

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

UNSTARRED QUESTION NO:2344
ANSWERED ON:03.12.2009
PRICING POLICY FOR PETROLEUM PRODUCTS
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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

- (a) whether investors have to face losses in the absence of any clear and long term price fixation policy of petroleum products;
- (b) if so, whether the above reasons are responsible for less interest of investors towards public sector undertakings;
- (c) if so, the reasons therefor;
- (d) whether the Government is contemplating for evolving long term price fixing policy of petroleum products; and
- (e) if so, the details thereof?

Answer

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

(a)to(c): With effect from 1.04.2002, the Administered Pricing Mechanism (APM) for petroleum products was dismantled and it was decided that the pricing of all petroleum products, except PDS Kerosene and Domestic LPG, would be market-determined. However, in view of the steep increase and high volatility in the international oil prices since 2004-05, the Government has been modulating the retail selling prices of Petrol, Diesel, PDS Kerosene and Domestic LPG sold by the three Public Sector Oil Marketing Companies (OMCs); namely, Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation, to protect the consumer from the inflationary impact of international oil prices.

As passing on the entire impact of the increase in the oil prices to the consumers would have resulted in a steep increase in the domestic prices and aggravated inflationary conditions, the Government has been following an equitable Burden Sharing Mechanism, to ensure that the burden of under-recoveries was 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

Domestic upstream oil companies by offering price discounts to OMCs

OMCs to bear a portion of the under recoveries and

Consumers to bear minimal price increases.

By adopting this approach, the Government has not only protected the consumers from high international oil prices but has also ensured the financial health of the OMCs.

(d)&(e): The Government has constituted an Expert Group on 31.08.2009 under the chairmanship of Dr. Kirit S. Parikh, former Member of Planning Commission to examine, inter-alia, the current pricing policy of the four sensitive petroleum products; namely Petrol, Diesel, PDS Kerosene and Domestic LPG and make recommendations for a viable and sustainable pricing policy for petroleum products.