

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

UNSTARRED QUESTION NO:2137
ANSWERED ON:09.03.2006
SUBSIDY POLICY
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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

- (a) whether public sector oil companies are formulating their own economic policy due to lack of transparency in the subsidy sharing policy;
- (b) if so, the details of subsidy sharing policy of public sector oil companies;
- (c) the amount of subsidy being borne by ONGC, GAIL and IOC; and
- (d) the basis on which subsidy and price fixation policy is formulated ?

Answer

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS (SHRI DINSHA PATEL)

(a)to(d): No, Sir. The policies of public sector oil companies have been aligned to the subsidy sharing policies of the Government.

With the declared intention of moving towards market-determined pricing for petroleum products, Government had 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 will continue on a specified flat rate basis to be met from the fiscal budget. The Oil Marketing Companies (OMCs) were to adjust the retail selling prices of these products in line with international prices. 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.

The share of the upstream companies which is proportionate to the quantum of under-recoveries, is as under:

Rs./Crores
Contribution by 2003-04 2004-05 2005-06
Upstream oil companies (Apr-Dec`05)

ONGC	2,695	4,104	8,549
GAIL	428	1,137	526
OIL	706	676	

As far as IOC is concerned, after adjusting subsidy from Government and the upstream companies, IOC would bear under recovery of about Rs 8,108 crores during April-Dec05.

In order to formulate a long-term pricing policy, the Government had constituted an Inter-Ministerial Committee under the Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister to examine different 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. The Committee submitted its report on 17.2.2006. The report of the Committee is being examined by Government.