

Government considering freeing oil, gas price controls: P Chidambaram

Govt is considering freeing prices of locally produced oil and natural gas BSE 2.87 % from state controls in a bid to lure more foreign investment, Finance Minister P Chidambaram said here.

"We are at an advanced stage -- a Cabinet paper is under consideration on how to move from a production sharing model to revenue sharing model for oil and gas explored and excavated by companies," he told investors here yesterday as he started a tour of Canada and US to woo investors.

At present, India allows 100 per cent foreign direct investment (FDI) in exploration and production of oil and gas through a production sharing regime, wherein the companies get to recover all their investment before sharing profits with the government.

This regime has come in for criticism from official auditor CAG which feels it incentivises companies to keep raising capital cost so that government profit is postponed.

Under the new regime being contemplated, companies will be asked to bid for oil and gas they will share with the government from the very first day of output. Companies bidding for the highest share will get licence to explore. Once government is guaranteed the highest share, it will rid itself of the current task of regulating price of gas.

Chidambaram said the government was keen on replacing the production-sharing model for oil and gas exploration with a revenue-share model.

The new model is based on recommendations of a panel headed by C Rangarajan, Chairman of Prime Minister's Economic Advisory Council. This panel had also suggested moving to a market determined prices for natural gas in five years.

For the intervening period, it suggested hybrid model of global benchmark gas price and imported LNG.

(Economic Times)