

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

STARRED QUESTION NO:123
ANSWERED ON:01.12.2005
DUAL PRICING SYSTEM FOR PETROLEUM PRODUCTS
Gaikwad Shri Eknath Mahadeo;Singh Shri Kirti Vardhan

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

- (a) whether the Government proposes to introduce a dual and differential pricing system for petroleum products;
- (b) if so, the details thereof and the reasons therefor;
- (c) the losses suffered by the different oil companies consequent to rising crude oil prices; and
- (d) the steps taken by the Government to reduce the losses suffered by the oil companies ?

Answer

MINISTER OF PETROLEUM & NATURAL GAS AND PANCHAYATI RAJ (SHRI MANI SHANKAR AIYAR)

(a)to(d): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN PARTS (a) TO (d) OF THE LOK SABHA STARRED QUESTION NO. 123 FOR 1ST DECEMBER 2005 REGARDING DUAL PRICING SYSTEM FOR PETROLEUM PRODUCTS BY SARVASHRI EKNATH M. GAIKWAD AND KIRTI VARDHAN SINGH, MP

(a) to(d): With the declared intention of moving towards market-determined pricing for petroleum products, Government announced the dismantling of the Administered Pricing Mechanism (APM) effective 1.4.2002. However, there has been an unprecedented, sharp and spiraling increase in international oil prices, particularly since late 2003, combined with considerable week-to-week and even day-to-day volatility. Therefore, Government, in June 2004, elucidated the principles which would govern its policy of containing the burden of increase in international prices on consumers of sensitive petroleum products. It was decided that the burden should be equitably shared by consumers, the Government and the oil companies. Therefore, the full impact of the international price increase has not been passed on to consumers of sensitive products.

The Oil Marketing Companies (OMCs) pay to the refineries the prices of sensitive petroleum products namely petrol, diesel, domestic LPG and PDS kerosene on an import parity basis, taking into account the prevalent international prices of these products. But notwithstanding the steep rise in international prices of sensitive petroleum products, OMCs have been modulating the price increase in petrol & diesel besides maintaining the prices of subsidized products like domestic LPG & PDS Kerosene, in consultation with the Government. In consequence, they have suffered under-recoveries to the tune of Rs.20,146 crore on sale of these products during the year 2004-05. The under-recoveries continue in 2005-06 and are expected to be substantially larger than in 2004-05. The estimated under-recoveries for the period Apr-Nov'05 in respect of PDS Kerosene & Domestic LPG is Rs.14,373 crore and for petrol & diesel Rs.12,353 crore, totaling to Rs.26,726 crore.

The profits (losses) of OMCs during the first two quarters of the current year are as under:

(Rs Crores)
Companies Profit after Tax (As per Published Figures)
2003-04 2004-05 Apr-Jun 05 July-Sept 05

IOCL	7005	4891	(-)	54	(+)	949.49
HPCL	1904	1277	(-)	508	(-)	22.03
BPCL	1695	966	(-)	431	(-)	203.4
IBP Co	215	59	(-)	234	(-)	190.5

It can be seen that the public sector OMCs have suffered losses during the first quarter of 2005-06. Further, except IOC, the other OMCs have suffered losses also during the second quarter of the current year.

In order to formulate a long-term pricing policy for petroleum products, the Government have constituted an inter-ministerial Committee under the Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister.

The Committee is mandated to look into various aspects of pricing and taxation of petroleum products with a view to stabilizing/rationalizing their prices, keeping in view the financial position of the oil companies, the investment needed in the sector, the need to conserve petroleum products, and establishing a transparent mechanism for the autonomous adjustment of prices by the oil companies. Taking into consideration the interests of all stakeholders concerned, the Committee will suggest a comprehensive mechanism for pricing and taxation of sensitive petroleum products, and other allied issues.