

Indian Express

A measure of progress in tackling diesel subsidies, fixing policy glitches in exploration, hiking gas prices.

With petroleum under-recoveries higher than what they were in January, when the government began diesel decontrol — Rs 389 crore a day in January against Rs 422 crore in November — and the government ignoring the Kirit Parikh committee's recommendation to hike diesel prices by Rs 5 per litre, it's easy to conclude it has chickened out again. Similarly, with the dispute with Reliance Industries Limited (RIL) hitting the headlines every day — the latest being the oil ministry disallowing \$792 million of payment recovery to RIL, taking the total to \$1,797 mn — the impression is of an exploration policy under siege. The concern is: When the government opens its next round of exploration bids in January, who is going to come?

There is no doubt that a big hike in diesel or kerosene or LPG prices would show that the government is alive to the imperative of reform. But the lesson is that the government's homeopathic approach in diesel has delivered. Indeed, it may even consider replicating it for kerosene and LPG. In the case of diesel, or any other oil product, things have been worsened by the rupee's collapse and, to the extent that there is no certainty this will not happen again, a price hike appears to be warranted. Were a sharp hike of, say, Rs 5 per litre, not to have any political ramifications, that's obviously the best solution. But it will, and that may derail the monthly hikes which, by now, have been accepted by consumers. Which is why, between January and October this year, the consumption of diesel rose just 0.24 per cent and LPG only 0.31 per cent — there is a cap on the number of subsidised cylinders — while the demand for petrol rose 8.7 per cent, suggesting the collapse is not just related to the slowing economy.

With the government agreeing to RIL giving a bank guarantee for the alleged shortfall in its production, RIL is ready to move on in other areas of exploration. It helps that gas prices have already been freed considerably, thanks to the Rangarajan formula, which the oil minister reiterated would be implemented. The other big private explorer, Cairn India, is busy ramping up its production. Eight new discoveries have been made in the last one year by all firms after the exploration policy was tweaked and with the government saying it will auction all the acreage that firms like RIL and Cairn have relinquished so far — near areas where they have found oil/gas — the next round is certain to attract good bidding. That's pretty good going despite the poor optics.

Fuelling reform

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