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Petrol Products Price Hike – The Truth Behind the Lies

At a time when inflation is high, when the relentlessly increasing prices of food items like rice, wheat, sugar, edible oils, pulses, vegetables, are reflected in a high food inflation rate of 17 per cent, the Government of India has dealt a cruel blow to the people by raising the prices of petrol, diesel, cooking gas and kerosene which will further push up prices of essential commodities and have an all round cascading impact on inflation rates. No Government with even an iota of sensitivity for the suffering of the people because of price rise can take such an anti- people step. The deregulation of prices means leaving the people to the mercy of a market controlled by big MNCs and domestic corporates.

The reasons being given by the Government for this price hike are totally wrong and misleading. The Prime Minister has justified it saying it is in the interests of the country. The country of the 77 per cent who do not have more than 20 rupees to spend each day or the country of the super rich? He said that these reforms should have been done even earlier. This is an admission that it is only because of the strong opposition of the Left parties that the previous UPA Government which was dependant on their support did not dare to end Government controls on price of petroleum products. Because of the Left pressure at that time they could not increase the price of kerosene by even one paisa. But today the parties who are partners in the Government like the TMC are happy to indulge in dramas of abstaining from attending the cabinet meeting! This is a strange way of protesting—staying away instead of opposing and fighting! The truth is that these parties are also agreeable to this anti-people policy.

The editor of the Congress magazine has said that only Sonia Gandhi can stop this wrong policy. But even a child knows that the Prime Minister would not be able to take such a decision without her approval. The entire Congress party and its top leadership is responsible for this – they talk of the aam aadmi and follow policies for the khas aadmi.

Deceiving the People

The Ministry of Petroleum and Natural Gas, Government of India has given an advertisement in the News Papers soliciting support of the people for the price hike of Petrol, Diesel, LPG and Kerosene. It is a document of deceit and deception published with public money to befool the people. It gives the various so-called reasons for the price hike. Let us look at them one by one.

Lie No. 1: International prices

The Government says that 80 per cent of the country's requirement for petrol products is met by imports. Since prices change in the international market this makes a direct impact on India leading to the reason to hike prices. In other words, the price hike is due to international price rises.

How much has the increase in international prices been? Since the UPA-II Government came into power in May 2009 the international price has increased by just 70 paisa per litre of crude oil. In May 2009, international crude price was 70 dollar per barrel i.e. Rs. 21.43 per liter (1 dollar = Rs.49). Today it is 77 dollar per barrel which means Rs. 22.13 per liter (1dollar = Rs.46.22). One barrel roughly is 160 litres. So the international crude price has risen by 70 paisa per litre. But the Government has raised the prices many times more! In the last six months, the price hike by Government is of Rs. 6.44 per litre on petrol, Rs.4.55 per liter on diesel within last four months, and Rs.3 per liter on Kerosene and Rs 35 on Domestic LPG now.

Secondly, in the last three months there has been no increase at all in the international prices, so why this hike now? Obviously the international price has nothing to do with the price hike of petroleum products since the last budget in February 2010.

The Government advertisement says India imports petroleum products. India imports crude oil, it does not import petroleum products Crude oil is refined in the refineries in India to produce petroleum products like petrol, diesel cooking gas, kerosene etc. before marketing. India imports 75 to 80 per cent of its crude oil requirements. However India is more than self sufficient in oil refining and produces more petroleum products than the domestic requirements. In the year 2009 – 2010 (April-December) it has exported 28 million tonnes petroleum products against an import of 10 million tonnes.

Lie No 2: **Government claims to save public sector oil companies**

Both the Prime Minister and the Petroleum Minister Murali Deora claim that "The government has acted in the larger national interest of saving PSU oil companies, which are Navaratnas and Maharatnas, from bankruptcy and safeguarding consumer interests." Is it so? Are the oil companies on the verge of bankruptcy? Let us see what the Petroleum Ministry says in its annual report of 2009-10 on Indian Oil Corporation (IOC), the major public sector Oil Marketing Company (OMC):

“ **During 2008-09, IOC posted net profit of Rs. 2,950 crore on an unprecedented turnover of Rs. 2,85,337 crore that too after holding the price line for the four major products – petrol, diesel, PDS kerosene and LPG for domestic use. IOC is also the first and the highest ranked Indian company in the Fortune `Global 500', placed at 116th position by sales in 2008. It is the 18th largest petroleum company in the world. The profit (after tax) for the year 2009-10 (upto December 2009) is Rs.4663.78 crore, whereas the turnover for the said period is Rs.208289.46 crore”.**

Further, as per the Audited Financial Results for the year ending 31.3.2010 IOC's net profit has been shown as Rs.10,998 crore with a reserve and surplus of Rs.49,472 crore.

In 2009-10 IOC has paid Rs.26,050 crore as excise duty and Rs. 4049 crore on other taxes. In addition IOC has paid the Government dividend of Rs.656 crore in 2007-08, Rs. 910 crore in 2008-09 and for the year 2009-10 it has to pay not less than Rs.3000 crore as dividend.

The Other two marketing companies HPC and BPC have earned profits of Rs. 544 crore and Rs. 834 crore during April-December, 2009.

And still the Minister gets the perverse pleasure of calling these as bankrupt. It is actually the bankruptcy of the Government which denigrates its own company in such derogatory terms only to fulfill its hidden agenda. Interestingly the same bankrupt companies have been asked to contribute Rs. 250 crore to Rajiv Gandhi Petroleum Institute in Rai Bareilly!

- In the Annual Report it also says that IOC is having major ongoing projects valued at about Rs.65,000 crore and during the year has signed a MOU with Nuclear Power Corporation of India for joint venture in nuclear power generation which is a capital intensive industry with low assured return.

If the Government is so concerned about the oil companies and want them to increase their profits let them give up the huge amounts of excise duty they are charging!

Lie No. 3: The argument of the Myth of Under Recoveries

But then what about “under recovery” - a fancy term being used for the last few years which have no place in balance sheet of any company. The government, backed by the corporate media has been successful in its game of deceit and deception in misleading people to believe that the “so called under recoveries” are actually the losses, incurred by the OMCS.

In 1976 Indira Gandhi nationalised all the big foreign companies like Burma Shell, Caltex, Esso which were looting India. Before nationalization, these foreign companies used to charge Indian consumers at the international price of petroleum products making huge profits. This was known as import parity pricing system. Everyone knows that it is the big multi-national oil companies and cartels that together control the world’s oil markets and manipulate prices to increase their profits. In addition, the multi-national financial companies further push up prices through massive speculation. In 1976 import pricing system was stopped. The then Government set in place a mechanism called the Administrative Pricing Mechanism (APM). The effort was to increase the domestic refining capacity and to end dependence on imports of petroleum products from foreign companies. As per APM instead of the international price of petroleum products being the basis, the actual cost of crude and refining cost of crude were assessed and a reasonable profit margin was ensured to the companies before fixing the price of products.

Once the neo-liberal economic policies under Manmohan Singh began in 1991, there was an increase in the entry of private investors both domestic and foreign. There was intense pressure on the Government to dismantle the APM and go back to the system of loot that existed before. Under the BJP Government, in 2002 the APM was dismantled and import parity was again resorted to for both crude and petroleum products. Import parity price means that the price of the petroleum products within the country would be fixed at par with global prices irrespective of the actual exploration and refining cost within the country. Today even we produce cheaper crude oil in ONGC and Oil India and we refine it at much lesser cost than the global market in our refineries, both public and private, we have to still pay at par with global price irrespective of actual production and refining cost. Under recovery is the difference between the import parity price and the retail price of petrol, diesel, LPG & kerosene, before deregulation. Under recovery is a notional loss based on assumption and not actual loss in real terms.

To put it another way. Suppose a pair of shoes is made in Italy which costs 1000 rupees. Suppose India imports the Italian leather but makes the shoes, including the cost of Italian leather, at a much cheaper cost, of just 600 rupees. Suppose the company says that you have to pay 1000 rupees in India because that is the import parity price otherwise the company will suffer an under recovery of 400 rupees! Will you not protest about a notional calculation on the basis of the Italian cost not the Indian cost? But that is exactly what the Government is doing. It is making the unchecked international price of petroleum products as its base to calculate what the price should be charged in India! The oil companies are making a profit even after absorbing the subsidies for cheaper pricing of petrol products through the APM. But the bogey and myth of under recoveries is being used as the excuse to hike the prices.

After 2002, the private sector and domestic companies like Reliance and Essar wanted further deregulation. They were not satisfied with the steps taken by the BJP Government. The Kirit Parikh committee was set up precisely to address the demands of the private sector. This committee gave a report for complete deregulation of petrol products. The present step of the central Government goes further than even the BJP Government and accepts the recommendations of the Kirit Parikh committee to reintroduce import parity pricing through deregulation, in the first instance of petrol. Thus people of India are left at the mercy of the market.

Under the cover of under recoveries, we are back to the decontrolled pricing regime based on import parity, when foreign oil companies were operating in the country. Burma Shell, Caltex and ESSO might have gone. But their pricing regime is back.

Lie No. 4 : India is the same as other countries

It is an insult to self reliance achieved in the petroleum sector, when the government advertisement tries to compare the prices of LPG and Kerosene selectively with other countries like Nepal and Bangladesh. Instead it should compare the taxing pattern of petrol and diesel with some of the developing countries.

Item	Countries	% of tax to total price
Petrol		
	Sri Lanka	37%
	Thailand	24%
	Pakistan	30%
	India	**51%**
Diesel		
	Sri Lanka	20%
	Thailand	15%
	Pakistan	15%
	India	**30%**

This shows that the Indian Government through its tax regime is pushing up the price of petroleum products in India compared to other countries. India has one of the highest tax regimes on petroleum products. But the most revealing fact is that on the basis of the information available from Energy Information Administration (EIA) there are 54 developing countries other than India having refining capacity in excess of their consumption. But only three countries, namely Croatia, Philippines and South Africa have gone in for import parity pricing, and in Malaysia and Turkey retail prices are determined by international market prices.

Why then should India which is self sufficient in oil refining, but where the majority of the population have fluctuating very low incomes, go for deregulation to suit the global market prices of petroleum products? Without a global wage how can the global price of essential commodities be imposed on inflation hit people of India who do not have requisite purchasing power?

Lie No 4. Government will bear Burden of Rs. 53,000 crore.

In the Ministry's advertisement, it says "**Even after the price increase, Government will bear a burden of Rs. 53,000 crore during the year."**

The Ministry has forgotten its arithmetic. The fact is that the Government is earning huge amounts by putting burdens on the people. During 2009-2010 the contribution to Central Government. Exchequer by the Petroleum Sector in the form of taxes, duties, dividend etc. is more than Rs. 90,000 crore. During the year 2010-2011, after the increase in taxes, the contribution is going to be more than Rs. 1,20,000 crore. Who is subsidizing whom?
And then where is this figure of Rs. 53,000 core in the budget? Where from this figure has been invented? Is it also a case of globalised arithmetic like under recovery which does not find a place in budget or balance sheet?

The Truth behind the Lies

We should thank Deora who in his interview to a national newspaper makes the actual agenda clear behind the sound and fury of international price, under recovery and bankrupt public sector oil companies etc. The cat is out of the bag when he says:

"A free-market regime will create competition between the public and private sectors. This will improve service and could also lead to a price war."

In a price war the public sector OMCs for whom Deora and the government are shedding crocodile tears today, will be the biggest losers. M/s Reliance and Essar have modern high capacity refineries compared to the public sector OMCS who have not been allowed to expand and to upgrade the technology to the level of these private refiners. Moreover the private corporates has direct access to the highest policy makers to change policies like tax exemptions, tax concessions etc. After all, the Ambanis and Ruias can meet the Prime Minister, Finance Minister, Petroleum Minister as and when they like while the public sector CMD's access is limited to the Joint Secretaries or Secretaries. Backed by the corporate media, the private domestic corporates today and foreign multinationals tomorrow will rule the petroleum sector. This happens when the government becomes a government for the corporates, of the corporates and by the corporates.

This is the truth behind the lies of the Government!