GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

UNSTARRED QUESTION NO:3188
ANSWERED ON:15.04.2010
FIXATION OF SALE PRICES OF PETROL/DIESEL
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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) whether rate of consumer sale prices of petrol and diesel is fixed on the basis of trade parity pricing system;

(b) if so, the details of expenditure regarding the product being factored under the above system;

(c) the reasons for adaptation of above system instead of common basis of production cost to fix the consumer sale price; and

(d) the differences and characteristics of both systems?

Answer

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS (SHRI JITIN PRASADA)

(a) & (b): In June 2006, based on the recommendations of the Rangarajan Committee, the Government changed the pricing mechanism for Petrol and Diesel from Import Parity to Trade Parity at the refinery gate level (Trade Parity being the weighted average of Import Parity and Export Parity prices in the ratio of 80:20). Accordingly, the Oil Marketing Companies(OMCs) started paying Trade Parity prices to refineries for purchasing Petrol and Diesel from June 2006. Based on the Trade Parity price paid to refineries, the retail selling price of Petrol and Diesel is calculated by taking into account the following:

a. Price paid to refinery on Trade Parity basis
b. Inland freight upto the market
c. Marketing Cost and Margin
d. Dealers Commission
e. Excise Duty
f. Value Added Tax and local levies

As the retail selling prices of Petrol and Diesel are not being maintained in line with the Refinery Gate Prices (RGP) based on Trade Parity pricing mechanism, the Public Sector OMCs incur under-recoveries on the sale of these products.

The price build up of Petrol and Diesel applicable for 1st fortnight of April'2010 at Delhi is given as under

	Rs/Ltr	
	Petrol	Diesel
Price paid to refinery	27.08	27.93
Inland Freight	0.69	0.76
Marketing Cost & Margin	1.36	1.24
Dealer Commission	1.13	0.67
Excise Duty	14.78	4.74
Pollution cess	0	0.25
Value Added Tax (VAT)	7.99	6.35

Total	53.03	41.94
Retail Selling Price	47.93	38.10
Under Recovery to OMCs	5.10	3.84

(c) & (d): Refining of crude oil is a process industry where crude oil constitutes around 90% of the total cost. Crude oil is processed through numerous processing units such as Crude Distillation Unit (CDU), Vacuum Distillation Unit (VDU), Fluid Catalytic Cracking Unit (FCC), Hydro-cracker, Coker unit, Lube Unit etc. Each of these units produces intermediate products streams, which require extensive reprocessing and blending. Petroleum products are produced from blend of various intermediate streams. The blending of intermediate products streams from various process units for making finished petroleum products results in difficulty in allocating the total joint costs to individual refined products with reasonable accuracy. Therefore, individual product-wise costs are not identified separately.

The Administered Pricing Mechanism (APM) which was based on the Cost Plus approach underwent a phased dismantling between 1998 and 2002 so as to transform the Indian refining sector into a globally competitive one. The Cost Plus approach led to a high cost system in which the refineries had no incentive to reduce costs or augment capacities, undertake modernization etc. Further, the Cost Plus approach provided very low gross refining margins compared to international margins.