take effective steps to make them more efficient, viable and profitable.

Transportation through VLCC

2.4 The Committee noted with concern that although shipping strategy of oil companies has always been to maximize transportation of imported crude oil in Very Large Crude Carriers (VLCC) there are infrastructure constraints like draft restrictions and port jetty limitations at Mumbai port which do not allow VLCCs to berth in Mumbai. Hence, refineries in Mumbai are constrained to import crude oil through smaller size of vessels. The

Committee have also been informed that at Visakhapatnam, the Single Point Mooring (SPM) system, which is going to start soon will enable receipt of crude oil through VLCC's. Considering the facts that Very Large Crude Carriers(VLCC), a widely used crude oil carrier that can carry about 270 TMT of crude oil and will be more economical in regard to volume of transporting imported crude, the Committee feel that infrastructure constraints like draft restrictions and port jetty limitations at Mumbai Port should have been addressed on urgent basis. The Committee, urge the Ministry to take up the matter with the appropriate authorities to ensure that the required infrastructure to handle VLCC be built at all the ports off-loading crude oil at the earliest.

Retail selling prices and under recoveries of petroleum products

2.5 The Committee note that expert group constituted under the chairmanship of Dr. Kirit Parikh on current pricing policy of 4 sensitive petroleum products had recommended deregulation of petrol and diesel at both RGP and RSP stage and increase in SKD kerosene and LPG prices.

Further, the Committee have been informed that in consideration of recommendations made by the Expert Group, the Government has deregulated the price of petrol and increased the prices of Diesel, Domestic LPG and PDS kerosene with effect from 26th June 2010 which has helped in moderating the under recoveries of OMCs. In this connection the Committee observe from the material furnished by the Ministry that in most of the countries the prices of petroleum products are being regulated to contain the inflationary impact of high oil prices and give relief to their people. The Committee are, therefore, of the view that in our country which still is a growing economy it will not be prudent to deregulate the prices of sensitive petroleum products as it can aggravate inflation and adversely affect the common man. At the same time, the Committee also understand that the under recoveries incurred by the OMCs has detrimental effect on the financial health of these companies and for the robust development of oil sector it is essential for these companies to be able to compete and function in a free and liberalized atmosphere. The Committee, therefore,

desire that the Government while refraining from complete deregulation of sensitive petroleum products, should continue with the current policy of compensating OMCs for their under-recovery. The Committee further desire that the Government set up a Study Group to look into the entire gamut of under-recoveries of OMCs and based on which a suitable and clear cut policy should be chalked out so as to timely compensate the OMCs for any losses incurred on this account.

Revenue from Oil Sector

2.6 The Committee note that contribution to Central Exchequer from petroleum sector has steadily increased from Rs.93513 crore in 2008-09 to Rs.111779 crore in 2009-10 to Rs. 136497 in 2010-11 while to State exchequer it has increased from Rs.68285 crore in 2008-09 to Rs.72082 crore in 2009-10 to Rs. 88997 in 2010-11. Against the above revenues generated, the pay back by Central Governemnt to OMCs has been inconsistent at Rs.74002 crore in 2008-09 Rs. 28792 crore in 2009-10 and 43926 crore in 2010-11 i.e. the payback was of the order of 79%, 26% and 32%. With the rationalisation of taxation effective from June 2011 wherein the Government has eliminated 5% custom duty on crude oil and reduced excise duty on diesel from Rs. 4.60 per litre to Rs.2 per litre, the revenues of Central Government from oil sector is expected to decline sharply. In this connection the Committee were informed that Central Government has sacrificied Rs.50,000 crore of the total revenue from this sector and the total revenue for 2011-12 is expected to be around Rs.86,000 crore. However, the revenue of State Government which do not share any burden will continue to further rise.

The Committee feel that both Centre and State have tendency to bank heavily on this sector to mobilise revenues. However, given the inflationary impact of rise in prices of petroleum products, the Committee are happy at the reduction of taxes and duties by the Central Government as it has positive impact on reducing under-recoveries and help in increasing profitability of oil companies and also bring the prices of petroleum products within a reasonable limit. In the same way the

Committee would expect State Government to follow suit and give relief, to common man by bringing down the taxation and forgo some of the revenues.

<u>Comparison with other Countries</u>

2.7 From the material furnished by the Ministry, the Committee note that level of taxation on petroleum products in India vis-a-vis other countries is much lower. In case of petrol it is higher only in respect of countries USA, Canada and Pakistan while in case of diesel, it is the lowest among all countries. In case of PDS kerosene and Domestic LPG, the retail selling price in India is very much lower than all the neighbouring countries. The Committee desire the Government to continue with the exsiting taxation structure so that the prices of essential items like diesel, LPG, kerosene do not increase to the detriment of the interest of common man.

<u>Custom duty on petroleum product</u>

2.8 The custom duty levied on the petroleum products which was 7.5% and subsequently revised to 2.5% in June, 2011 does not actually add to the revenues of the Government as product imports are almost nil owing to surplus refining capacity in the Country. Instead, the Committee understand that it goes in to the calculation of fixing the import parity prices of these products at international level which in turn increases the consumer price. The Committee, therefore, recommend that the custom duties on petroleum products especially that on petrol and diesel be brought down to Nil from the present level of 2.5% to make it at par with the custom duty on crude oil which at present is Nil leaving no room for calculation of Refinery Gate price which is the average of 80% of Import Parity Price (IPP) and 20% of Export Parity Price (EPP). The Committee would also like to be apprised in cost reduction of petroleum products at refinery level after recent decision of the Government to remove the entire custom duty on crude oil and how this would help in bringing down the refinery gate price.

Differential State Taxes

2.9 The Committee observe that high State levies are also responsible for high and varied retail selling prices of different petroleum products across the Country. The Committee also note that the Government have requested the State Governments to rationalize their taxes on sensitive petroleum products namely petrol, diesel, PDS kerosene and domestic LPG and also to shift from the ad-valorem tax rates to specific tax component for providing relief to the consumers and as a result, the Government of National Capital Territory of Delhi has reduced the VAT rate on diesel from 20% to 12.5% w.e.f. 20th July 2010. Other States like Bihar, Goa, Tamilnadu and West Bengal have also reduced Sales Tax on various petroleum products. However, the Committee feel that still there is need to substantially reduce the rates of sales tax on petroleum products and these should be made uniform across the country not only to ensure that consumers get these products at a uniform price but also to contain black marketing in the neighboring areas where different retail pricing of petroleum products exist. The Committee, therefore, recommend that Union Government should seriously pursue the matter with the State authorities at appropriate level and a consensus should be brought to reduce sales tax to a uniform level.

Subsidy on diesel

2.10 The Committee note that high level of taxes on petrol and low taxes on diesel with a subsidy of Rs.10.83 as on 23.12.2011 on sale of each litre of diesel has resulted in big disparity in their retail selling prices. The Committee, however, are of the view that since petrol is consumed mainly by private vehicle users and diesel being used mainly for mass transport system and agriculture etc. there is a merit in keeping the diesel prices at lower level. The Committee note that out of the total consumption of diesel in the country, 15% is used by private car owners, 10% for industrial use and 8% is used in power generation i.e. 33% of diesel is being used by those sections which are taking unfair advantage of low taxation and subsidy on diesel.

The Committee are of the strong view that the Government should take steps to exclude these sectors from the net of beneficiereis of the subsidised diesel. As regards 18% of diesel being used for industrial and power generation, they can be charged unsubsidised prices of diesel.

In regard to use of diesel by private car, the Committee suggest that Government to consider leving a cess on diesel car to be paid at the time of purchase of diesel vehicle and collection of cess should go for compensating the under recoveries of OMCs.

Subsidy on LPG

2.11 The Committee have been informed that in addition to the Government subsidy on domestic LPG and PDS kerosene, the Government upstream oil companies and OMCs are also shouldering a part of the subsidy by not passing the full impact of increase in the price of petroleum products to the domestic consumers. In view of the huge burden of subsidy, all Central duties on PDS SKO and domestic LPG were abolished since 1.3.2005. The under recoveries on PDS SKO and domestic LPG for the year 2010-11 is Rs. 19,485 crore and Rs. 21,772 crore respectively which is more than 50% of total under recoveries. The Committee in their 8th report on Demands for Grants (2011-12) of the Ministry of Petroleum and Natural Gas have already recommended that to offset the huge losses made on account of subsidized domestic LPG cylinders, the Government may consider to do away with providing subsidized LPG to rich and affluent people having an income of more than Rs. 6 Lakh per annum including those holding constitutional posts, public representatives like MPs, MLAs/MLCs. The Committee reiterate its earlier recommendation to address huge under recovery made on account of domestic LPG and PDS kerosene. The Committee would like to know the action taken by Government in this regard

Subsidy on PDS kerosene

2.12 The Committee observe that there is a continuous decline in the percentage of household using kerosene but the allocation of kerosene through PDS is intact. Although in States like Andhra Pradesh, Tamilnadu, Maharashtra and Karnataka, there has been considerable increase in LPG enrollment, the Committee do not find any significant decrease in allocation of kerosene through PDS to these States. As the Government intend to enhance LPG coverage in remote and rural part of India with the launch of the Rajiv Gandhi Gramin LPG Vitran Yojana and Ministry allocate PDS kerosene to different States/UTs on quarterly basis for cooking and illumination only, the Committee recommend that the Union Government should have a stringent monitoring mechanism to control the distribution made to the States and review the allocations periodically so that purpose of helping poor through PDS would be properly served.

Diversion of PDS Kerosene

2.13 The Committee are concerned to note that as per study of NCAER, 35% of PDS kerosene is diverted for non PDS usage including adulteration, the Committee find that to contain the menace of diversion/black marketing of Superior Kerosene Oil (SKO) distributed under PDS and to ensure the PDS SKO reaches the bonafide beneficiaries, a pilot project on biometric Smart Card based solution for distribution of Domestic LPG and PDS SKO has been launched in the State of Andhra Pradesh in coordination with the Unique Identification Authority of India (UIDAI), the Oil Marketing Companies (OMCs) in the Public Sector and the State Government. In this regard, the Ministry of Petroleum & Natural Gas has signed a Memorandum of Understanding (MOU) with the UIDAI. While appreciating the launching of a Pilot Project for distribution of Domestic LPG and PDS SKO, the Committee desire that the Pilot Project be completed soon and the Government should create necessary infrastructure to launch similar Projects in all the States and a time bound plan be prepared to implement

the same. The Committee would like to be apprised of the action taken and progress made by the Government in this regard.

<u>Burden Sharing Mechanism and Impact of Under-recoveries on financial health of OMCs</u>

2.14 The Committee note that total burden of under-recovery of OMC's is presently being shared 33% by upstream companies via offering discount in crude oil prices and the remaining burden is apportioned between the Government and the OMCs depending on the feasibility of the Government to allocate funds from budgetary sources and capacity of the OMCs to absorb a part of their under-recoveries. Therefore, the actual burden sharing ratio between the Government and the OMCs varies from year to year on this account. The Committee note the percentage of under recoveries born by OMCs was 9% during 2006-07, 21% in 2007-08, Nil in 2008-09, 12% in 2009-10 and 22% in 2010-11. The Committee are constrained to note that not only there is any fixed criteria followed by the Government on the sharing of under recoveries to the OMCs, the compensation of under-recoveries is also not being received by the companies on time, therefore, their quarterly financial results show very inconsistent results. The Committee have further been informed that the OMCs' mounting under-recoveries have compelled them to borrow heavily, to meet their cash flow requirements and the total borrowings of Rs. 67,332 crore as of March 2008 has ballooned to Rs. 85,933 crore as on 30th June 2010. The Committee also observed that the combined interest burden of the OMCs during 2009-10 was `Rs. 3,441 crore which has also resulted in deteriorating debt equity ratios of OMCs. The Committee, therefore, desire that cash assistance to the OMCs on account of under-recoveries should be transferred at regular intervals on pre-determined basis enabling them to overcome the problems leading to imposition of interest and penalty by tax authorities. The Committee recommend that the Government should evolve a clear and fixed policy to fund under-recovery of OMCs so that estimates of profits of these listed companies where stakes of various investors are also involved, would be properly indicated in the year.

Cost of production of ONGC/OIL

2.15 The Committee note that cost of production of crude/barrel by ONGC and OIL is $37.87 and $33.71 per barrel. However, the gross crude oil prices of crude oil has been $ 89.41 and 86.12/bbl. With discount to OMC of $35.64 and $27.58 per barrel , the net price realised is $53.77 and $58.54 per barrel. The Committee therefore, observe that against the cost of production of ONGC $37.87, the net price realized is $53.77 per barrel i.e. the margin of profit is $15.90 per barrel. Similarly for OIL, against the cost of production of $33.71, the net price realised is $58.54 per barrel i.e. the margin of profit is $24.83 per barrel. The Committee feel that given the high profits being earned by upstream companies, there is a good case of them increasing their contribution in burden sharing of under-recoveries at least to 40% so that will give some respite to OMCs.

SLRs Status to bonds

2.16 The Committee note with concern that special oil bonds issued in part compensation of under-recoveries of the public sector Oil Marketing Companies (OMCs) has to be generally sold at a discount and can only be used for capital expansion plans provided there is adequate internal resources available for financing working capital during the intervening period. The Committee are further surprised to know that although the bonds issued by the Government to OMCs are considered as an eligible security for investment by Provident Funds (PFs) and Insurance companies, they do not have Statutory Liquidity Ratio (SLR) status and as a result banks are unwilling to buy such bonds from OMCs. Thus, the market and appetite for oil bonds is limited. In view of the forgoing, the Committee find that the special oil bonds issued by the Government are unable to solve cash liquidity problems which force the companies to borrow from market at high rate of interest to meet their regular cash requirements. Therefore, the Committee strongly recommend that oil bonds being issued by the Government should be given SLR status so that OMC's should not have to wait for suitable opportunity for disposal of bonds in the market and can sell these bonds to the banks. The Committee

also recommend that as the insurance sector is a good source of revenue generation for the Government, insurance companies may be requested to invest their surplus funds in oil bonds issued by the Government to fund under-recovery.

Transparency in pricing of petroleum products

2.17 The Committee observe that there is a lot of misgivings among people over the pricing of the petroleum products due to elaborate mechanism and lack of transparency in pricing of these products. The Committee though have been informed that lately the Ministry has started uploading information in this regard on their website but the Committee feel it is not enough and there is a greater need to make people aware of mechanism of pricing of these products through newspapers and other press media. Also a substantial amount of subsidy is being given on sale of three petroleum products namely diesel, kerosene and LPG for the targetted beneficiaries. The Committee feel that the people in general should also be regularly informed regarding these subsidies and how it is being targetted and utilised. In this way the people would not only be made more aware but also can be vigilant against any misuse of these subsidies by unintended and undeserving beneficieries.

New Delhi;
December, 2011
Agrahayana, 1933 (Saka)

ARUNA KUMAR VUNDAVALLI,
Chairman,
Standing Committee on Petroleum and Natural Gas

APPENDIX-I

(i) NOTE OF DISSENT ON THE REPORT BY SHRI TAPAN SEN, M.P. (RS)

I hereby submit my suggestions for incorporation in the draft Report on "Challenges of Under-recoveries of Petroleum Products" circulated for consideration and adoption in the meeting of the Committee on 20.12.2011 for kind consideration of the Committee.

(i) 1. At Para 2.2., page 48

2nd stanza at 6th/7th lines,

The sentence beginning with "The Committee while accepting ….." should be substituted as under:

"The Committee do not accept such contention of the Ministry for going in for TPP/IPP mechanism and are of the firm view that pricing should be based on 'cost plus mechanism'

(ii) 2. At 2.2, page 48, in 4th stanza,

The sentence "Moreover the value….refining gate prices" be deleted

(iii) 3. At 2.2, page 48, in 4th stanza,

In the sentence beginning with "The Committee therefore, strongly recommends……." In the third line after "refinery gate price…" following may be inserted:

"since they are components to be included in the cost of imported crude reaching the refinery in a cost plus pricing mechanism".

(iv) 4. Para 2.5, at page 51,

At 5th line, after the sentence ending with "….OMCs for the under-recovery" following be added in continuation:

"and also constitute a price-stabilisation-fund out of the cess collected on petroleum products for addressing/adjusting the volatility of crude prices in the international market."

(v) 5. Para 2.6 at page 51,

After the first sentence ending with Rs 88997 in 2010-11, following sentence be inserted:

"Added to this is the revenues earned by the state governments from taxes/duties on petroleum products."

(vi) 6. Para 2.6 at page 51

At the 11th line following segment be deleted:

"…..the revenues of central government from oil sector is expected to decline sharply"

(vii) At 12th line following sentence be inserted:

"But the customs duty on finished products, i.e., petrol, diesel etc remain in place which got reflected in domestic prices of petroleum products and also in the revenue along with rising international prices."

(viii) 7. Para 2.6 at page 52

At 2nd line following segment of sentence be delted:

"…..and also bring the prices of petroleum products within reasonable limit."

(ix) 8. Para 2.8 page 52

At 3rd line, after the words "the revenues" please add "directly"

(x) At 7th line after the sentence ending with "….consumer price" following be added in continuation:

"…..and also contribute"

(xi) 9. Para 2.11 at page 54

My dissent note on the 8th Report of the Standing committee on Demands for Grants (2011-12) on delivery of subsidized LPG cylinders may be taken note on record..

Sd/-

Shri Tapan Sen

20.12.2011

(ii) NOTE OF DISSENT BY SHRI M.B.RAJESH, M.P. (LS)

I hereby submit my suggestions for incorporation in the draft Report on "Challenges of Under-recoveries of Petroleum Products" circulated for consideration and adoption in the meeting of the Committee on 20.12.2011 for kind consideration of the Committee.

(i) 1. At Para 2.2., page 48

2nd stanza at 6th/7th lines,

The sentence beginning with "The Committee while accepting ….." should be substituted as under:

"The Committee do not accept such contention of the Ministry for going in for TPP/IPP mechanism and are of the firm view that pricing should be based on 'cost plus mechanism'

(ii) 2. At 2.2, page 48, in 4th stanza,

The sentence "Moreover the value….refining gate prices" be deleted

(iii) 3. At 2.2, page 48, in 4th stanza,

In the sentence beginning with "The Committee therefore, strongly recommends……." In the third line after "refinery gate price…" following may be inserted:

"since they are components to be included in the cost of imported crude reaching the refinery in a cost plus pricing mechanism".

(iv) 4. Para 2.5, at page 51,

At 5th line, after the sentence ending with "….OMCs for the under-recovery" following be added in continuation:

"and also constitute a price-stabilisation-fund out of the cess collected on petroleum products for addressing/adjusting the volatility of crude prices in the international market."

(v) 5. Para 2.6 at page 51,

After the first sentence ending with Rs 88997 in 2010-11, following sentence be inserted:

"Added to this is the revenues earned by the state governments from taxes/duties on petroleum products."

(vi) 6. Para 2.6 at page 51

At the 11th line following segment be deleted:

"…..the revenues of central government from oil sector is expected to decline sharply"

(vii) At 12th line following sentence be inserted:

"But the customs duty on finished products, i.e., petrol, diesel etc remain in place which got reflected in domestic prices of petroleum products and also in the revenue along with rising international prices."

(viii) 7. Para 2.6 at page 52

At 2nd line following segment of sentence be delted:

"…..and also bring the prices of petroleum products within reasonable limit."

(ix) 8. Para 2.8 page 52

At 3rd line, after the words "the revenues" please add "directly"

(x) At 7th line after the sentence ending with "….consumer price" following be added in continuation:

"…..and also contribute"

(xi) 9. Para 2.11 at page 54

I oppose the idea of withdrawing the supply of subsidized LPG cylinder to all the persons above the annual income of Rs. 6 lakh. Since such withdrawal will deprive a large section of common workers and employees from the benefit of subsidized LPG cylinder.

Sd/-

Shri M.B.Rajesh

20.12.2011

APPENDIX-II

MINUTES OF THIRD SITTING OF THE COMMITTEE (2010-11)

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2010-11)

THIRD SITTING
(16.11.2010)

The Committee sat on Tuesday, the 16th November, 2010 from 1530 hrs. to 1700 hrs. in Committee Room 'C', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Aruna Kumar Vundavalli - Chairman

MEMBERS

Lok Sabha

2 Shri Mukesh B. Gadhvi
3 Shri Dilipkumar Mansukhlal Gandhi
4 Shri Vikrambhai A. Madam
5 Dr. Thokchom Meinya
6 Shri Mahabal Mishra
7 Shri Kabindra Purkayastha
8 Shri C.L. Ruala
9 Shri Uday Pratap Singh (Hoshangabad)
10 Shri A.K.S. Vijayan

Rajya Sabha

11 Shri Silvius Condpan
12 Dr. Akhilesh Das Gupta
13 Shri Kalraj Mishra
14 Shri Tapan Kumar Sen

Secretariat

1.	Shri J.P. Sharma	-	Joint Secretary
2.	Smt. Anita Jain	-	Director
3.	Shri J.V.G. Reddy	-	Additional Director
4.	Shri Arvind Sharma	-	Deputy Secretary

Representatives of the Ministry of Petroleum & Natural Gas

1.	Shri S.Sundareshan	-	Secretary
2.	Shri L.N. Gupta	-	Joint Secretary

Representatives of Public Sector Undertakings and other organisations

1.	Shri B.M. Bansal	-	Chairman, IOCL
2.	Shri R.S. Sharma	-	CMD, ONGC
3.	Shri B.C.Tripathi	-	CMD, GAIL
4.	Shri N.M. Borah	-	CMD, OIL
5.	Shri S. Radhakrishnan	-	CMD, BPCL
6.	Shri S. Roy Choudhary	-	CMD, HPCL
7.	Shri D.K. Saraf	-	Director (Finance), ONGC

8.	Shri T.K. Anantha Kumar	-	Director (Finance), OIL
9.	Shri S.V. Narasimhan	-	Director (Finance), IOCL
10.	Shri S.K. Joshi	-	Director (Finance), BPCL
11.	Shri B. Mukherjee	-	Director (Finance), HPCL

2. At the outset, the Chairman welcomed the Secretary, Ministry of Petroleum and Natural Gas and his accompanying officials and explained the purpose of holding the sitting, i.e. briefing by the representatives of the Ministry and PSUs on the subject 'Challenges of under-recoveries of Petroleum Products'. He, then sought clarifications on basic concept of under-recoveries, factors that determine price of petroleum products, the role of import parity price and taxes in pricing, burden sharing mechanism by various stake–holders and impact of the under-recoveries on the profitability of the Oil Marketing Companies, so far.

3. The Secretary described the 'Under-recoveries' as the most important challenge faced by oil sector, and outlined the two objectives of the Ministry to cope with the problem viz. (i) to lessen the burden on common man from high oil prices and (ii) to ensure reasonable profits to Oil Marketing Companies (OMC).

4. Thereafter, a power-point presentation was made by a representative of the Ministry, highlighting the various aspects relating to the subject. The Committee, then discussed the following important points with the representatives of the Ministry and PSUs:-

(i) Burden sharing by upstream companies of OMCs under-recoveries;

(ii) Efforts of the Government/upstream oil PSUs to increase production of oil and gas;

(iii) Implications of high tax regime on the petroleum products and contribution of the oil sector to the Government exchequer;

(iv) Savings on import of crude oil by implementing 5% mandatory blending of ethanol in Petrol;

(v) The implications of de-regulation of pricing of petroleum products on the common man;

(vi) Steps taken by the Government to reduce PDS quota of those States where there is significant increase in LPG consumers during the last 3 years to reduce subsidy burden on kerosene;

(vii) Volatility in the international price of crude oil and steps taken to improve domestic production; and

(viii) Profit earned by private companies by exploiting the volatility of the price in International market and exporting the refined petroleum products.

(ix) ONGC's stake in Rajasthan oil field.

5. Some of the queries raised by the Members were responded to by the representatives of the Ministry/PSUs. The Ministry were asked to furnish written replies to the queries on which information was not readily available with them.

6. A verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX-III

**MINUTES OF SIXTH SITTING OF COMMITTEE (2010-11)
STANDING COMMITTEE ON PETROLEUM & NATURAL GAS
(2010-11)**

SIXTH SITTING
(4.2.2011)

The Committee sat on Friday, the 4th February 2011 from 1500 hrs. to 1700 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri Aruna Kumar Vundavalli - Chairman

MEMBERS

Lok Sabha

2 Shri Anandrao Adsul
3 Smt. Santosh Chowdhary
4 Dr. Ratna De
5 Shri Mukesh B. Gadhvi
6 Shri Maheshwar Hazari
7 Shri Gorakh Prasad Jaiswal
8 Shri Sudarshan Bhagat
9 Dr. Thokchom Meinya
10 Shri Kabindra Purkayastha
11 Shri K. Narayan Rao
12 Shri C.L. Ruala
13 Shri Om Prakash Yadav

Rajya Sabha

14 Shri Tapan Kumar Sen
15 Shri Sabir ali

Secretariat

1.	Shri A.K.Singh	-	Joint Secretary
2.	Smt. Anita Jain	-	Director
3.	Shri J.V.G. Reddy	-	Additional Director
4.	Shri Arvind Sharma	-	Deputy Secretary

Representatives of the Ministry of Petroleum & Natural Gas

1.	Shri S.Sundareshan	-	Secretary
2.	Shri L.N.Gupta	-	Joint Secretary

Ministry of Finance (Department of Revenue)

1.	Shri Anup Kumar Srivastava	-	Joint Secretary

Ministry of Finance (Department of Expenditure)

1.	Smt. Meena Aggarwal	-	Joint Secretary (PF-I)

Representatives of Public Sector Undertakings and other organisations

1.	Shri S.V.Narasimhan	-	Chairman (Addl. Charge) and Director (Finance), IOCL
2.	Shri A.K.Hazarika	-	CMD (Addl. Charge) and Director (Onshore), ONGC
3.	Shri N.M.Borah	-	CMD, OIL
4.	Shri B.C.Tripathi	-	CMD, GAIL
5.	Shri S. Radhakrishnan	-	Acting CMD, BPCL
6.	Shri D.K.Saraf	-	Dir. (Fin), ONGC
7.	Shri T.K.Ananth Kumar	-	Dir. (Fin), OIL
8.	Shri B. Mukherjee	-	Director (Fin), HPCL
9.	Dr. B. Mohanty	-	Director, PPAC
10.	Shri S.P.Gupta	-	Director (Fin), PPAC

2. At the outset, Hon'ble Chairman welcomed the representatives of the Ministry of Petroleum and Natural Gas, Ministry of Finance and other organizations to the sitting of the Committee.

3. After a brief power point presentation by the Ministry, the Committee heard oral evidence of the representatives of the Ministry on the subject 'Challenges of Under-recoveries of Petroleum Products" and then discussed various aspects of the subject which mainly related to the rationality of Import Parity Price, the need for analysis of the difference between the cost price, selling price minus taxes of the petroleum products, the element of subsidy minus taxes on petroleum products, the need for examination of pricing mechanism for petroleum products and the concept of under-recoveries by C&AG, disparities in the estimates of under-recoveries due to cost of production and trade parity price methods, justification for windfall taxes on National oil Companies and Private Companies, evolution of a mechanism for proper targeting of subsidies, rationalization of taxes of petroleum products and policies followed in other countries in this regard.

4. The other issues discussed by the Committee related to the status of implementation of the recommendations of high powered

Committee for due compensation to and rehabilitation of the land losers in Ahmedabad oil fields, exploration of oil and gas in Barak Valley in Assam, need for measurement of supply of crude oil from wells on daily basis and laying of gas pipelines in Bihar, Jharkhand and West Bengal etc. The Committee also discussed various complaints relating to the policy guidelines regarding allotment of retail outlets and distributorships.

5. Thereafter, the Committee took up for consideration the draft Action Taken Report on the recommendations contained in the 2^{nd} Report (15^{th} Lok Sabha) on Demand for Grants (2010-11) of Ministry of Petroleum and Natural Gas and adopted the same without any modification. The Committee also authorised the Chairman to finalise the Report after making consequential changes, if any, arising out of the factual verification of the Report by the Ministry and present the same to both the Houses of Parliament.

6. A verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX-IV

MINUTES OF THIRD SITTING OF COMMITTEE (2011-12)

STANDING COMMITTEE ON PETROLEUM AND NATURAL GAS (2011-12)

THIRD SITTING
(23.11.2011)

The Committee sat on Wednesday, November 23, 2011 from 1500 hrs. to 1745 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Aruna Kumar Vundavalli - Chairman

MEMBERS

Lok Sabha

2 Shri Vikrambhai Arjanbhai Madam Ahir
3 Shri Ramesh Bais
4 Shri Sudarshan Bhagat
5 Shri Sanjay Singh Chauhan
6 Smt. Santosh Chowdhary
7 Shri Raosaheb Dadarao Danve
8 Shri Mukeshkumar Bheravdanji Gadhvi
9 Shri Dilipkumar Mansukhlal Gandhi
10 Dr. Thokchom Meinya
11 Shri Mahabal Mishra
12 Shri Kabindra Purkayastha
13 Shri M.B. Rajesh
14 Shri C.L. Ruala
15 Shri Dhananjay Singh
16 Shri Uday Pratap Singh

Rajya Sabha

17 Shri Tapan Kumar Sen
18 Smt. Gundu Sudharani
19 Dr. Prabha Thakur

SECRETARIAT

1. Shri A.K. Singh - Joint Secretary
2. Smt. Anita Jain - Director
3. Shri Sanjeev Kumar Mishra - Deputy Secretary

Representatives of the Ministry of Petroleum & Natural Gas

1.	Shri G.C.Chaturvedi	-	Secretary
2.	Shri Sudhir Bhargava	-	Additional Secretary
3.	Shri L.N.Gupta	-	Joint Secretary

Representatives of Public Sector Undertakings and other organizations

1	Shri R.S. Butola	-	Chairman, IOCL
2	Shri Sudhir Vasudeva	-	C&MD, ONGC
3	Shri S. Roy Choudhury	-	C&MD, HPCL
4	Shri R.K. Singh	-	C&MD, BPCL
5	Shri N.M.Borah	-	C&MD, OIL
6	Shri B.C.Tripathi	-	C&MD, GAIL
7	Dr. B. Mohanty	-	Director, PPAC
8	Shri S.P.Gupta	-	Director, PPAC

2. At the outset, Hon'ble Chairman welcomed the representatives of the Ministry of Petroleum and Natural Gas and other organizations to the sitting of the Committee.

3. After a brief power point presentation by the Ministry, the Committee heard oral evidence of the representatives of the Ministry on the subject 'Challenges of Under-recoveries of Petroleum Products" and then discussed various aspects of the subject which mainly related to the rationality of market-driven pricing policy of the petroleum products including deregulation of the petrol price, actual under-recovery based on cost of production, reasons behind FOB price of the petroleum product taken into account in Import Parity Price (IPP) instead of crude price, efficiency of refineries in the country, differences in gross refinery margin of the refineries, international factors affecting prices of petroleum products in India, current export of petroleum products from the country, price difference in the purchase of crude by the private and Government companies, concession given to private sector in establishment of refineries, Government's plan for establishment of strategic crude reservoirs in the country, marketing margin of OMCs and prices paid by the OMCs to the upstream companies for the domestically produced crude etc.

4. The other issues which were discussed related to reduction in demand and supply of kerosene though PDS, data availability regarding LPG connection given to the consumers and the number of petrol pumps as per the population of the area, etc. The Committee also discussed status of implementation of M.B.Lal Committee report and advised the Secretariat to write to the Ministry to obtain information on the recommendations of implementation of M.B.Lal Committee Report.

5. A verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX-V

MINUTES OF FOURTH SITTING OF COMMITTEE (2011-12)
STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2011-12)

FOURTH SITTING
(20.12.2011)

The Committee sat on Tuesday, the 20th December, 2011 from 1500 hrs. to 1700 hrs. in Committee Room 'E', Parliament House Annexe, New Delhi.

PRESENT

Shri Aruna Kumar Vundavalli - Chairman

MEMBERS

Lok Sabha

2. Shri Vikrambhai Arjanbhai Madam Ahir
3. Shri Badruddin Ajmal
4. Shri Ramesh Bais
5. Shri Sudarshan Bhagat
6. Shri Sanjay Singh Chauhan
7. Smt. Santosh Chowdhary
8. Shri Mukeshkumar Bheravdanji Gadhvi
9. Shri Dilipkumar Mansukhlal Gandhi
10. Dr. Thokchom Meinya
11. Shri Mahabal Mishra
12. Shri Kabindra Purkayastha
13. Shri M.B. Rajesh
14. Shri C.L. Ruala
15. Shri Uday Pratap Singh
16. Shri Thol Thirumaavalavan

Rajya Sabha

17. Smt. Gundu Sudharani
18. Dr. Prabha Thakur

Secretariat

1. Shri A.K.Singh - Joint Secretary
2. Smt. Anita Jain - Director
3. Shri Sanjeev Kumar Mishra- - Deputy Secretary

Representatives of the Ministry of Petroleum & Natural Gas

1.	Shri G.C. Chaturvedi	-	Secretary
2.	Shri. Sudhir Bhargava	-	Addl. Secretary
3.	Shri. Vivek Kumar	-	Joint Secretary (M)
4.	Shri. Neeraj Mittal	-	Director

Representatives of Public Sector Undertakings and other organisations

1.	Shri B.C. Tripathi	-	CMD,GAIL
2.	Shri R.K. Singh	-	CMD, BPCL
3.	Shri N.M. Bora	-	CMD, OIL
4.	Shri R.P. Watal	-	Secretary PNGRB
5.	Ms. Nishi Vasudeva	-	Director (Mkt.), HPCL
6.	Shri K.S. Jamestin	-	Director (HR), ONGC
7.	Shri M. Ravindran	-	MD, IGL
8.	Shri V.C. Chittoda	-	MD, MGL
9.	Shri A.K. Balyan	-	MD, PLL
10.	Shri V.K. Kaul	-	GM (Gas), IOC

2. At the outset, the Committee took up for consideration the following Report and adopted the same without any modification:

(i) 9th Report on "Challenges of Under-recoveries of Petroleum Products"

(ii) *** **** **** **** **** **** ***** ****

3. The Committee also authorised the Chairman to finalise the Report after making consequential changes, if any, arising out of the factual verification of the Report by the Ministry and present the same to both the Houses of Parliament.

4. *** **** **** **** **** **** ***** ****

5. A verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

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*Matter not related to the subject