

Kirit Parikh Committee report

The government had appointed an Expert Group on 'Viable and Sustainable System of Pricing of Petroleum Products'. This Committee, chaired by Shri Kirit S. Parikh, recently submitted its report. Key observations include:

- The reduced cash surplus of upstream public sector oil companies restricts their ability for exploration of domestic fields and acquisition of overseas assets. Keeping oil firms viable is in the interest of self-sufficiency in domestic oil production.
- Price control, subsidies and taxes can introduce distortions which may not be desirable. For example:
 - The higher excise duty on petrol compared to diesel encourages use of diesel cars
 - Lower diesel prices lessen the incentive to shift freight movement from trucks to railways, which consume 4 times less diesel for every tonne km of freight
- Control on pricing also restricts competition. Several oil marketing companies, viz. Reliance Industries, Essar Oil and Shell India, that were not part of the subsidy sharing arrangement, closed down their retail marketing businesses across the country.
- Petrol is largely an item of final consumption. Its price, therefore, has a very small impact on inflation due to forward linkages.
- Trucks accounted for 37% and buses 12% of total diesel consumption in 2008-09. Agriculture's share was 12%.
- The cost of diesel in agriculture can be accounted for by the Government while fixing the Minimum Support Price (MSP) for major crops and hence an increase should not adversely affect farmers.
- The inflationary impact of increase in diesel prices (due to increased costs in transport and industrial usage) would be comparable with the inflationary impact of subsidies.

Recommendations:

- Petrol and diesel prices should be market determined both at the refinery gate and at the retail level.
- An additional excise duty of Rs 80,000 should be levied on diesel cars.
- The price of PDS kerosene should be increased by at least Rs 6/litre. Thereafter, price of PDS kerosene should be raised every year in step with the growth in per capital agricultural GDP at nominal prices.
- Prices of domestic LPG should be increased by at least Rs 100 per cylinder. Thereafter, the price of domestic LPG should be periodically revised based the rising per capita income.
- The subsidy on domestic LPG should be discontinued for all others except the BPL households once an effective targeting system is in place.