GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

STARRED QUESTION NO:423
ANSWERED ON:22.12.2005
SUBSIDIES ON PETROLEUM PRODUCTS
Rao Shri Sambasiva Rayapati

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

(a) the criteria adopted for sharing of the burden of subsidies on petroleum products between the Government and the Public Sector Oil Companies;

(b) whether the Government has received any proposal from the Oil and Natural Gas Corporation in this regard;

(c) if so, the details thereof; and

(d) the decision taken by the Government thereon ?

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. 423 FOR 22ND DECEMBER 2005 REGARDING SUBSIDIES ON PETROLEUM PRODUCTS BY SHRI RAYAPATI SAMBASIVA RAO, MP

(a): 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. Since PDS kerosene and domestic LPG are fuels of mass consumption and largely consumed by the economically vulnerable sections of the society, it was decided that subsidies on these two products would continue on a specified flat rate basis to be met from the fiscal budget. Accordingly, as per the `PDS Kerosene and Domestic LPG Subsidy Scheme, 2002`, a flat rate of subsidy per selling unit was approved to be given to Public Sector Oil Marketing Companies (OMCs), equal to the difference between the cost price and the issue price per selling unit as on 31.3.2002, and to be phased out in three to five years. The OMCs were to adjust the retail selling prices (RSP) of these products in line with international prices during this period. However, in deference to Government directions, the OMCs did not increase the prices of PDS Kerosene and Domestic LPG commensurately, resulting in under-recoveries in respect of these two products. In October 2003, Government decided that the OMCs would make up about 1/3rd of their under-recoveries on these two products from the surpluses in petrol and diesel and balance under-recoveries would be equally shared by the upstream companies and the OMCs.

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. Notwithstanding the steep rise in international prices of sensitive petroleum products, OMCs were modulating the price increase in petrol & diesel also besides maintaining the prices of subsidized products like domestic LPG & PDS Kerosene, in consultation with the Government. In consequence, they have suffered under-recoveries on sale of petrol and diesel as well. 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 these sensitive petroleum products. It was decided that the burden should be equitably shared by consumers, the Government and the oil companies. Accordingly, from 2003-04 onwards, Government introduced the subsidy sharing mechanism in which, after taking into account the subsidy provided for from the fiscal budget, the balance is shared by the upstream and the downstream companies equitably.

Even after the subsidy sharing mechanism put in place, the burden of under-recoveries on OMCs continued to rise steeply in spite of discounts given by refineries. The estimated under-recoveries was Rs. 9,274 crore for 2003-04 and Rs. 20,146 crore for 2004-05, which is projected to rise to 38,154 crore during the current year. In order to compensate the public sector OMCs on account of mounting under-recoveries suffered by them over and above the amount allowed as subsidy through the Budget, Government have decided to issue oil bonds. The Ministry of Finance have made provision to issue bonds of the face value of Rs.5,750 crore during the current financial year. This has been included in the second batch of Supplementary Demands for Grants 2005-06.

(b) & (c): Yes, Sir. Oil and Natural Gas Corporation (ONGC) have represented to the Government seeking a review of the rationale of the equitable subsidy sharing mechanism under which the upstream companies are sharing the burden of under-recoveries along with the Government and the downstream companies, keeping in view the increase in retail selling prices (RSPs) of petrol & diesel, the sharing of under-recoveries by refineries and the softening of international price of crude oil and petroleum products.

(d): Government policy is to equitably share the burden of under-recoveries suffered by the OMCs in the context of anomalous price increases. The share of the upstream companies will be proportionate to the total quantum of under-recoveries.