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Title: The Minister of Petroleum and Natural Gas laid a statement regarding recent revision in prices of sensitive petroleum products-laid.

MADAM SPEAKER: Shri Murlī Deora.

THE MINISTER OF PETROLEUM AND NATURAL GAS (SHRI MURLI DEORA): Madam, I beg to lay on the Table the following statement.

In the light of the recommendations made by the Kirit Parikh Committee on a Viable and Sustainable Pricing System of Petroleum Products, the Government has taken certain pricing decisions recently. With effect from 26th June 2010, the prices of Petrol and Diesel have been made market-determined. As a result, the price of Petrol increased by Rs.3.50/litre. In Diesel, it was decided that for the present, the price would be increased by only Rs.2 per litre. Simultaneously, the prices of Public Distribution System (PDS) Kerosene and Domestic LPG were increased by Rs.3 per litre and Rs.35 per cylinder respectively.

The primary objective behind the pricing reforms undertaken by the Government is the growing imperative for fiscal consolidation,, the need for reducing the subsidy burden on petroleum products in order to allocate more funds to social sector schemes such as health, education and food security and also ensuring the country's energy security in the long-run.

While making the decision, we have been quite conscious of the need to protect the common man. Only the bare minimal burden has been passed on to the consumers. This is evident from the fact that even after the price increases, the public sector Oil Marketing Companies (OMCs) continue to incur under-recoveries of Rs.1.66 per litre on Diesel, Rs.14.86 per litre on PDS Kerosene and Rs.201.80 per cylinder on Domestic LPG. The Government and the OMCs are expected to bear an under-recovery burden of approximately Rs.53,000 crore on sensitive petroleum products during 2010-11 even after the price increase.

The price increases, particularly in respect of the cooking fuels i.e., Domestic LPG and PDS Kerosene have been quite minimal. Considering the annual consumption of 8 cylinders by an average household, the increase in price of Domestic LPG by Rs.35 per cylinder is likely to increase their daily expenditure by less than Re.1. Similarly, the increase in price of PDS Kerosene by Rs.3 per litre is expected to increase the daily expenditure on Kerosene for an average rural household only by less than 50 paise.

The current pricing reforms will improve the financial health of the OMCs which need resources to invest in new refineries, marketing terminals, storage depots, pipelines, port facilities and other infrastructure for ensuring the country's long-term energy security. Besides, market determined pricing, by spurring market competition, will encourage oil companies to reduce cost, improve efficiency and enhance services.

It needs to be clarified that the price of Petrol has been made market driven since Petrol is largely an item of final consumption. Motor vehicle owners are largely well-off persons and do not need to be subsidized. During 2009-10, the annual rate of growth of Petrol consumption was nearly 14%. The growth in sale of vehicles can account for only around 50% of this growth in consumption; the remaining growth is on account of increased consumption of Petrol by existing vehicle owners. Such an abnormally high rate of growth in consumption is unsustainable both from the point of view of the economy and the environment. It is felt that the recent price increase in Petrol will encourage the consumers to adopt fuel efficiency and energy conservation measures.

While discussing the price increase, I ask the Hon Tale Members to consider that, the retail price of PDS Kerosene had not been revised since March 2002 although the average international price of Kerosene had grown by about four times, from \$23.65 per barrel in March 2002 to \$92.87 per barrel in April 2010.

Considering the fact that the per capita agriculture GDP had increased by 66% since 2002-03, the Expert Group headed by Dr. Kirit Parikh had recommended an increase of Rs.6 per litre in the price of PDS Kerosene. However, the price has been increased by only Rs.3/litre. Even after the recent price increase, the public sector OMCs are expected to incur under-recovery of approximately Rs.16,542 crore (at \$75/barrel of crude oil) on PDS Kerosene during 2010-11.

The price of PDS Kerosene in India is still the lowest among the neighbouring countries. As on 1 July 2010, a litre of PDS Kerosene cost Rs.39 in Nepal, Rs.21 in Sri Lanka, Rs.36 in Pakistan and Rs.29 in Bangladesh as compared to Rs. 12.32 in

Delhi.

Sub-market pricing of PDS Kerosene is leading to large quantities of the product getting diverted for adulteration of Diesel, which negates the efforts of the oil industry in implementation of better quality BSIII/IV auto fuels. As per the report of the NCAER, about 38% of the PDS Kerosene was getting diverted for non-PDS purposes including adulteration of other petroleum products.

In respect of Domestic LPG, I would urge upon the Members to recall that when the international crude oil prices fell to the level of \$44 per barrel in January 2009, the Government was quick to pass on the benefit to the consumer, and the price of Domestic LPG was reduced by Rs.25 per cylinder. Since then the crude oil prices have increased to the current level of around \$74 per barrel, necessitating an increase in the retail price of Domestic LPG.

The Expert Group had recommended an increase of Rs.100 per cylinder. However, appreciating the importance of this fuel in the common man's life, Government has increased the price by only Rs.35/cylinder. Even after this price increase, the public sector OMCs are expected to incur under-recovery of approximately Rs.20,719 crore (at \$75/barrel of crude oil) on Domestic LPG during 2010-11.

The price of Domestic LPG in India is still the lowest among the neighbouring countries. As on 1 July 2010, a cylinder of Domestic LPG costs Rs. 75 in India, Rs. 87 in S

It is being propagated by some sections that the public sector OMCs are making huge profits and still the Government is harping on their poor financial health as a justification for increasing prices. It is true that during 2009-10, the Profit After Tax (PAT) of IOC/BPC and HPC was Rs. 10,221 crore, Rs.1538 crore and Rs.1301 crore respectively. However, it must be remembered that these profits were made possible only after the Government and upstream oil PSUs have contributed subsidy of Rs.40,430 crore to the OMCs during 2009-10.

The Public sector OMCs are the backbone of the country's energy security. If their financial health deteriorates on account of the under-recoveries on the sensitive products, their ability to discharge their assigned task of supplying the entire country with petroleum products suffers. The OMCs are required to make huge investments for meeting the country's present and future energy needs. The plan outlay for 2010-11 is Rs. 12,825 crore for IOC, Rs.3,022 crore for BPC and Rs.3,924 crore for HPC. These resources have to be generated by the OMCs internally. Hence, seen in the backdrop of their plan expenditure requirements, the OMCs' profits cannot be described as being very high.

Finally, I am constrained to raise the issue of high rates of taxation by the State Governments. In some of the States, the Sales Tax on Petrol and Diesel is as high as 33% and 24.7% respectively. Some of the State Governments are levying Sales Tax as high as 12.5% on an item like PDS Kerosene. Further, Sales Tax is being levied by the 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. I have been repeatedly appealing to the State Governments to shift from the ad valorem rates of Sales Tax to specific tax component. Such a step, along with a reduction in the levels of State taxes, will ensure that the impact of rising international oil prices will be minimal. The Government of Delhi has recently reduced the VAT on Diesel from 20% to 12.5% and the Government of Goa has reduced the VAT on Petrol and Diesel by 2% and on LPG from 4% to Nil. These steps are worth emulation by the other States also.

In conclusion, I reiterate that the Government is committed to the twin objectives of protecting the interest of the common man, particularly the vulnerable sections of society as also to protect the financial health of the public sector OMCs. Let it not be forgotten that in July 2008, when the Indian Basket of crude oil price touched \$142/bbl and the required price increase was around Rs.31/litre for Diesel and Rs.21/ litre for Petrol, the Government stepped in to protect the consumer, and increased the retail price by only Rs.3/litre for Diesel and Rs.5/litre for Petrol. Despite the huge under-recoveries to the OMCs, uninterrupted supplies of all sensitive petroleum products were maintained throughout the country. For the year 2008-09, the Government and the oil PSUs subsidized the consumer to the extent of Rs. 1,03,292 crore on the four sensitive petroleum products.

I reiterate that while taking a decision on making the prices of auto fuels market-determined, Government has made it clear that in case international oil prices display high volatility, the Government will suitably intervene in the pricing of these products.