Kirit Parikh panel recommends a hike of Rs 5/litre in diesel & Rs 250 per LPG cylinder

Rajeev Jayaswal, ET Bureau Oct 30, 2013, 04.12PM IST

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NEW DELHI: A government-appointed expert panel has recommended to "immediately" hike prices of diesel by Rs 5 a litre, kerosene by Rs 4 per litre and cooking gas by Rs 250 per cylinder, reduce annual entitlement of subsidized cooking gas cylinder from six from nine and phase out diesel subsidy in one year.

("The limit for subsidised...)

The recommendations are unlikely to be implemented "immediately" because the government fear popular backlash in assembly elections of five states and the general election next year, government officials said requesting anonymity.

The Contress-led UPA government would postpone any move to raise fuel rates drastically till mid 2014, when the new government would be formed at the Centre, officials said.

Oil Minister Veerappa Moily says the government is not in a hurry to accept the Kirit Parikh committee recommendations. "We are anxious to see that this report is processed within the (petroleum) ministry in consultation with the finance ministry," he told reporters after Parikh spelled out suggestions of the panel. The government constituted the panel under chairmanship of former member, Planning Commission, Parikh, four months ago to advice it on issues related to fuel subsidies and pricing of diesel, cooking gas and kerosene.

The expert group has recommended that diesel price should be raised by Rs 5 per litre with immediate effect and the balance under-recovery should be made up through a subsidy of Rs 6 per litre to state-run oil marketing companies, Parikh said.

"The subsidy on diesel should be capped at Rs 6 per litre. This would imply freeing of price of diesel beyond this cap," he added. The fixed subsidy of Rs 6 per litre on diesel should also be reduced gradually by increasing its rate by 50 paise every month over next one year, he said.

The price of subsidized kerosene should be revised from time to time at least in line with growth in the per capita agriculture GDP, while subsidy on cooking gas should be phased out in the next two years through gradual price increase, he said.

Parikh said state explorers ONGC and Oil India do not have unlimited capacity to share fuel subsidy burden and their contributions should be linked with crude oil prices from next financial year.

"Keeping in view the current high level of under-recoveries, the contribution from ONGC and Oil India in 2013-14 could be retained at the existing level of $56 per barrel. of crude oil," he said.

The committee suggested that state-run gas utility Gail India do not get cheaper gas anymore, therefore, its contribution should not exceed the gross profit made on sale of liquefied petroleum gas.

After adjusting the upstream contribution, the balance amount of under-recovery on diesel, kerosene and cooking gas should be fully compensated to state refiners by providing cash subsidy from the government budget until prices are fully deregulated and subsidy on these products is eliminated, it said.

The panel found no fault in the existing methodology of pricing petroleum products sold at controlled rates despite an internal dissent by the finance ministry representative. "Finance ministry issued a note of dissent and we have issued a rejoinder," Parikh said.

The finance ministry proposed to benchmark fuel rates at export parity pricing (EPP). As it would have reduced the government's subsidy burden by Rs 13,000 crore. But the committee preferred the trade parity pricing (TPP), which gives 80% weight to import parity pricing (IPP).

After discount and quality adjustments the difference between EPP and TPP was only Rs 108 per kilolitre or 1.5%, Parikh said.