

**GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA**

UNSTARRED QUESTION NO:2951
ANSWERED ON:18.08.2011
LOSSES INCURRED BY OMCS
Joshi Dr. Murli Manohar;Vardhan Shri Harsh

Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

- (a) whether the Oil Refineries in the country earn profit while the Oil Marketing Companies (OMCs) incur loss;
- (b) if so, the details thereof;
- (c) whether the faulty pricing policy is responsible for this situation on the basis of which oil refineries sell products after pricing to marketing companies;
- (d) if so, the reaction of the Government thereto;
- (e) whether the oil refineries do not fix prices of products on the basis of their production cost; and
- (f) if so, the corrective measures taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS (SHRI R.P.N. SINGH)

(a) to (d): The Oil Marketing Companies (OMCs) pay Trade Parity Price(TPP) for purchase of Petrol and Diesel and Import Parity Price(IPP) for purchase of PDS Kerosene and Domestic LPG to refineries. The IPP/TPP are determined based on prices prevailing in the international market.

However, the Retail Selling Prices of sensitive petroleum products i.e. Diesel, PDS Kerosene and Domestic LPG are still not being maintained in line with the international oil prices and they are below the required market price. As a result, the OMCs are incurring under-recovery of `4.97 per litre on the sale of Diesel, `23.74 per litre on the sale of PDS Kerosene and `247.00 per cylinder of Domestic LPG as per the Refinery Gate Price effective from 1.08.2011(2nd fortnight for Diesel).

The OMCs have been able to report profits only as a result of sharing of a major portion of their under-recoveries by the Government and the public sector upstream oil companies. Had the under-recoveries not been compensated to OMCs, they would have reported huge losses as indicated below:-

Loss of OMCs without Government Assistance and Upstream Discount

(Rs. Crore)

2008-09 2009-10 2010-11

Combined Profit After 4,261 13,060 10,531
Tax (PAT) of OMCs

Provision for Taxation 1,784 5,537 3,323

Profit before Tax 6,045 18,597 13,854

Less: Compensation received 71,292 26,000 41,000

Budgetary support 32,000 14,430 30,297
Upstream assistance

Total Compensation 1,03,292 40,430 71,297

Combined Losses of OMCs (-)97,247 (-)21,833 (-)57,443
without Compensation

(e) and (f): 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 product streams, which require extensive reprocessing and blending. Finished petroleum products are produced from a blend of various intermediate streams and hence, production cost is not assigned to individual refined products.