

## **Ministry of Petroleum & Natural Gas**

New Delhi, Dated June 25, 2010

### **Press Release**

To arrive at a viable and sustainable system of pricing of petroleum products, Government had set up an Expert Group under the chairmanship of Dr. Kirit Parikh. In the light of Government's budgetary constraints and the growing imperative for fiscal consolidation, and the need for allocating more funds to social sector schemes for the common man, the Government has decided that the pricing of Petrol and Diesel both at the refinery gate and the retail level will be market-determined. However, in respect of Diesel, the initial increase in retail selling price of Diesel will be Rs.2 per litre at Delhi, with corresponding increases in other parts of the country. Further increases will be made by the Public Sector Oil Marketing Companies (OMCs) in consultation with the Ministry of Petroleum & Natural Gas. It has also been decided that in case of a high rise and volatility in international oil prices, Government will suitably intervene in the pricing of Petrol and Diesel.

2. Market determined pricing of Petrol and Diesel is expected to do away with the OMCs' under-recoveries on these two products, which are projected to be approximately Rs.22,000 crore during the remaining part of 2010-11. This will not only improve their financial health, it will also enable Government to allocate greater resources for social sector schemes. Market determined pricing is expected to attract higher investments in the fuel retail sector, and by spurring market competition, encourage OMCs to reduce costs, improve efficiency and service standards. Market determined pricing will also incentivise fuel conservation and encourage the consumer to adopt fuel efficiency practices.

3. In view of the importance of the household fuels, namely PDS Kerosene and Domestic LPG, the Government has decided that the subsidies on these products will continue. The PDS Kerosene and Domestic LPG Subsidy Scheme, 2002 and the Freight Subsidy (For Far-flung Areas) Scheme, 2002 have been extended till 31.03.2014.

4. The current prices of PDS Kerosene and Domestic LPG are the lowest among the neighbouring countries. The consumer price of Kerosene is Rs.35.97/litre in Pakistan, Rs.29.43/litre in Bangladesh, Rs.21.02/litre in Sri Lanka and Rs.39.24/litre in Nepal. Similarly, the consumer price of LPG is Rs.577.18/ cylinder in Pakistan, Rs.537.37/ cylinder in Bangladesh, Rs.822.65/ cylinder in Sri Lanka and Rs.782.84/ cylinder in Nepal.

5. At current international oil prices, the OMCs are incurring an under-recovery of Rs.17.92 per litre on PDS Kerosene and Rs.261.90 per cylinder on Domestic LPG. To reduce this under-recovery burden of the OMCs as also to protect the common man, the Government has decided to increase the retail price of PDS Kerosene by only Rs.3 per litre and of Domestic LPG by only Rs. 35 per cylinder (at Delhi), with corresponding increases in other parts of the country.

6. Even after the above measures, the Government and the Public Sector oil companies are expected to bear an estimated under-recovery burden of about Rs.53,000 crore on the four sensitive petroleum products during 2010-11.

7. The Government is committed to making available the essential fuels, particularly the cooking fuels to the common man at affordable prices. The above decisions will not only continue to protect the vulnerable sections of society but also improve the financial health of the public sector OMCs, which need resources to invest in new refineries, marketing terminals, storage depots, pipelines, port facilities and other infrastructure for ensuring the country's long-term energy security.

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