

## **State Governments should reduce State taxes to provide relief to consumers from petroleum price hike – Shri Murli Deora**

New Delhi, July 2, 2010

Shri Murli Deora, Minister of Petroleum and Natural Gas has once again called upon the State Governments to consider bringing down the incidences of state taxes on petroleum products in order to provide relief to the consumers. “ I have already written to all the Chief Ministers to look into the matter and bring down the incidences of the State Taxes, so as to provide relief to the consumers,” he said while addressing a Press Conference at Bangalore today after chairing an oil industry meeting.

Referring to Karnataka, Shri Deora pointed out that in the State of Karnataka the VAT/Sales Taxes on petrol is 30% and on Diesel this is 23%. “There is a scope for rationalizing the tax rates on these petroleum products, which will benefit the consumers. I am sure that the State Governments will certainly consider taking these steps in the interest of the common man,” he added

Shri Deora said that increase of prices of the petroleum products was necessary considering the very large amount of subsidy in the pricing structure of these items and ruled out roll back of petroleum price hike.

Shri Murli Deora stated that following additional investment in Karnataka have been approved.

- a) Capacity expansion of Mangalore Refinery & Petrochemical Ltd (MRPL) from present capacity of 11.8 Million Metric Tonnes per annum (MMTPA) to 15 MMTPA with an investment of Rs.15000cr.
- b) Setting up of Petrochemical Plant at a cost of Rs. 5000cr at Mangalore
- c) Building 3.7 MMTPA strategic storage facilities for crude oil at a cost of Rs2000 cr
- d) Laying 1100 kms natural gas pipeline by GAIL which would cover 12 districts of Karnataka including Bangalore and Mysore. GAIL is also laying pipeline between Kochi- Mangalore and Dabhol-Mangalore covering 2500 kms at a cost of Rs10000 cr

Shri Deora said that Oil Marketing Companies have been directed to check the diversion of PDS Kerosene which is being used for adulteration and prevent black marketing of domestic LPG cylinders. He also said that Petroleum products plays an important role in the economy of the country. Oil Marketing Companies (OMCs) are

performing the mammoth task of supplying petroleum products to every nook and corner of the country round the clock. “Our endeavour is to make these products available to the consumers without any disruption,” Shri Deora said

Shri S Sundareshan, Petroleum Secretary said that only 53% of population in Karnataka has LPG facility. Hence Oil marketing companies will commission new LPG distributorship under Rajiv Gandhi Gramin LPG Vitarak Yojana in Karnataka in the next three to four years to cover 75% of the population. He said the petroleum products price increase was necessitated due to huge under recoveries that the Government and Oil companies were bearing.

Following is the text of Shri Deora speech at the Oil Industry Meet :

“Friends, as you know petroleum products plays an important role in the economy of the country. Oil Marketing Companies (OMCs) are performing the mammoth task of supplying petroleum products to every nook and corner of the country round the clock. This enormous task is performed by huge network of more than 36,000 dealerships/distributorships across the country.

Recently, as part of structural reforms in petroleum sector, Government has decontrolled the price of Petrol and partially decontrolled the price of Diesel recently. Marginal increase in the prices of PDS Kerosene and Domestic LPG has also been made keeping in view the overall economic scenario. Also price of natural gas was increased. The increase of price of PDS Kerosene by Rs. 3 per litre translates into a very small increase of 30 paise per day in the expenses of consumers. Also the increase of Rs. 35 per cylinder translates into only increase of less than one rupee one per day in the expenses of the consumers. Hon’ble Prime Minister recently stated that the increase of prices of these essential fuels was necessary considering the very large amount of subsidy in the pricing structure of these items. Hon’ble Prime Minister further remarked that Government had taken due care to ensure that the poorer sections of the society are affected to the least possible extent and that is why the Kerosene and LPG prices has been kept under regulation. This increase was necessitated because of the huge under-recoveries that the Government and Oil Companies were bearing. These under-recoveries hamper the growth and expansion plans of oil companies. In 2008-09, the under-recoveries of petroleum products was more than Rs. 1,00,000 Crores, which was shared by Government and Oil Companies. During 2010-11, before the increase was effected the under recoveries were estimated to be Rs. 72,000 Crores. Even after the increase in prices of these four petroleum products, the Government and Oil Companies would still be bearing the under recoveries of Rs. 53,000 Crores. However, we have to keep in mind the interest of “Aam Admi” before any decision regarding change in prices of petroleum products is taken. You all may recall that when the price of crude oil touched all time high of US \$ 142 per barrel in July, 2008. A marginal burden was passed on to the consumer. But as soon the price of crude oil came down in the international market, Central Government immediately reduced the prices once in December, 2008 and again in January, 2009 to pass on the benefit to the consumers. I would also appeal to the OMCs that even after deregulation, whenever the situation arises, we must pass on the benefit to consumers so

as to meet the objective of reforms. like to assure you that Government would keep a close watch on the situation and if need arises, it would certainly intervene to protect the interest of consumers.

The one fact which I would like to mention is the high rate of State Taxes, which are levied on the petroleum products. We are all aware that the levying these taxes of petroleum products is the highest source of revenue for State Government. I have already written to all the Chief Ministers to look into the matter and bring down the incidences of the State Taxes, so as to provide relief to the consumers. In Karnataka, the VAT/Sales Taxes on petrol is 30% and on Diesel this is 23%. There is a scope for rationalizing the tax rates on these petroleum products, which will benefit the consumers. I am sure that the State Governments will certainly consider taking these steps in the interest of the common man.

Let me also mentioned that recently, the Government has signed Production Sharing Contracts (PSCs) for 31 blocks under New Exploration Licensing Policy (NELP) for exploring the hydrocarbon reserves in the Indian sedimentary basin. Till date Seven rounds of NELP has already been concluded and total investment of around 13.8 Billion Dollars have been made. The committed investment in NELP-VIII is US \$ 1.1 Billion.

Government's efforts under NELP has shown significant results in production of oil and gas in the country. Most significantly with the commencement of gas production from Off Shore KG Basin since April, 2009, natural gas production has doubled in the country. Also commercial production of crude oil from Barmer, Rajasthan has also commenced in 2009. As and when the production from Barmer reaches its peak, it would account for almost 25% of the total indigenous crude oil production in the country. This would contribute significantly in our quest to achieve energy security for the country.

Currently, OMCs are catering to more than 11 Crores LPG Customers in the country accounting for almost 50% of the population. The LPG cylinder is delivered at the door steps of the customers, which itself is a unique delivery system not available anywhere in the world. It is proposed to increase the customers population to 15 Crores by end of 2015 covering around 75% of the population of the country by Domestic LPG. As you are all aware that PDS Kerosene is meant for poor and vulnerable section of society in the country, living in rural areas and remote areas. They use Kerosene for both cooking and lighting purposes. Before the increase in Kerosene prices by Rs. 3 per litre recently, the price of Kerosene was Rs. 9 per litre for the last six years, which was even cheaper than the bottle of mineral water. Central Government in March, 2010 launched a scheme, named after our late Hon'ble Prime Minister, Shri Rajiv Gandhi, namely, Rajiv Gandhi Gramin LPG Vitrak Yojna (RGGLVY) to provide this modern fuel to our rural population. I would like to ask OMCs to take stringent measures to check the diversion of PDS Kerosene which is being used for adulteration. Also it is reported that there is huge diversion and black marketing of domestic LPG cylinders. Since these both products are heavily subsidized, it is duty of OMCs to prevent the same. OMCs shall involve all concerned agencies to check this menace.

As regards the reach of natural gas in the country, Government has envisaged that by 2015, more than 200 cities are to be covered by City Gas Distribution network. Therefore, we must have time bound plan to implement this project so that benefit of this clean and cheap fuel is reached to our household across the country.

In the end, I thank you for valuable suggestions which would help us to implement our project/plans in more effective manner.”

**RCJ/Deora - Ind Meet Bangalore**