10

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2005-06)

FOURTEENTH LOK SABHA

MINISTRY OF PETROLEUM & NATURAL GAS

PRICING OF PETROLEUM PRODUCTS

[Action Taken by the Government on the recommendations contained in the Sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2004-05) on 'Pricing of Petroleum Products']

TENTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

May, 2006/Vaisakha, 1928 (Saka)

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CP&NG No: 15

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Presented to Lok Sabha on 22.5.06

Laid in Rajya Sabha on 22.5.06

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

May, 2006/ Vaisakha, 1928 (Saka)

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(2005-06)

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2 Shri Anandrao Vithoba Adsul
3 Dr. Rattan Singh Ajnala
4 Shri R. Dhanuskodi Athithan
5 Shri Ramesh Bais
6 Shri Kirip Chaliha
7 Shri Lal Muni Choubey
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16 Shri Rajiv Ranjan 'Lalan' Singh
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18 Shri Vanlalzawma
19 Shri Ratilal Kalidas Varma
20 Shri Rajesh Verma
21 Shri A.K.S. Vijayan

Rajya Sabha

22	Shri Satish Chandra Misra
*23	Shri Ahmed Patel
24	Shri C. Perumal
*25	Shri Rajeev Shukla
26	Shri Subash Prasad Yadav
**27	vacant
**28	vacant
**29	vacant
**30	vacant
**31	vacant

Secretariat

1.	Shri S.K.Sharma	-	Additional Secretary
2.	Shri R.C.Kakkar	-	Deputy Secretary
3.	Shri P.C.Tripathy	-	Under Secretary
4.	Smt. Reena Gopalakrishnan	-	Committee Officer

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* Re-nominated to the Committee w.e.f. 12.5.2006.

** These vacancies have occurred because of retirement from the membership of Rajya Sabha of Dr. Alladi P. Rajkumar, Shri Kripal Parmar and Shri Dipankar Mukherjee w.e.f. 2.4.2006, Shri Moolchand Meena w.e.f. 3.4.3006 and resignation from the membership of Rajya Sabha by Shri M. Rajasekara Murthy w.e.f. 10.11.2005 (subsequently re-elected to R.S.)

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Natural Gas having been authorised by the Committee to submit the Report on their behalf, present this Tenth Report on Action Taken by the Government on the recommendations contained in the Sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas on 'Pricing of Petroleum Products'.

2. The Sixth Report of the Standing Committee on Petroleum & Natural Gas was presented to Lok Sabha on 4th August, 2005. The Action Taken Replies of the Government to the recommendations contained in the Sixth Report were received on 19th January and 22nd March, 2006.

3. The Standing Committee on Petroleum & Natural Gas (2005-06) considered and adopted the Report at their sitting held on 18th May, 2006.

4. An analysis of the action taken by the Government on the recommendations contained in the Sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas is given in Appendix-III.

5. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

6. The Committee place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi;
19 May, 2006
29 Vaisakha, 1928 (Saka)

N. JANARDHANA REDDY,
***Chairman*,**
Standing Committee on
Petroleum & Natural Gas

CHAPTER - I

REPORT

This Report of the Standing Committee on Petroleum & Natural Gas deals with the action taken by the Government on the Recommendations contained in the Sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2004-2005) on 'Pricing of Petroleum Products' which was presented to Lok Sabha on 4.8.2005.

2. Action Taken Notes have been received from the Government in respect of all the 15 Recommendations /Observations contained in the Report. These have been categorised as follows:-

(i) Recommendations/Observations that have been accepted by the Government:-
Sl. Nos. 2 and 15

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:-
Nil

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:-
Sl. Nos. 1,6,10 and 14

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited:-
Sl. Nos. 3,4,5,7,8,9,11,12 and 13

3. The Committee trust that utmost importance would be given by the Government to the implementation of their recommendations. In cases where it is not possible for the Ministry to implement the recommendations in letter and spirit for any reason, the matter should be reported to the

Committee with reasons for non-implementation. The Committee further desire that the Action Taken Notes on the Recommendations/Observations contained in Chapter-I of this Report and Final Replies in respect of the recommendations for which interim replies have been furnished by the Government (included in Chapter-V), should be furnished expeditiously.

4. The Committee will now deal with the action taken by the Government on some of their Recommendations.

A. PRICING OF CRUDE OIL

Recommendation No. 1

5. The Committee had observed that the domestic crude oil production by Oil and Natural Gas Corporation Ltd. (ONGC) and Oil India Ltd. (OIL), the two national oil companies and private/ joint venture companies engaged in the exploration and production activities in the country accounted for only about 30% of the country's crude oil requirements while more than 70% of the same was being met through imports from other countries. Consequent upon dismantling of the Administered Pricing Mechanism (APM), w.e.f 1.4.2002, the price of indigenous crude was being determined on the basis of crude oil agreements between the producers and the refiners by benchmarking various indigenous crude oils to equivalent international crude oils. This allowed ONGC and OIL to charge import parity prices for the crude produced in India, by linking the prices to international crude prices. Components like ocean freight, insurance, customs duty, ocean loss, port dues, etc. were added to the Free on Board (FOB) price of the respective marker crude in the international market to calculate the import parity price of domestic crude. The Committee were of the view that such factors which were in no way connected to domestic crude production should not go into calculating the price of domestic crude. They had, therefore, recommended that the Government should peg the price of domestic crude to

the Free on Board (FOB) price of the respective marker crude in the international market.

6. The Ministry of Petroleum & Natural Gas has submitted the following reply in this regard:-

> ”Post dismantling the Administered Pricing Mechanism, to move towards the market determined pricing regime, wherein the consumer prices are to be aligned with the prevailing international prices, the concept of import parity pricing was introduced for the refinery sector in 1998. When the refineries were paid at the import parity rates, it was logical that they too pay on the same basis the upstream companies for domestic crude. Accordingly, vide this Ministry’s resolution No. P-20029/22/2001-PP dated 28.3.2002, it was decided that crude oil prices payable to Oil and Natural Gas Corporation Ltd. (ONGC) and Oil and Limited (OIL) would be market determined with effect from 1st April, 2002.
>
> The present pricing policy applicable to indigenous crude oil producers, viz., ONGC and OIL is based on Crude Oil Sale Agreement (COSA) between them and the refineries. Currently, in order to compensate the Oil Marketing Companies (OMCs) for the huge under-recoveries suffered by them in sale of kerosene, LPG, diesel and petrol, the upstream companies are made to offer sizeable discounts in prices.
>
> In order to formulate a long term pricing policy, the Government has decided to constitute a Committee to examine different aspects relating to pricing and taxation of petroleum products. Accordingly, an Inter-Ministerial Committee has been constituted under the Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister.
>
> The Committee is mandated to look into the 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, need to conserving petroleum products: and establishing a transparent mechanism for autonomous adjustment of prices by the oil companies. The Committee will suggest, taking into consideration the interests of all stakeholders concerned, a comprehensive mechanism for pricing and taxation of sensitive petroleum products, and other allied issues.”

7. The Committee, in their Sixth Report, had viewed that components like ocean freight, insurance, customs duty, ocean loss, port dues, etc., which were included in calculating the import parity price of domestic crude, should not go into calculating the price of domestic crude as these components were in no way connected to domestic crude production. They had, therefore, recommended that the Government should peg the price of the domestic crude to the Free on Board (FOB) price of the respective marker crude in the international market. The Government, in its Action Taken Reply, has, inter-alia, stated that the concept of import parity pricing was introduced for the refinery sector in 1998 and that when the refineries were paid at the import parity rates, it was logical that they too pay on the same basis the upstream companies for domestic crude. The Committee are not convinced with the stand taken by the Government on this vital issue. In their opinion, there is no justification for the refineries as well as the upstream companies to be paid at the import parity rates for their products and crude respectively. Rather, indigenous crude needs to be paid at FOB rate.

The Government, in its reply, has also made a reference to the Rangarajan Committee which was set up to examine different aspects relating to pricing and taxation of petroleum products. However, from the data furnished by the Ministry to this Committee in a reply to the questionnaire on Demands for Grants (2006-07) of the Ministry (Appendix-I), it appears that the Rangarajan Committee has not made any specific recommendation on the issue of indigenous crude pricing. Taking note of the fact that components like ocean freight, insurance, port dues, etc. are in no way connected to domestic crude production, the Committee reiterate their earlier recommendation and emphasise that the Government should peg the price of domestic crude to the FOB price of the respective marker crude in the international market.

B. PROCUREMENT OF CRUDE OIL

Recommendation No. 2

8. The Committee were informed that crude imports were generally done through commercial agreements or contracts named as term contracts entered into by various Indian companies with National Oil Companies of oil producing countries. Crude was also being procured from open market on spot basis through tenders. The Committee found that during 2004-05, stand-alone refineries like Mangalore Refinery and Petrochemicals Ltd. (MRPL) and Kochi Refineries Ltd. (KRL) had got 98% and 75% of their respective crude imports done through term contracts. For BPCL, this share was 66% whereas for HPCL, IOC and its subsidiaries, this share came to 62%. Taking note of the fact that term contracts were more flexible than spot tenders and long term uninterrupted supply of crude could be ensured through them, the Committee had desired that the Government should ask all refining companies to enhance the share of procurement through term contracts.

9. The Ministry of Petroleum & Natural Gas has submitted the following reply in this regard :-

> "Sourcing long-term or spot crude oil imports is a continuous process and the details depend on the contractual or purchase arrangements made with national oil companies of foreign countries and other market operators, as well as the type of crude oil available in international oil markets. The purchase pattern is aimed at optimizing refining margins. As recommended by the Committee, the existing guidelines emphasise crude oil imports through term contracts on Official Selling Price (OSP). Overall, around 70% of crude produced by the public sector oil companies in 2004-05 was through term contracts."

10. In their Sixth Report, the Committee had recommended that the Government should ask all refining companies to enhance the share of procurement of crude through term contracts as the term contracts are more flexible than spot tenders and long term uninterrupted supply of crude can be ensured through term contracts. They have been informed

through the Government's Action Taken Reply that the guidelines issued to oil companies in this regard emphasise crude oil imports through term contracts on Official Selling Price (OSP) and that around 70 per cent of crude procured by the public sector oil companies in 2004-05 was through term contracts. The Committee are happy that the Ministry has recognised the benefits of term contracts and issued guidelines emphasising crude oil imports through such contracts. However, in the opinion of the Committee, the role of the Ministry should not be confined to issue of guidelines only. Rather, the Ministry should evaluate/monitor their implementation by the oil companies and suggest remedial measures, wherever necessary, which would lead to further improvement in the situation. The Committee, therefore, desire the Ministry to monitor the implementation of the guidelines emphasising crude oil imports through term contracts by the oil companies on a continuous basis.

C. CESS ON CRUDE OIL

Recommendation No. 3

11. The Oil Industry Development Board (OIDB) was set up in 1975 under Oil Industry Development Act to provide financial assistance for the development of the Oil Industry. Annual cess collection amounted to nearly Rs. 5400 crore. The Committee had been informed that since the inception of OIDB and upto 31.3.2005, the Central Government had collected a sum of about Rs. 55966.81 crore as cess. Out of this collection, OIDB had received only Rs. 902.40 crore till March, 2005. The argument of Ministry of Finance was that the definition of "oil industry" encompassed all activities directly or indirectly connected with exploration, production, and marketing of mineral oil and production of fertilisers/petrochemicals. They had even informed that the expenditure on "oil industry" had exceeded the cess collections. The Committee had dismissed this argument as a far-fetched one. They were unhappy that large funds collected for a specific purpose i.e. to carry out oil industry developmental activities were not

being utilised for that purpose. The Committee had already expressed their deep concern and strong objection to the practice of not adhering to the objectives of such a levy in their First and Fourth Reports (14^{th} Lok Sabha). They had once again emphasised that there was no justification in levying cess if the amount generated from it was not being utilised for the sector and reiterated their earlier recommendation that a Price Stabilisation Fund should be created by using the money collected from cess on crude oil to bring in stabilisation in the prices of petroleum products. They had also desired that a part of the cess amount might also be utilised to provide subsidy on kerosene and LPG.

12. The Ministry of Petroleum & Natural Gas has explained the position in its reply as under:-

> "Since the oil prices have been extremely volatile in the recent past and oil companies have not been able to pass on the full burden to the consumers resulting into under recoveries, there is a case for establishing a "Price Stablisation Fund" with funding from the cess on indigenous crude. Since the suggestion of utilising cess on indigenous crude for the purpose of oil industry/operating "Price Stabilisation Fund" has revenue implications on fiscal budget, the proposal was referred to Ministry of Finance, Ministry of Public Distribution & Consumer Affairs and Planning Commission for concurrence. The Ministry of Finance has not agreed to the proposal of setting up "Price Stabilisation Fund". However, as recommended by the Committee, the issue has again been flagged with Ministry of Finance.
>
> Ministry of Public Distribution & Consumer Affairs have offered no comments.
>
> Planning Commission has supported the proposal "in principle", and conveyed that this will burden the budget and will affect the resources for the Plan and has suggested that there is need to adjust the kerosene and LPG prices so as to keep the subsidy at reasonable levels. Alternatively, it has been suggested that additional resources for financing subsidy be generated by increasing the cess on petroleum products."

13. The Committee, in their original Report, had emphasised that there was no justification in levying cess on indigenous crude oil if the amount generated from it was not being utilised for the oil sector and had

recommended that a Price Stabilisation Fund should be created by using the money collected from cess to bring in stabilisation in the prices of petroleum products. They had also desired that a part of the cess amount should be utilised to provide subsidy on kerosene and LPG. The Ministry of Petroleum and Natural Gas has agreed that there is a case for establishing a 'Price Stabilisation Fund' with funding from the cess on indigenous crude as the oil prices have been extremely volatile in the recent past and the oil companies have not been able to pass on the full burden to the consumers resulting into under recoveries. The Planning Commission has also supported the proposal 'in principle' for utilisation of cess for the purpose of oil industry/operating the Price Stabilisation Fund. However, the Committee are unhappy to know that the Ministry of Finance has not agreed to the proposal for setting up the Price Stabilisation Fund. They strongly disapprove of the negative approach of the Ministry of Finance to such a vital issue. The Committee have further been informed that, as per their recommendation, the issue has again been flagged with the Ministry of Finance. They desire the Ministry of Petroleum & Natural Gas to vigorously pursue the matter with the Ministry of Finance at the highest level so as to ensure a positive result without any further delay and convey the progress made in this regard to the Committee at the earliest.

D. ROYALTY ON CRUDE OIL

Recommendation No. 4

14. As regards royalty levied by State Governments in respect of the crude oil extracted from their respective jurisdictions, the Committee had observed that the rates were substantial which resulted in enhancing the final cost of crude significantly. During the 90's, the royalty was collected at specific rates. Later, it was revised to an ad valorem rate of 20% of the well head price. The Committee had noted that at present, royalty was being levied at the rate of 20% of the well head price for onshore and shallow water offshore and 10% for

offshore above 400 meters. Though the provisions of Oil Fields Regulation and Development Act, 1948 permitted royalty collections up to 20% of well-head price, the Committee had desired that the Government should persuade the State Governments to reduce the royalty rates so as to bring down the final cost of crude, thereby ultimately benefiting the customer. They had further desired that the Oil Fields Regulation and Development Act might be amended, if necessary.

15. The Ministry of Petroleum & Natural Gas has submitted as under:-

> "The suggestion of Committee has revenue implications for State Governments. Accordingly, the matter is being taken up with State Governments for consideration."

16. As regards royalty levied by State Governments on crude oil, the Committee had observed that the rates were substantial which resulted in enhancing the final cost of crude significantly. The Committee had desired that the State Governments be persuaded to reduce the royalty rates so as to bring down the final cost of crude, thereby ultimately benefiting the consumer. They have been informed that the matter is being taken up with State Governments for consideration. The Committee desire the Government to actively pursue the matter with the State Governments and apprise them of the outcome of such efforts.

E. PRICING OF PETROLEUM PRODUCTS

Recommendation No. 5

17. The Committee had observed that the prices of petroleum products were being fixed on import parity basis which replaced Administered Pricing Mechanism of yesteryears. Accordingly, the refinery gate prices of products, i.e. the prices at which the marketing division of an oil company or an oil marketing company purchased the product from refining division or a refinery were calculated by adding ocean freight, insurance, customs duty, ocean loss, port

charges, etc. to the Free on Board (FOB) price of the respective product in the international market. Though the basic price at the refinery gates calculated on import parity basis was uniform at all refineries throughout the country, the retail selling prices of the products for the consumer were being computed by adding excise duty, freight up to depots, marketing cost/ margin, state specific irrecoverable levies, delivery charges from depot to retail pump outlets, sales tax/ other local levies and dealers' commission to this basic price. Thus, the system artificially inflated the prices of petroleum products refined at home. The Committee had strongly felt that the pricing of products on import parity basis was irrational and far removed from reality as the computations were being made on assumed costs. Though the input for refineries was crude, the price of the output was based on the international price of the respective product. As almost all the components that went into calculating the refinery gate price of products were notional components without any incurred cost basis, the Committee had recommended that the Government should scrap the import parity pricing method for products and instead should go in for a more realistic method. The Government could explore the option of pegging the product prices to FOB price of products prevailing in the global market.

18. In response to Committee's Recommendation, the Ministry of Petroleum & Natural Gas has furnished the following reply:-

"1. The Committee has suggested that refinery transfer prices needs to be pegged to the FOB price of products prevailing in international market.

2. Given the high dependence on imported crude (over 76%) and the fact that the companies do actually incur charges such as freight, irrecoverable taxes, marketing costs, etc., pegging the product prices to FOB price is likely to create an anomalous situation.

3. In order to formulate a long term pricing policy, the Government has constituted a High Powered Committee to examine different aspects relating to pricing and taxation of petroleum products. Accordingly, Committee has been constituted under the

Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister.

The Committee is mandated to look into the 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, need to conserving petroleum products: and establishing a transparent mechanism for autonomous adjustment of prices by the oil companies. The Committee will suggest, taking into consideration the interests of all stakeholders concerned, a comprehensive mechanism for pricing and taxation of sensitive petroleum products, and other allied issues."

19. In their original Report, the Committee had recommended that the Government should scrap the import parity method being applied for fixation of prices of petroleum products and instead, go in for a realistic method. They had asked the Government to explore the option of pegging the product prices to FOB prices of products prevailing in the global market. In its Action Taken Reply, the Government has stated that pegging the product prices to FOB prices is likely to create an anomalous situation since the country has a high dependence on imported crude of over 76 per cent and the companies do actually incur charges such as freight, etc. The Committee would like to point out here that there is over 20 per cent indigenous production of crude in the country on which there is no justification for levying freight, ocean charges, etc. This fact has already been brought to the notice of the Government by the Committee in their original Report and also reiterated in this Report at Para No. 7. Thus, if at all the import parity method is to be used for determining the prices of petroleum products, the same has to be applied in combination with FOB price, by fixing an appropriate ratio between the two. The Committee have been informed by the Government during the examination of Demands for Grants (2006-07) of the Ministry that the Rangarajan Committee has, inter-alia, recommended that a more appropriate pricing model for diesel and petrol will be the trade parity price which would be a weighted average of the import parity and export parity prices in the ratio of 80:20. Thus, the

Rangarajan Committee too has not favoured the existing method of fixation of prices of petroleum products on the basis of import parity alone. The Committee regret to observe that due importance has not been given to such a vital issue which is indicative of lack of seriousness on the part of the Government to implement their important recommendations. As the pricing of petroleum products on import parity basis alone is irrational, the Committee reiterate their earlier recommendation that the Government should scrap the said method and instead, go in for a realistic one.

F. REFINING MARGIN

Recommendation No. 6

20. The Committee were informed that the actual cost of refining and the refinery margin within the country were not being taken into account in the pricing of products. The average refining costs of stand-alone refineries like KRL and MRPL were 59 paise and 64 paise per litre, respectively, during 2004-05. The refinery margin had been fluctuating in accordance with global prices. The price differential between crude and the respective product in the international market resulted in huge refinery margins. During 2004-05, the average differential between the international price of Indian basket of crude oil and petrol was $ 9.79 per barrel whereas it was $ 7.69 per barrel for diesel during the same period. The Committee also found a consistent rise in refinery margins and consistent reduction in refining costs in respect of almost all the refineries in the three years from 2001-02 to 2003-04. But despite having reduced refining costs in the country, the final prices of products were being arrived at taking into account a whole lot of notional costs which had been boosting the refinery margins. The Committee had also found that the gross refinery margin varied from refinery to refinery in the country depending on the ability to process heavier and cheaper source of crude, potential to enhance the production of value added products, the technology employed and the total production capacity of the refinery. The

Committee, therefore, had recommended that a realistic ceiling should be worked out for the refinery margins.

21. In its reply, the Ministry of Petroleum & Natural Gas has submitted as under:-

> "Refining is a cyclical industry and international prices are very volatile. The spread between crude and product price fluctuates widely. In the past, there have been times when the spread between international prices of Diesel and Indian Basket crude oil was less than a dollar or even negative. However, currently, the Gross Refining Margins have been satisfactory. But pegging refining margins to a certain level shall amount to reverting to administered pricing mechanism (APM). It will bring back the drawbacks of APM, like no incentive to reduce refining cost. It will breed inefficiencies in the refining sector. Moreover, to monitor the actual refining margin against the normative margin for each refinery on regular basis will not be feasible. The present margins of Indian refineries are fully in alignment with international trade and are not abnormal. Also, the refineries need to have adequate internal generation of resources in order to be able to invest in modernisation, quality upgradation to meet the stringent emission norms and in equipping themselves to enhance handling of sour/heavy crude."

22. In their original Report, the Committee had observed that the price differential between crude and petroleum products in the international market had resulted in huge refining margins. They had recommended that a realistic ceiling should be worked out for the refining margins. The Government has informed the Committee through its Action Taken Reply that even though the current refining margins are satisfactory, there have been times in the past when the spread between international prices of diesel and Indian Basket of crude oil was less than a dollar or even negative. In this regard the Committee would like to point out that there have also been times in the recent past when the spread between crude and diesel prices were about twelve dollars. The Committee are also not inclined to accept the contention of the Government that pegging refining margins to a certain level shall bring back drawbacks of the Administered

Pricing Mechanism (APM). In their view, self- sufficiency achieved by us in refining should act as a countervailing factor in insulating the country from high global prices rather than as a platform for stand alone/big refineries to mop up huge profits. The Committee, therefore, reiterate their recommendation that a realistic ceiling should be worked out for the refining margins.

G. RESTRUCTURING EXCISE DUTY ON PETROLEUM PRODUCTS

Recommendation No. 8

23. The Committee had found that there existed a multitude of excise duties on petrol and diesel. The excise duty on petrol had a specific, ad valorem mix of 8% + Rs. 13/ litre. This included a basic excise duty content, additional excise duty to fund road construction, a special excise duty component and a special additional excise duty as surcharge for national highway project. In the case of diesel, apart from basic excise duty, there existed an additional excise duty . Consequently, the Committee had found that 36% of the retail selling price of petrol and 17% of that of diesel comprised excise duty component. This meant that Rs. 14.74 out of Rs. 40.49 in the retail price of petrol and Rs. 4.93 out of Rs. 28.45 of diesel in Delhi owed to the excise component alone. The Committee had viewed this as a highly disturbing trend. More disturbing had been the ad valorem component of the excise duty which had made the burden on the consumer more prominent. The Committee, therefore, had recommended that the excise duties on petroleum products be so structured as to ensure that the interests of the consumer were not compromised. The Committee had also recommended that the ad valorem component in the existing mix should be replaced by a single specific component.

24. The Ministry of Petroleum & Natural Gas has given the following reply to explain the position:-

> "The country has been witnessing, in alignment with the global trend, an unprecedented, sharp and spiraling increase in international oil prices

combined with considerable week-to-week and even day-to-day volatility since the end of 2003. Another trend being noticed in the international market in recent months is that the prices of some sensitive petroleum products have been moving faster and with greater volatility than the prices of crude, depending on seasonal and regional demands for these products.

The price of Indian Basket of crude oil touched an all time high of US$ 62.78/bbl on 1st September, 2005. 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. It was decided that the burden be equitably shared by consumers, Government and the oil companies.

Government for its part, reduced the excise duty on petrol and diesel by 4% and 3% respectively effective 16.6.2004 and effective 19.08.2004, the excise duty on petrol and diesel was further reduced by 3%. Government also reduced customs duty by 5% each on petrol and diesel with effect from 19.08.2004. In the Budget 2005-06, customs duty on crude was reduced from 10% to 5% on kerosene and LPG from 5% to nil and on other petroleum products from 15-20% to 10%.

However, the recommendation of the Committee for replacement of ad valorem component in the excise duty structure by specific component is being forwarded to Ministry of Finance for consideration."

25. The Committee had recommended that the interests of the consumers should not be compromised while restructuring the excise duties on petroleum products and that the *ad valorem* component in the existing excise duty – which at present comprises a mix of *ad valorem* and specific components – should be replaced by a single specific component as the *ad valorem* component makes the burden on the consumers more prominent. They have been informed through the Government's Action Taken Reply that the matter regarding replacement of *ad valorem* component in the excise duty structure by specific component is being forwarded to the Ministry of Finance for consideration. The Committee desire the Ministry of Petroleum and Natural Gas to vigorously pursue the matter with the Ministry of Finance and ensure an early and positive decision in the matter. They would like to be apprised of the further

developments in the matter. The Committee would also like to emphasise that the interests of the consumers should not be compromised while restructuring excise duties on petroleum products.

H. CUSTOMS DUTIES ON PETROLEUM PRODUCTS

Recommendation No. 10

26. As regards customs duties, the Committee had viewed that the levy was only a mechanism to ensure fruitful gains to refining companies. The customs duty levied on products did not actually add to the revenues of the Government as product imports were almost nil owing to surplus refining capacity in the country. Instead, it had been going into the calculations for fixing the import parity prices of these products at refinery level which in turn increased the consumer price. Moreover, any differential between the customs duty on crude and the customs duty on products would increase the effective tariff protection of the refineries. The Committee, therefore, had recommended that the customs duty on products, especially that on petrol and diesel, be brought down to 5 per cent from 10 per cent, to make it on par with the customs duty on crude, leaving no room for any differential at this level.

27. The Ministry of Petroleum & Natural Gas has submitted the following reply in this regard:-

> "Refining is a cyclical industry and international prices are very volatile. The spread between crude and product price fluctuates widely. In the past, there has been times when the spread between international prices of diesel and Indian basket crude was less than a dollar and even negative. The current good refining margins cannot be taken as normal refining margins, to continue for long. Further in order to enable the refineries to undertake quality improvement projects, it is necessary that the existing tariff protection continue for some more time."

28. The Committee, in their original Report, had viewed that any differential between the custom duty on crude and customs duty on

products would increase the effective tariff protection of the refineries. They had also viewed that customs duty goes into the calculations for fixing the import parity prices of the products at refinery level which in turn increases the consumer price. The Committee had, therefore, recommended that the customs duty on petrol and diesel should be brought down to 5 per cent from 10 per cent to make it on par with the customs duty on crude. They are not satisfied with the reply of the Government that the current good refining margins cannot be taken as normal refining margins, to continue for long and that in order to enable the refineries to undertake quality improvement projects, it is necessary that the existing tariff protection continue for some more time. In this regard, the Committee would like to mention that the Rangarajan Committee has also favoured the lowering of the customs duty on petrol and diesel to reduce the effective protection of the refineries. Taking note of the fact that customs duty goes into the calculations for fixing the import parity prices of products at refinery level which in turn increases the consumer price, the Committee cannot but reiterate their earlier recommendation that the customs duty on petrol and diesel should be brought down to 5 per cent from 10 per cent.

I. DELIVERY MECHANISM OF SUBSIDISED PETROLEUM PRODUCTS

Recommendation No. 13

29. Under the scheme of subsidy on domestic LPG and PDS kerosene, the Government has been providing subsidy on these items. During the Administered Pricing Mechanism (APM) period i.e. upto 31.3.2002, domestic LPG and PDS kerosene were being cross-subsidised through the Oil Pool Account. After the dismantling of the APM w.e.f. 1.4.2002, the Government subsidy was being decided on flat rate basis. After providing for this subsidy, the retail prices were to vary as per changes in the international market. As the Governmental subsidy provisions were minimal, the Committee found that the

public sector Oil Marketing Companies (OMCs) had been shouldering a part of the subsidy by not passing the full increase in the international prices to the domestic consumer. This, they were doing, by selling at prices that fall short of import parity prices, thereby suffering under-recoveries. Besides, the Committee had also found that upstream oil majors viz. ONGC and OIL and GAIL were also sharing this subsidy in the form of special discounts to PSU oil companies engaged in the business of marketing of products. The Committee were of the view that this net of subsidy sharing needed to be widened by including all the refineries (both public and private sectors) in the country, considering the gains made by them within the existing system of pricing. The Committee, while reiterating the need to continue the subsidy on PDS kerosene and domestic LPG, had recommended for an improved delivery mechanism, targeted at real beneficiaries, leaving no room for misappropriation or misuse.

30. The Ministry of Petroleum & Natural Gas, in its reply, has submitted as follows:-

> "The actual subsidy paid by Government in the post-APM era on SKO (PDS) and LPG (Domestic) is much lower than the oil marketing companies under recoveries. Although upstream oil companies contribute substantially towards reducing under-recoveries/losses suffered by oil marketing companies, in marketing petrol, diesel, SKO (PDS) and LPG (Domestic), it would be preferable to widen the subsidy net as suggested by the Committee. While Government should enhance the subsidy provision in the budget, an appropriate mechanism also needs to be formulated to include domestic refineries, including private players, to bear a portion of the subsidy. It may, however, be relevant to note that domestic refineries including the only private sector refinery Reliance have offered discounts to the oil marketing companies in respect of sensitive petroleum products for year 2005-06.
>
> Meanwhile, to ensure availability of kerosene and reduce diversion, Government have approved an innovative pilot project for radically revamping the PDS kerosene distribution network with the primary objective to ensuring that this heavily subsidized product is actually made available in the required quantities at subsidized prices to the intended beneficiaries; and secondly, to thus cap, reverse and eventually eliminate

> the diversion of PDS kerosene for adulteration. The pilot project is being implemented in 10% of the blocks of the country for a period of six months. Thereafter, the working of the scheme would be independently assessed and, based on the experience gained, Government will consider scaling up the scheme would be independently assessed and, based on the experience gained, Government will consider scaling up the scheme to cover the entire country. It has been hoped that the implementation of this project will lead to a significant breakthrough in the delivery of subsidized SKO to the entitled segments of society and thus contribute to the curbing diversion for adulteration."

31. The Committee, while emphasising the need to continue subsidy on PDS kerosene and domestic LPG, had recommended for an improved delivery mechanism, targeted at real beneficiaries, leaving no room for misappropriation or misuse. They had also viewed that the net of subsidy sharing needed to be widened by including all the refineries in the country. The Committee are happy to note that the Ministry is in agreement with the recommendation of the Committee regarding widening of the net of subsidy sharing. The Ministry has viewed that the Government should enhance the subsidy provision in the budget and that an appropriate mechanism needs to be formulated to include domestic refineries, including the private players, to bear a portion of the subsidy. The Committee appreciate the views of the Ministry and desire that the mechanism for inclusion of domestic refineries in the net of subsidy sharing should be finalised and put in place quickly. Regarding improved delivery mechanism, the Committee have been informed that the Government has approved an innovative pilot project called 'Jan Kerosene Pariyojana' which is being implemented in 10% of the blocks of the country for a period of six months. This project has the objective of ensuring that PDS Kerosene, a heavily subsidised product, is actually made available in required quantities at subsidised prices to the intended beneficiaries thereby eliminating the diversion of PDS Kerosene for adulteration. The Committee appreciate the steps taken by the Government and hope that the implementation of 'Jan Kerosene Pariyojana' would improve the

existing delivery mechanism of PDS Kerosene and curb its diversion for adulteration. They would like to be informed of the success achieved under the scheme so far.

J. EXPORT INCENTIVES

Recommendation No. 14

32. The Committee had found that surplus refining capacity had enabled the country to be a net exporter of petroleum products like diesel, petrol, naphtha, ATF, etc. For export of petroleum products, duty drawback incentive was being given by the Government. The scheme allowed exemption of customs duty on crude in lieu of petro goods exported. In other words, exporting companies were being exempted from paying customs duty on part of their crude imports in lieu of their export earnings. Under the scheme, the Finance Ministry had forgone customs revenue and the exporting companies benefited immensely, both by the duty concession and the exorbitant global prices for their products. The Committee did not agree to such a concession, when huge international prices alone could take care of the profit of the exporters. The Committee had, therefore, recommended that the Government should withdraw the duty drawback incentive for export of petro goods. The Government could then make use of the revenue gains on customs front to bring down the excise duties on fuel and thus, pass on the benefit enjoyed by the exporters to the consumers in line with the stated policy of equitable distribution of burden.

33. The Ministry of Petroleum & Natural Gas has explained the position in its reply as under:-

> "The Committee has recommended that advance licence benefit on exports of petroleum products be withdrawn.
>
> Under the EXIM policy, the duty drawback benefit in the form of advance licensing enables duty free import of inputs required for export production to encourage exports that earn valuable foreign exchange for the country. The rationale behind providing duty drawback/advance licensing on inputs is to make Indian exports competitive in international

market to the extent of duty suffered on inputs. The benefit is only given when there is value addition on export of finished products. Further, the duty drawback/advance licensing is applicable to all industries and is not particular to refining sector."

34. The Committee, in their original Report, had recommended that the Government should withdraw the duty drawback incentive to exporting companies for export of petroleum products. In its Action Taken Reply, the Government has, inter-alia, stated that under the EXIM policy, the duty drawback benefit in the form of advance licensing enables duty free import of inputs required for export production to encourage exports that earn valuable foreign exchange for the country. The Government has further stated in the reply that the rationale behind providing duty drawback/advance licensing on inputs is to make Indian exports competitive in the international market to the extent of duty suffered on inputs. From the analysis of the Action Taken Reply, it appears that the Government has not understood the crux of the recommendation. The Committee had recommended that the customs duty waiver given to the exporting companies on part of their crude imports should be discontinued and the revenue gained by the Government in the process should be passed on to the consumer by way of reduction in excise duties on petroleum products. As huge international prices alone can take care of the profits of the exporters, the Committee reiterate their earlier recommendation that the Government should withdraw the duty drawback incentive for export of petroleum products.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation No. 2 (Para No. 2.3)

Crude imports are generally done through commercial agreements or contracts named as term contracts entered into by various Indian companies with National Oil Companies of oil producing countries. Crude is also procured from open market on spot basis through tenders. The Committee find that during 2004-05, stand-alone refineries like Mangalore Refinery and Petrochemicals Ltd. (MRPL) and Kochi Refineries Ltd. (KRL) have got 98% and 75% of their respective crude imports done through term contracts. For BPCL, this share is 66% whereas for HPCL, IOC and its subsidiaries, this share comes to 62%. As term contracts are more flexible than spot tenders and long term uninterrupted supply of crude can be ensured through them, the Committee desire that the Government should ask all refining companies to enhance the share of procurement through term contracts.

Reply of the Government

Sourcing long-term or spot crude oil imports is a continuous process and the details depend on the contractual or purchase arrangements made with national oil companies of foreign countries and other market operators, as well as the type of crude oil available in international oil markets. The purchase pattern is aimed at optimizing refining margins. As recommended by the Committee, the existing guidelines emphasise crude oil imports through term contracts on Official Selling Price (OSP). Overall, around 70% of crude produced by the public sector oil companies in 2004-05 was through term contracts.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Comments of the Committee

(Please see Para 10 of Chapter I of the Report)

Recommendation No. 15 (Para No. 2.15)

The Government should explore on top priority the development of alternative energy resources to reduce dependence on heavy imports. Coal being our major energy source, Government should make specific plans to enhance Coal Bed Methane production, Coal gasification, Coal cleaning technology etc. Technology upgradation or import of technology in this regard should be on the priority. Adequate attention may also be given to the use of ethanol blending.

Reply of the Government

A. Coal Bed Methane

16 exploration blocks for CBM have already been awarded to National Oil Companies (NOCs) and private companies by the Ministry of Petroleum & Natural Gas. Out of 16 blocks, 13 exploration blocks were awarded through international competitive bidding under first two rounds of CBM Policy. Two blocks were awarded on nomination basis to ONGC-CIL and one block to Great Eastern Energy Corporation Ltd. (GEECL) through FIPB route. The Committed investment under CBM in Phase I & II is about US$ 149.29 million. As on 1.4.2005, US$ 21 million has already been invested.

2. Exploration work in all the awarded CBM blocks is in progress. The initial results of the blocks operated by GEECL, Reliance Industries Ltd. (RIL) and ONGC-CIL in the areas of Raniganj, Sohagpur West, Sohagpur East and Jharia are encouraging. CBM reserves of about 6 Trillion cubic feet have been established. Commercial production of CBM is expected in 2007-08.

3. 10 Exploration blocks have been offered under third round of CBM Policy on 23rd February, 2006, two each in the State of Andhra Pradesh, Chattisgarh, Madhya Pradesh, Rajasthan and one each in Jharkhand & West Bengal for exploration and production of CBM.

B. Underground Coal Gasification

4. UCG is a potential economic means of extracting gas from deep-seated and/or isolated coal deposits/lignite resources, which may not be amenable to conventional physical extraction economically. The extraction of gas through UCG process involves drilling of wells and injection of air/oxygen with water or steam in the coal seam. ONGC has signed an MOU with Skotchinsky Institute of Mining (SIM), Russia having expertise in the field of UCG.

C. Use of Ethanol Blending

In order to reduce dependence on import of oil, by way of encouraging use of indigenous sources of energy, inter alia, the Ministry of Petroleum & Natural Gas had notified the scheme of supplying 5% ethanol-blended petrol (EBP) in 9 States and 4 UTs w.e.f. 1.1.2003. In terms of the Notification, only 5% ethanol-blended petrol was required to be supplied by oil marketing companies in these 9 States and 4 Union Territories. However, procurement of ethanol remained a problem due to complex tax structure and its limited availability. As such, the original notification had to be modified from time to time to allow more lead time to companies for such coverage.

Under these circumstances, the Ministry of Petroleum & Natural Gas issued an amending Notification No. 27.10.2004, in supersession of earlier Notifications on the subject, making sale of ethanol-blended petrol mandatory if:-

(a) The price of sourcing indigenous ethanol for supply of ethanol-blended petrol is comparable to the price of indigenous ethanol for alternative uses.
(b) The delivery price of ethanol at the locations is comparable to the import parity price of petrol at that location, and

(c) The indigenous ethanol industry is able to maintain uninterrupted supply of ethanol for ethanol-blended petrol programme at such prices.

The oil companies floated tenders under the provisions of Gazette Notification dated 27.10.2004 for sourcing indigenous ethanol, and on successful completion of tender negotiations, have placed purchase orders/letters of intent for purchase of ethanol for the identified States of Utter Pradesh, Punjab, Andhra Pradesh and Tamil Nadu as notified under the scheme. For other States, the procedural formalities are being completed.

A Memorandum of Understanding (MoU) has been signed between M/s. Indian Oil Corporation Limited, representing the oil marketing companies and the Indian Sugar Mills Association (ISMA) representing the ethanol industry on the other, for supply of ethanol.

[M/o Petroleum & Natural Gas O.M. No. P-38012/2/2005-PP(Part) dated 22nd March, 2006]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Nil

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation No. 1 (Para No. 2.1)

Domestic crude oil production by Oil and Natural Gas Corporation Ltd. (ONGC) and Oil India Ltd. (OIL), the two national oil companies and private/ joint venture companies engaged in the exploration and production activities in the country accounts for only about 30% of the country's crude oil requirements while more than 70% of the same is met through imports from other countries. Consequent upon dismantling of the Administered Pricing Mechanism (APM), w.e.f 1.4.2002, the price of indigenous crude is being determined on the basis of crude oil agreements between the producers and the refiners by benchmarking various indigenous crude oils to equivalent international crude oils. This, the Committee understand, allows ONGC and OIL to charge import parity prices for the crude produced in India, by linking the prices to international crude prices. Components like ocean freight, insurance, customs duty, ocean loss, port dues, etc. are added to the Free on Board (FOB) price of the respective marker crude in the international market to calculate the import parity price of domestic crude. In the opinion of the Committee such factors which are in no way connected to domestic crude production should not go into calculating the price of domestic crude. The Committee, therefore, recommend that the Government should peg the price of domestic crude to the Free on Board (FOB) price of the respective marker crude in the international market.

Reply of the Government

Post dismantling the Administered Pricing Mechanism, to move towards the market determined pricing regime, wherein the consumer prices are to be aligned with the prevailing international prices, the concept of import parity pricing was introduced for the refinery sector in 1998. When the refineries were paid at the import parity rates, it was logical that they too pay on the same basis the upstream companies for domestic crude. Accordingly, vide this Ministry's resolution No. P-20029/22/2001-PP dated 28.3.2002, it was decided that crude oil prices payable to Oil and Natural Gas Corporation Ltd. (ONGC) and Oil and Limited (OIL) would be market determined with effect from 1st April, 2002.

The present pricing policy applicable to indigenous crude oil producers, viz., ONGC and OIL is based on Crude Oil Sale Agreement (COSA) between them and the refineries. Currently, in order to compensate the Oil Marketing Companies (OMCs) for the huge-recoveries suffered by them in sale of kerosene, LPG, diesel and petrol, the upstream companies are made to offer sizeable discounts in prices.

In order to formulate a long term pricing policy, the Government has decided to constitute a Committee to examine different aspects relating to pricing and taxation of petroleum products. Accordingly, an Inter-Ministerial Committee has been constituted under the Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister.

The Committee is mandated to look into the 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, need to conserving petroleum products: and establishing a transparent mechanism for autonomous adjustment of prices by the oil companies. The Committee will suggest, taking into consideration the interests of all stakeholders concerned, a comprehensive mechanism for pricing and taxation of sensitive petroleum products, and other allied issues.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Comments of the Committee

(Please see Para 7 of Chapter 1 of the Report)

Recommendation No. 6 (Para No. 2.6)

The Committee also note that the actual cost of refining and the refinery margin within the country are not taken into account in the pricing of products. The average refining costs of stand-alone refineries like KRL and MRPL were 59 paise and 64 paise per litre, respectively, during 2004-05. The refinery margin fluctuates in accordance with global prices. The Committee further understand that the price differential between crude and the respective product in the international market results in huge refinery margins. During 2004-05, the average differential between the international price of Indian basket of crude oil and petrol was $ 9.79 per barrel whereas it was $ 7.69 per barrel for diesel during the same period. The Committee also find a consistent rise in refinery margins and consistent reduction in refining costs in respect of almost all the refineries in the three years from 2001-02 to 2003-04. But despite having reduced refining costs in the country, the final prices of products are arrived at taking into account a whole lot of notional costs which boost the refinery margins. The Committee also find that the gross refinery margin varies from refinery to refinery in the country depending on the ability to process heavier and cheaper source of crude, potential to enhance the production of value added products, the technology employed and the total production capacity of the refinery. The Committee, therefore, recommend that a realistic ceiling should be worked out for the refinery margins. Assistance of Tariff Commission in working out the actual refining cost especially in private refineries should be sought.

Reply of the Government

Refining is a cyclical industry and international prices are very volatile. The spread between crude and product price fluctuates widely. In the past, there have been times when the spread between international prices of Diesel and Indian Basket crude oil was less than a dollar or even negative. However, currently, the Gross Refining Margins have been satisfactory. But pegging refining margins to a certain level shall amount to reverting to administered pricing mechanism (APM). It will bring back the drawbacks of APM, like no incentive to reduce refining cost. It will breed inefficiencies in the refining sector. Moreover, to monitor the actual refining margin against the normative margin for each refinery on regular basis will not be feasible. The present margins of Indian refineries are fully in alignment with international trade and are not abnormal. Also, the refineries need to have adequate internal generation of resources in order to be able to invest in modernization, quality upgradation to meet the stringent emission norms and in equipping themselves to enhance handling of sour/heavy crude.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Comments of the Committee

(Please see Para 22 of Chapter 1 of the Report)

Recommendation No. 10 (Para No. 2.10)

Regarding customs duties, the Committee understand that the levy is only a mechanism to ensure fruitful gains to refining companies. The customs duty levied on products does not actually add to the revenues of the Government as product imports are almost nil owing to surplus refining capacity in the country. Instead, it goes into the calculations for fixing the import parity prices of these products at refinery level which in turn increases the consumer price. Moreover, any differential between the customs duty on crude and the customs duty on products will increase the effective tariff protection of the refineries. The Committee, therefore, recommend that the customs duty on products, especially that on petrol and diesel, be brought down to 5 per cent from 10 per cent, to make it on par with the customs duty on crude, leaving no room for any differential at this level. Tariff protection to the public sector refineries can be ensured through rationalisation of excise duty to take care of this factor as explained earlier in paragraph 8.

Reply of the Government

Refining is a cyclical industry and international prices are very volatile. The spread between crude and product price fluctuates widely. In the past, there has been times when the spread between international prices of diesel and Indian basket crude was less than a dollar and even negative. The current good refining margins cannot be taken as normal refining margins, to continue for long. Further in order to enable the refineries to undertake quality improvement projects, it is necessary that the existing tariff protection continue for some more time.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Comments of the Committee

(Please see Para 28 of Chapter 1 of the Report)

Recommendation No. 14 (Para No. 2.14)

The Committee find that surplus refining capacity has enabled the country to be a net exporter of petroleum products like diesel, petrol, naphtha, ATF, etc. For export of petroleum products duty drawback incentive is being given by the Government. The scheme allows exemption of customs duty on crude in lieu of petro goods exported. In other words, exporting companies are exempted from paying customs duty on part of their crude imports in lieu of their export earnings. Under the scheme, the Finance Ministry forgoes customs revenue and the exporting companies benefit immensely, both by the duty concession and the exorbitant global prices for their products. The Committee do not agree to such a concession, when huge international prices alone can take care of the profit of the exporters. The Committee, therefore, recommend that the

Government should withdraw the duty drawback incentive for export of petro goods. The Government can then make use of the revenue gains on customs front to bring down the excise duties on fuel and thus, pass on the benefit enjoyed by the exporters to the consumers in line with the stated policy of equitable distribution of burden.

Reply of the Government

The Committee has recommended that advance licence benefit on exports of petroleum products be withdrawn.

Under the EXIM policy, the duty drawback benefit in the form of advance licensing enables duty free import of inputs required for export production to encourage exports that earn valuable foreign exchange for the country. The rationale behind providing duty drawback/advance licensing on inputs is to make Indian exports competitive in international market to the extent of duty suffered on inputs. The benefit is only given when there is value addition on export of finished products. Further, the duty drawback/advance licensing is applicable to all industries and is not particular to refining sector.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Comments of the Committee

(Please see Para 34 of Chapter 1 of the Report)

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation No. 3 (Para No. 2.3)

The Committee note that cess and royalty form major components in the cost of production of indigenous crude oil. At present, cess is levied @ Rs.1800 per tonne under the provisions of Oil Industry Development Act, 1974. The Oil Industry Development Board (OIDB) was set up in 1975 under Oil Industry Development Act to provide financial assistance for the development of the Oil Industry. Annual cess collection amounts to nearly Rs. 5400 crore. The Committee have been informed that since the inception of OIDB and upto 31.3.2005, the Central Government has collected a sum of about Rs. 55966.81 crore as cess. Out of this collection, OIDB has received only Rs. 902.40 crore till March, 2005. The argument of Ministry of Finance is that the definition of "oil industry" encompasses all activities directly or indirectly connected with exploration, production, and marketing of mineral oil and production of fertilisers/petrochemicals. They have even stated that the expenditure on "oil industry" has exceeded the cess collections. The Committee, dismiss this argument as a far-fetched one. It is highly regrettable that large funds collected for a specific purpose i.e. to carry out oil industry developmental activities are not utilised for that purpose. The Committee have already expressed their deep concern and strong objection to the practice of not adhering to the objectives of such a levy in their First and Fourth Reports (14th Lok Sabha). The Committee again emphasise that there is no justification in levying cess if the amount generated from it is not being utilised for the sector and reiterate their earlier recommendation that a Price Stabilisation Fund should be created by using the money collected from cess on crude oil to bring in stabilisation in the prices of petroleum products. Besides, a part of the cess amount may also be utilised to provide subsidy on kerosene and LPG.

Reply of the Government

Since the oil prices have been extremely volatile in the recent past and oil companies have not been able to pass on the full burden to the consumers resulting into under recoveries, there is a case for establishing a "Price Stablisation Fund" with funding from the cess on indigenous crude. Since the suggestion of utilising cess on indigenous crude for the purpose of oil industry/operating "Price Stabilisation Fund" has revenue implications on fiscal budget, the proposal was referred to Ministry of Finance, Ministry of Public Distribution & Consumer Affairs and Planning Commission for concurrence. The Ministry of Finance has not agreed to the proposal of setting up "Price Stabilisation Fund". However, as recommended by the Committee, the issue has again been flagged with Ministry of Finance.

Ministry of Public Distribution & Consumer Affairs have offered no comments.

Planning Commission has supported the proposal "in principle", and conveyed that this will burden the budget and will affect the resources for the plan and has suggested that there is need to adjust the kerosene and LPG prices so as to keep the subsidy at reasonable levels. Alternatively, it has been suggested that additional resources for financing subsidy be generated by increasing the cess on petroleum products.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Comments of the Committee

(Please see Para 13 of Chapter 1 of the Report)

Recommendation No. 4 (Para No. 2.4)

As regards royalty levied by State Governments in respect of the crude oil extracted from their respective jurisdictions, the Committee observe that the rates are substantial which result in enhancing the final cost of crude significantly. During the 90's, the royalty was collected at specific rates. Later, it was revised to an ad valorem rate of 20% of the well head price. At present, royalty is being levied at the rate of 20% of the well head price for onshore and shallow water offshore and 10% for offshore above 400 meters. Though the provisions of Oil Fields Regulation and Development Act, 1948 permit royalty collections upto 20% of well-head price, the Committee desire that the Government should persuade the State Governments to reduce the royalty rates so as to bring down the final cost of crude, thereby ultimately benefiting the customer. If necessary, the Oil Fields Regulation and Development Act may be amended.

Reply of the Government

The suggestion of Committee has revenue implications for State Governments. Accordingly, the matter is being taken up with State Governments for consideration.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Comments of the Committee

(Please see Para 16 of Chapter 1 of the Report)

Recommendation No. 5 (Para No. 2.5)

At present, the prices of petroleum products are being fixed on import parity basis which has replaced Administrative Pricing Mechanism of yester years. Import parity means the price that an actual importer would have paid for the import of the product. Accordingly, the refinery gate prices of products, i.e.

the prices at which the marketing division of an oil company or an oil marketing company purchases the product from refining division or a refinery are calculated by adding ocean freight, insurance, customs duty, ocean loss, port charges, etc. to the Free on Board (FOB) price of the respective product in the international market. Though the basic price at the refinery gates calculated on import parity basis are uniform at all refineries throughout the country, the retail selling prices of the products for the consumer is computed by adding excise duty, freight up to depots, marketing cost/ margin, state specific irrecoverable levies, delivery charges from depot to retail pump outlets, sales tax/ other local levies and dealers' commission to this basic price. Thus, the system artificially inflates the prices of petroleum products refined at home. The Committee strongly feel that the pricing of products on import parity basis is irrational and far removed from reality as the computations are made on assumed costs. Though the input for refineries is crude, the price of the output is based on the international price of the respective product. As almost all the components that go into calculating the refinery gate price of products are notional components without any incurred cost basis, the Committee recommend that the Government should scrap the import parity pricing method for products and instead should go in for a more realistic method. The Government can explore the option of pegging the product prices to FOB price of products prevailing in the global market, which is the price realization refineries abroad get and would be the net realization of oil companies if they were to export.

Reply of the Government

1. The Committee has suggested that refinery transfer prices needs to be pegged to the FOB price of products prevailing in international market.
2. Given the high dependence on imported crude (over 76%) and the fact that the companies do actually incur charges such as freight, irrecoverable taxes, marketing costs, etc., pegging the product prices to FOB price is likely to create an anomalous situation.

3. In order to formulate a long term pricing policy, the Government has constituted a High Powered Committee to examine different aspects relating to pricing and taxation of petroleum products. Accordingly, Committee has been constituted under the Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister.

The Committee is mandated to look into the 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, need to conserving petroleum products: and establishing a transparent mechanism for autonomous adjustment of prices by the oil companies. The Committee will suggest, taking into consideration the interests of all stakeholders concerned, a comprehensive mechanism for pricing and taxation of sensitive petroleum products, and other allied issues.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Comments of the Committee

(Please see Para 19 of Chapter 1 of the Report)

Recommendation No. 7 (Para No. 2.7)

During the examination of Demands for Grants (2005-06) of the Ministry of Petroleum and Natural Gas, the Committee had expressed apprehension that the added burden on excise front would be passed on to the consumer in the name of exorbitant rise in international prices of petroleum products. The said apprehension seems to have come true as the Committee find that in the recent hike of Rs. 2.50/litre in case of petrol and Rs. 2/litre for diesel, the substantial contribution has been made by the enhanced rates of excise duties. Fox example, out of Rs. 2.50 hike in petrol, the contribution of enhanced rates of excise duties has been Rs. 2.20. Similarly, in Rs. 2 hike of diesel, the enhanced excise duty component has contributed Rs. 1.06. The increase in prices because of global oil price surge is nil in case of petrol and Rs. 0.70 in case of diesel. Quality improvement programmes account for the remaining part of the hike in prices. Thus, the recent price rise was mainly due to changes in excise duties on products effected through the Union Budget of 2005-06 and not due to rise in international crude prices. Considering the fact that increase in fuel prices, especially diesel, would have a cascading effect on the prices of various essential commodities affecting the common man at large, the Committee recommend that the increase in prices of such products should be kept at the minimum.

Reply of the Government

The Government pricing policy attempts to strike the right balance between the interests of the different stake-holders, namely, the consumers, Oil Marketing Companies and the Government. Since the end of 2003, there has been an unprecedented, sharp and spiraling increase in international oil prices combined with considerable week-to-week and even day-to-day volatility. Therefore, it became imperative on the part of the Government to monitor and modulate the prices of petrol and diesel also, in additional to that of PDS kerosene and domestic LPG, bearing in mind the interest of all the stakeholders including consumers.

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. 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.

In order to formulate a long term pricing policy, the Government has constituted a Committee to examine different aspects relating to pricing and taxation of petroleum products, under the chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister.

The Committee is mandated to look into the 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, need to conserving petroleum products: and establishing a transparent mechanism for autonomous adjustment of prices by the oil companies. The Committee will suggest, taking into consideration the interests of all stakeholders concerned, a comprehensive mechanism for pricing and taxation of sensitive petroleum, and other allied issues.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Recommendation No. 8 (Para No. 2.8)

As regards excise duties on products, the Committee understand that there exists a multitude of excise duties on petrol and diesel. At present, the excise duty of petrol has a specific, ad valorem mix of 8% + Rs. 13/ litre. This includes a basic excise duty content, additional excise duty to fund road construction, a special excise duty component and a special additional excise duty as surcharge for national highway project. In the case of diesel, apart from basic excise duty, there exists an additional excise duty . Consequently, the Committee find that 36% of the retail selling price of petrol and 17% of that of diesel comprises excise duty component. This means, Rs. 14.74 out of Rs. 40.49 in the retail price of petrol and Rs. 4.93 out of Rs. 28.45 of diesel in Delhi owe to the excise component alone. The Committee find this as a highly disturbing trend. More disturbing is the ad valorem component of the excise duty which makes the burden on the consumer more prominent. The Committee, therefore, recommend that the excise duties on petroleum products be so structured as to ensure that the interests of the consumer are not compromised. The Committee also recommend that the ad valorem component in the existing mix should be replaced by a single specific component.

Reply of the Government

The country has been witnessing, in alignment with the global trend, an unprecedented, sharp and spiraling increase in international oil prices combined with considerable week-to-week and even day-to-day volatility since the end of 2003. Another trend being noticed in the international market in recent months is that the prices of some sensitive petroleum products have been moving faster and with greater volatility than the prices of crude, depending on seasonal and regional demands for these products.

The price of Indian Basket of crude oil touched an all time high of US$ 62.78/bbl on 1st September, 2005. 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. It was decided that the burden be equitably shared by consumers, Government and the oil companies.

Government for its part, reduced the excise duty on petrol and diesel by 4% and 3% respectively effective 16.6.2004 and effective 19.08.2004, the excise duty on petrol and diesel was further reduced by 3%. Government also reduced customs duty by 5% each on petrol and diesel with effect from 19.08.2004. In the Budget 2005-06, customs duty on crude was reduced from 10% to 5% on kerosene and LPG from 5% to nil and on other petroleum products from 15-20% to 10%.

However, the recommendation of the Committee for replacement of ad valorem component in the excise duty structure by specific component is being forwarded to Ministry of Finance for consideration.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Comments of the Committee

(Please see Para 25 of Chapter 1 of the Report)

Recommendation No. 9 (Para No. 2.9)

The Committee note that the various taxes and duties levied on products are responsible for their higher retail selling prices. As of now, taxes which comprise customs, excise and State level duties are about 132% of the basic price of the products in the country. The Committee also find that among the developing countries, India has a higher share of taxes in the retail selling prices of products in comparison to most other countries. The share of taxes in the selling price of petrol in Sri Lanka, Thailand and Pakistan is 37%, 24% and 30% respectively. In the case of diesel, the other countries have kept the taxes to less than 20%. Out of the retail price of petrol in Delhi, 57% is tax component. For diesel this component is 35%. Thus, the tax component or the non-fuel component results in exorbitant prices of these products. The Committee, therefore, recommend that the total share of taxes and duties in the retail selling prices of commonly used fuels including auto fuels should be rationalised.

Reply of the Government

The impact of high tax component on prices of petrol and diesel in India vis-à-vis that of neighbouring countries has been rightly emphasized by the Committee. The high dependence on petroleum sector for generating revenues is needed a disturbing trend, especially in view of phenomenal price increase in international market for crude oil and petroleum products.

In order to formulate a long term pricing policy, the Government has constituted a Committee to examine different aspects relating to pricing and taxation of petroleum products, under the Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister.

The Committee is mandated to look into the 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, need to conserving petroleum products: and establishing a transparent mechanism for autonomous adjustment of prices by the oil companies. The Committee will suggest, taking into consideration the interests of all stakeholders concerned, a comprehensive mechanism for pricing and taxation of sensitive petroleum products, and other allied issues.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Recommendation No. 11 (Para No. 2.11)

The Committee find that the high incidence of State levies are mostly responsible for the high and varied retail selling prices of different products across the country. For example, the sales tax on diesel in Mumbai is close to 37.97% as against 12.5% in Delhi. The differential in the sales tax on petrol in Andhra Pradesh and Delhi is as high as 14%. In the opinion of the Committee, there is a need to substantially reduce the sales tax rates of petroleum products and also to make them uniform across the country. They, therefore recommend that the Central Government should seriously take up these matters at appropriate level with the States and bring them to a consensus to reduce sales taxes considerably to a uniform floor rate.

Reply of the Government

Ministry of Finance and the State Governments have been requested to take following steps:-

(i) To maintain a uniform floor rate (UFR) of nil sales tax on PDS kerosene as suggested by the Empowered Committee of the State Finance Ministers.

(ii) To rationalize the sales tax levied by the respective State Governments on domestic LPG, diesel and petrol by levying specific rates of sales tax instead of ad valorem taxes to avoid price spikes on account of rising prices of oil in the international market.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Recommendation No. 12 (Para No. 2.12)

It is seen that the Centre and States have been collecting huge revenues from the petroleum sector. During 2004-05, a gross revenue earning of Rs. 1,20,946 crore has been made by them from Petroleum, Oil and Lubricants (POL) of which Rs. 77,692 crore has been the contribution to Central exchequer and Rs. 43,254 crore to the State coffers. The Committee also find that the percentage share of petroleum sector through taxes and duties to the gross revenue of the Government is 64%. The Committee find that the Governments have a tendency to bank heavily on this sector to mobilise revenues. They, therefore, reiterate their earlier recommendation made in their Fifth Report (14th Lok Sabha) that the practice of squeezing the maximum out of the sector without concern for the common man needs to be changed. The Committee once again urge the Government to exercise restraint and apply the policy of prudence in making earnings from the oil sector.

Reply of the Government

The Committee has rightly pointed out the over-dependence on petroleum sector for generating Government revenue reveals a disturbing trend, especially when viewed against the following facts:

a) Abnormal increase in prices of crude oil and petroleum products in international market.
b) Loss incurred by oil marketing companies during the period April-June 2005.
c) Need for substantial investment requirement in upstream and downstream oil companies.

The recommendations of the Committee have been taken up with Ministry of Finance and State Governments.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Recommendation No. 13 (Para No. 2.13)

Under the scheme of subsidy on domestic LPG and PDS kerosene, the Government is providing subsidy on these items. During the Administered Pricing Mechanism (APM) period i.e. upto 31.3.2002, domestic LPG and PDS kerosene were being cross-subsidised through the Oil Pool Account. After the dismantling of the APM w.e.f. 1.4.2002, the Government subsidy is being decided on flat rate basis. After providing for this subsidy, the retail prices are to vary as per changes in the international market. As the Governmental subsidy provisions are minimal, the Committee find that the public sector Oil Marketing Companies (OMCs) have been shouldering a part of the subsidy by not passing the full increase in the international prices to the domestic consumer. This, they do, by selling at prices that fall short of import parity prices, thereby suffering under-recoveries. Besides, the Committee also find that upstream oil majors viz. ONGC and OIL and GAIL are also sharing this subsidy in the form of special discounts to PSU oil companies engaged in the business of marketing of products. The Committee are of the view that this net of subsidy sharing needs to be widened by including all the refineries (both public and private sectors) in the country, considering the gains made by them within the existing system of pricing. The Committee, while reiterating the need to continue the subsidy on PDS kerosene and domestic LPG, recommend for an improved delivery mechanism, targeted at real beneficiaries, leaving no room for misappropriation or misuse.

Reply of the Government

The actual subsidy paid by Government in the post-APM era on SKO (PDS) and LPG (Domestic) is much lower than the oil marketing companies under recoveries. Although upstream oil companies contribute substantially towards reducing under-recoveries/losses suffered by oil marketing companies, in marketing petrol, diesel, SKO (PDS) and LPG (Domestic), it would be preferable to widen the subsidy net as suggested by the Committee. While Government should enhance the subsidy provision in the budget, an appropriate mechanism also needs to be formulated to include domestic refineries, including private players, to bear a portion of the subsidy. It may, however, be relevant to note that domestic refineries including the only private sector refinery Reliance have offered discounts to the oil marketing companies in respect of sensitive petroleum products for year 2005-06.

Meanwhile, to ensure availability of kerosene and reduce diversion, Government have approved an innovative pilot project for radically revamping the PDS kerosene distribution network with the primary objective to ensuring that this heavily subsidized product is actually made available in the required quantities at subsidized prices to the intended beneficiaries; and secondly, to thus cap, reverse and eventually eliminate the diversion of PDS kerosene for adulteration. The pilot project is being implemented in 10% of the blocks of the country for a period of six months. Thereafter, the working of the scheme would be independently assessed and, based on the experience gained, Government will consider scaling up the scheme would be independently assessed and, based on the experience gained, Government will consider scaling up the scheme to cover the entire country. It has hoped that the implementation of this project will lead to a significant breakthrough in the delivery of subsidized SKO to the entitled segments of society and thus contribute to the curbing diversion for adulteration.

The Salient Features of Jan Kerosene Pariyojana – Pilot Project for strengthening the PDS kerosene Distribution Network are Annexed.

Annexure

Salient Features of Jan Kerosene Pariyojana – Pilot Project for Strengthening the PDS Kerosene Distribution Network

The Government have approved an innovative pilot project of the Ministry of Petroleum & Natural Gas for radically revamping the PDS kerosene distribution network with the primary objective of ensuring that this heavily subsidised product is actually made available in the required quantities at subsidised prices to the intended beneficiaries; and, secondly, to thus cap, reverse and eventually eliminate the diversion of PDS SKO for adulteration. The pilot project is to be implemented in upto 10% of the blocks of the country for a period of six month. Thereafter, the working of the scheme would be independently assessed, and based on the experience gained, Government will consider scaling up the scheme to cover the entire country.

The principal features of the Pilot Project for strengthening the PDS Kerosene distribution network are under:-

(i) Public Sector Oil Marketing Companies (OMCs) will establish at least one Kerosene (SKO) dealership in each of the country's development blocks (at present, less than half the blocks are covered and there is disproportionate, often multiple concentration, in urban blocks);

(ii) In consultation with the District Administration and the wholesale dealer, about 5-10 sub-wholesale points will be located in each block;

(iii) There will be a dedicated fleet of tanker-trucks (TTs) for transportation of PDS kerosene to ensure widespread public information and transparency as these TTs will prominently display the special logo that is being devised for the dedicated fleet. It will be clearly written on the outside of the TT that it is transporting kerosene meant for the Public Distribution System.

(iv) To bring storage dispensing services at SKO dealerships at par with the modern facilities provided at petrol and diesel outlets by OMCs at their expense, the Ministry's Oil Industry Development Board (OIDB) will fund OMCs to ensure the installation of the following facilities at each of the dealerships covered under the pilot project:

- Storage tanks with a minimum capacity of 20 KLs
- Electronically metered dispensing pumps
- An adequate number of barrels, appropriately decorated with the special logo, for the delivery of SKO to sub-wholesale points
- One or more barrel sheds;

(v) Supplies to sub-wholesale points will be made under the direct supervision and responsibility of the OMCs, who will provide an adequate number of barrels, decorated with the special logo, at the sub-wholesale point for the convenient and assured transportation of PDS SKO to the retail points. Similar logos will be displayed on vehicles transporting PDS SKO from wholesale to sub-wholesale points and from there to retail points at Fair Price Shops'

(vi) At each Fair Price Shop, PDS SKO will be stored in barrels with clearly identified logos which the general public can access to determine for themselves the balance availability of PDS SKO at that Fair Price Shop'

(vii) In consultation with State Government, Panchayats and Gram Sabhas will be empowered to generally supervise the availability of PDS SKO at subsidised prices, and a reporting mechanism will be put in place for Panchayats/Gram Sabhas to report any deficiencies to the State Administration and the OMCs concerned.

[M/o Petroleum & Natural Gas O.M. No.P-38012/2/2005-PP (Part) dated 19th January, 2006]

Comments of the Committee

(Please see Para 31 of Chapter 1 of the Report)

New Delhi;
<u>19 May, 2006</u>
29 Vaisakha, 1928 (Saka)

N. JANARDHANA REDDY,
***Chairman*,**
Standing Committee on
Petroleum & Natural Gas

APPENDIX-I

MAJOR RECOMMENDATIONS OF THE RANGARAJAN COMMITTEE SET UP BY THE GOVERNMENT TO LOOK INTO THE ISSUES RELATING TO THE PRICING OF PETROLEUM PRODUCTS.

The major recommendations, made in the report, which has been submitted on 17th February 2006, can be divided broadly into three groups;

I. The first set of recommendations relating to pricing of petrol and diesel are the following;

a. Given the global context and our domestic refining capacity, wherein exports are of the order of 20% of production of these products, a more appropriate pricing model for diesel and petrol will be the trade parity price which would be a weighted average of the import parity and export parity prices in the ratio of 80:20, the relative weights being reviewed and updated every year.

b. Government to keep at arms length from price determination and to allow flexibility to oil companies to fix the retail price under the proposed formula.

c. Reduce the effective protection to refineries by lowering the customs duty on petrol and diesel to 7.5% and

d. Terminate the principle of freight equalization, but since the price increase will be larger in remote and hilly areas, the Government may want to consider some other way of softening the impact of freight in these areas.

This set of recommendations should be implemented as an integrated package as selective implementation will create more distortions.

II The second set of recommendations relates to pricing of domestic LPG and PDS kerosene, which are the following:

a. Restrict subsidized kerosene to BPL families only. This will reduce the quantity of PDS kerosene going through the subsidised route by about 40% from the present level.
b. Raise the price of domestic LPG by Rs. 75/cylinder. Beyond this one-time increase, it is necessary to gradually increase the price of domestic LPG so that the retail price adjusts completely to the market level eliminating the subsidy altogether.
c. Discontinue the practice of asking ONGC/GAIL/OIL to provide upstream assistance, but instead collecting their contribution by raising the OIDB cess from the present level of Rs. 1,800/MT to Rs. 4,800/MT and
d. Government will need to meet the entire cost of subsidy from the budget.

This set of recommendations should also be implemented as an integrated package as partial implementation will not yield sustainable results.

III The third set of recommendations relates to restructuring excise duties on petrol and diesel. The *ad valorem* levies exacerbate the burden on the consumer, and also results in the Government benefiting through higher tax yields. There is, therefore, need for both softening and smoothing the impact on the consumer of international price variations and for the Government sacrificing ‘windfall gains’ in revenue. This clearly suggests the need for shifting from the current mix of specific and *ad valorem* levies to a pure specific levy and calibrating the levies at Rs. 5.00/litre of diesel and Rs. 14.75/litre of petrol.

The recommendations of Rangarajan Committee are under consideration by the Government.

APPENDIX-II

EXTRACTS OF MINUTES

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS

(2005-06)

NINTH SITTING

(18.5.2006)

The Committee sat on Thursday, the 18^{th} May, 2006 from 1530 hrs. to 1600 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri N. Janardhana Reddy - Chairman

MEMBERS

LOK SABHA

2. Shri Anandrao Vithoba Adsul
3. Dr. Tushar A. Chaudhary
4. Shri Santosh Gangwar
5. Shri Jai Prakash
6. Shri Lakshman Singh
7. Dr. Prasanna Kumar Patasani
8. Shri Vanlalzawma
9. Shri Rajesh Verma

RAJYA SABHA

10. Shri C. Perumal
11. Shri Rajeev Shukla

SECRETARIAT

1. Shri S.K.Sharma - Additional Secretary
2. Shri R.C.Kakkar - Deputy Secretary
3. Shri P.C.Tripathy - Under Secretary

2. At the outset, Hon'ble Chairman welcomed the Members to the sitting of the Committee.

3. The Committee then took up for consideration the draft Action Taken Reports on the Sixth Report on 'Pricing of Petroleum Products' and the Seventh Report on 'Exploration of Oil and Natural Gas including Coal Bed Methane'.

4. After some discussions, the draft Action Taken Report on 'Pricing of Petroleum Products' was adopted by the Committee with some changes. The draft Action Taken Report on 'Exploration of Oil and Natural Gas including Coal Bed Methane' was adopted without any change.

5. The Committee authorised the Chairman to finalise the Action Taken Reports in the light of modifications as also to make verbal and other consequential changes arising out of the factual verification by the Ministry and present the same to both the Houses of Parliament during the current Budget Session.

6. xx xx xx xx xx
xx xx xx xx xx

The Committee then adjourned.

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xx Matters not related to this Report

APPENDIX –III

(*Vide* Para 4 of the Introduction)

Analysis of the Action Taken by the Government on the recommendations contained in the Sixth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum and Natural Gas (2004-05) on 'Pricing of Petroleum Products'.

I	Total No. of Recommendations	15
II	Recommendations/Observations which have been accepted by the Government (Vide Recommendation at Sl. Nos.2 and15)	2
	Percentage of Total	13.3%
III	Recommendations/Observations which the Committee do not desire to pursue in view of Government's Reply	Nil
	Percentage of Total	0%
IV	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. Nos.1, 6,10 and 14)	4
	Percentage of Total	26.7%
V	Recommendations/Observations in respect of which final replies of the Government are still awaited (Vide Recommendations at Sl. Nos.3,4,5,7,8,9,11,12 and 13)	9
	Percentage of Total	60%