

# A shrewd idea to hike prices

**A**lmost all the committees which examined the need for a change in the administered pricing regime proceeded on the presumption that economic reforms would be incomplete without deregulation of the petroleum sector, says **Uttam Gupta.**

**D**ECONTROL of the petroleum sector has been on the government's agenda for quite some time now. While the Soundarrajan Committee has already made a strong recommendation in this regard, it got a fillip with the finance minister recently stressing the urgent need for de-regulation of the price and distribution mechanism for oil products at the Oil and Gas Conference held in New Delhi.

Much of the attention has so far been focussed on how to implement decontrol and when. Should it be done immediately or phased over a period of time? What kind of steps would be needed to prepare for what the ministry of petroleum and natural gas has euphemistically described as soft landing? But, the most critical question of why the petroleum sector should be decontrolled at all, has not been properly addressed.

Almost all the committee mandated to examine the need for a change in the present Administered Pricing Regime (APR), have gone on a pre-determined basis that the process of economic reforms will not be complete without deregulation of the petroleum sector; so, we must do it irrespective of what happens to the user industries and consumers of petroleum products. The irony is that those who are likely to bear the brunt of decontrol are not even consulted or given an opportunity to present the implications much less sharing their viewpoint.

While no convincing reasons have been cited, the contemplated move could, at best, be rationalised in terms of two implied ideas. First, when rest of the economy is being liberalised and deregulated, why should the petroleum industry lag behind; second, presently, consumers of diesel, kerosene, LPG and HSDO besides the fertiliser industry (to the extent it consumes naphtha, fuel oil/LSHS supplied at concessional rate), are being heavily subsidised. And, since subsidies are inconsistent with reforms, these must go which can happen only if the petroleum sector is freed from pricing and distribution controls. Both these ideas are seriously flawed.

On liberalisation, while there has been a loud talk, how much liberalisation have we achieved on the ground? True, consequent to delicensing, any one is free to set up an industry. Is he really that free? He needs numerous other approvals and clearances which takes time as there is no change in the antiquated rules and regulation and bureaucracy is still to be liberated from the shackles of the past.

Although, in principle, power and telecommunications have been liberalised, but this has no meaning so long as the liberalisers do not truly act as facilitators in enabling the private sector proposals to take shape. In four years time, not even a single private power project has moved into stage of proper execution. In the insurance sector, there is no decision to privatise even in prin-

ciple.

What about the PSUs of which the oil and gas companies are a significant constituency. There is practically no move towards their restructuring and privatisation. Disinvestment of government's equity holding in some of these has been in bits and does not take us anywhere in terms of reducing government's stronghold and converting them into truly autonomous and independent entities.

It may be argued that lack of progress in other sectors does not mean that we should not make moves in the petroleum sector. This brings us to the next critical question as to what the government is seeking to achieve through decontrol? Viewing in the true spirit of liberalisation, this would mean promoting competition which, in turn, would force producers to reduce production and distribution cost with consequential benefit to the consumers by way of lower selling prices and better services. Is that the objective? If yes, then, the same should be categorically stated.

Considering the monopoly of the public sector oil companies and the demand far exceeding the domestic supplies, they will set prices at levels they wish. In the absence of alternative, the consumers will have no option but to pay. Users of kerosene, LPG and diesel, etc and industries like fertilisers who cannot afford the increased prices, will fall on the way side while the cost competitiveness of the other industries will be seriously undermined.

Import is often cited as an alternative. This presupposes that the international markets are competitive which again is a myth. Global supplies are cartelised. The same is true of shipping which influences the C&F landed cost of imports in a major way. That means high cost which is compounded by depreciation of the rupee and cascading effect of customs duty levied on an ad valorem basis. Besides, access to the imported product could run into problems due to scarcity of foreign exchange and infrastructural bottlenecks particularly, at the ports and shortage of railway wagons affecting supplies to units located inland.

Take the case of naphtha which was decanalised last year and free imports permitted by any one. Even at the presently depressed C&F landed cost of \$ 170 per tonne and taking 20 per cent customs duty on which the government has already reportedly taken a decision, after adding cost towards handling, transportation and distribution, the consumers cannot get it for less than Rs 8,000 per tonne. With the dollars price tending to rise which is very likely with Indian demand for imports increasing, the cost to the consumer/user industries will be even higher.

In the same Conference, the petroleum secretary is reported to have said that in the decontrolled regime, the prices would be determined by international competition. Specifically, he suggested that the price of oil and natural gas would be determined by the international parity price.

In this content, we must recognise that the global markets are far from being competitive and, for the same reason, the international parity price is seriously flawed. Despite this, adoption of this approach is bound to result in steep increase in prices and, in turn, have a serious destabilising effect on all key user industries and the national economy besides jeopardising export prospects.

For a couple of years, we should not even ponder over the question of decontrol. Instead, we should concentrate on how, through suitable restructuring of the PSUs in the petroleum sector and resultant cost reduction, reasonable selling prices can be sustained.