

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

UNSTARRED QUESTION NO:2379

ANSWERED ON:08.12.2005

SUBSIDY ON LPG

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

- (a) whether the Government has asked the Oil and Gas Marketing Companies to bear the cost of subsidies on LPG themselves;
- (b) if so, the details thereof;
- (c) whether the Government is aware that these companies have stopped providing new gas connection;
- (d) if so, whether these companies have also reduced the supply of gas to the dealers;
- (e) if so, the details and the reasons therefor;
- (f) whether the Government has conducted any inquiry into the matter; and
- (g) if so, the outcome thereof and the action taken by the Government in this regard ?

**Answer**

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

(a) & (b): Domestic LPG is a subsidized product. After the announcement of the dismantling of the Administered Pricing Mechanism effective 1.4.2002, the subsidy on this product is being partly borne by the Government budget and partly by the Oil Companies. During the year 2003-04, the Government had put in place a mechanism of sharing of under-recoveries of oil marketing companies (OMCs) on this account with the upstream oil companies.

Since the end of 2003, there has been unprecedented, sharp and spiraling increase in international oil prices combined with considerable week-to-week and even day-to-day volatility. Accordingly, since June 2004, Government elucidated the principles, which would govern its policy of containing the burden of increase in international prices on consumers of sensitive petroleum products including LPG. It has been decided that the burden should be equitably shared by the oil companies, the Government and consumers. The Government has reduced the excise duty and custom duty on domestic LPG to nil effective 1.3.2005. Despite a tremendous increase in international LPG prices, the price of domestic LPG has been increased only twice during the period April'2002 till date i.e. on 16th June 2004 & 5th November 2004 by Rs.20/cylinder on each occasion. The upstream oil companies continue to share the under-recoveries of OMCs on domestic LPG.

(c) to (g): LPG requirements are met by a combination of domestic production and imports. A temporary shortage of LPG emerged in September 2005 on account of various factors. PSU production in the period April-September, 2005 was 303 (Thousand Metric Tonne) TMT less than planned; Reliance Industries Ltd. (RIL) production was 190 TMT less than planned. In consequence, physical inventories with oil marketing companies (OMCs) declined from 333 TMT at the beginning of April, 2005 to 190 TMT at the beginning of October, 2005. Then, with effect from 4th October, 2005, RIL, the single largest domestic supplier of LPG, shut down their Fluidized Catalytic Cracker (FCC) unit at Jamnagar for maintenance work. Moreover, at just about the same time, as RIL confirmed its shutdown effective October, 2005, domestic production prospects were seriously impacted by the fire in Mumbai High North and global LPG supplies became tight, largely on account of the impact of Hurricane Katrina on US refineries. All these factors put together upset the plans made by OMCs to effect imports in time to offset the anticipated shortage in supplies. This fed rumours in the market that OMCs would not be able to meet the demand, leading to a sudden spurt in demand. There was also a strike in bottling plants in the National Capital Territory (NCT) area towards the end of September 2005 which aggravated the situation.

The Ministry took matters in hand early in October, 2005 when it was decided that through a combination of inventory management and imports, directly handled by a composite task force of the OMCs under the close supervision of the Government, physical shortages of supply would be overcome as quickly as possible. It was also decided that bottling plants in the NCT area would work on Sunday, 9th October 2005 and other holidays. On the basis of these decisions, it was announced that the physical shortage in the NCT area would end by Dusshera and substantively in the rest of the country by Deepavali. These objectives have been largely achieved. In addition to the arrangements made earlier by OMCs to import 642 TMT of LPG during the period October-December 2005, arrangements have been made to import an additional quantity of 237.9 TMT during this period, 138 TMT of which has already reached the country. Thus, the overall physical shortage in the country at present has been reduced to only about 1.5% of the average monthly consumption of LPG. However, the backlog at the micro-level may vary from market to market on account of operational reasons.

The production of LPG in RIL's refinery has been restored from 1st December 2005 and the supply situation is expected to substantively improve and normalize in the coming few weeks.