No. P-20028/3/77-PPD(Vol. II)

GOVERNMENT OF INDIA

(Bharat Sarkar)

MINISTRY OF PETROLEUM

(Petroleum Mantralaya)

New Delhi, Dated the 16th December, 1977

RESOLUTION

The Government of India set up an Oil Prices Committee (hereinafter referred to as the OPC), under the Chairmanship of Dr. K. S. Krishnaswamy, Deputy Governor, Reserve Bank of India, to recommend general principles of pricing policy of petroleum products and on other connected matters, in its Resolution dated the 16th March, 1974. The OPC submitted its Interim Report in January 1975 and the decisions of the Government were contained in the Government Resolution dated the 14th July, 1975. The OPC submitted its final report in November 1976. This has been considered and the decision of the Government on the major recommendations, insofar as they modify the earlier decisions or cover new ground are given below.—

2. The principle of "import parity" has been discontinued as a basis for the pricing of indigenous crude oil and refined petroleum products.

3.1 A price of Rs. 41.44/bbl. of indigenous (onshore) crude oil of 34° API subject to gravity escalation, and inclusive of the increased royalty and the oil development cess, has been approved, taking into account the data on the cost of production updated by the OPC. A price of Rs. 58.84/bbl. of indigenous (offshore) crude oil (Bombay High) has been approved, inclusive of the increased royalty on indigenous crude and the oil development cess. In approving these prices, Government has kept in view the facts that a sizeable portion of our requirements of crude oil and deficit products, the prices of which are rising, are still imported and the need to maintain the priceline to the maximum extent.

3.2 It has also been decided that fluctuations in the rate of dollar/rupee exchange would not affect the prices, although gravity escalations would be allowed.

4. A system of retention prices for each product and for each refinery has been introduced with effect from 16th December, 1977 on the basis of the latest cost data available, including a revised pool price of crude oil and norms and parameters worked out by the OPC. In calculating the retention prices a return of 15 per cent (gross) on the total capital employed (Income-tax depreciated net fixed assets plus working capital) has been allowed.

5.1 For the oil marketing companies, the Interim Report had employed the traditional method of the weighted average of the marketing and distribution costs of the major units to determine the marketing and distribution margins for the industry as sufficient data was not available at that time. In the final report, the OPC has recommended that the concept of retention margins being followed for refinery companies should be extended to the marketing operations as well. This recommendation has been accepted. The retention marketing margins for each product for the individual oil companies have been worked out after taking into account their latest cost and other operating data. The weighted average has been included in the price build-up so that prices to consumers would be uniform whether sold by one company to another, and the difference between the retention margins due to each individual oil company and those included in the price of a petroleum product would be adjusted through the pool accounts.

5.2 For the orderly growth of the oil companies in the public sector and for the full utilisation of the facilities with each of the oil companies, the marketing share of each company would be determined by the Government and a system introduced to govern sales volume and recovery of marketing margins.

5.3 The determination of retention prices of margins does not mean that all costs would be recognised and reimbursed. There would be a built-in mechanism whereby inefficiencies would be penalised and efficiencies rewarded. Any deterioration in marketing efficiency or shortfall in the volume of sale from the levels anticipated, would not, *ipso facto*, call for any adjustment of retention margins.

5.4 In working out the retention margins, a return of 15 per cent (gross) on total capital employed (Income-tax depreciated net fixed assets plus working capital) has been allowed.

6.1 Pool accounts are being maintained to ensure that an arrangement based on retention prices/margins, various units are reimbursed costs as experienced by each, subject to certain norms. Based on the final report of the OPC, the scope and content of these accounts would be determined.

6.2 It has been decided that pool funds would be kept in the Public Account of India in place of the present practice of keeping them as deposits in commercial banks. This will ensure the audit of the pool accounts by the Comptroller and Auditor General of India.

7. The decision of the Government on dealers' commission on motor spirit, high speed diesel oil, kerosene oil and light

diesel oil are already contained in Resolution dated 22nd June, 1976. The rates of commission and slabs were subsequently revised on the basis of the final report.

8.1 Lube base stocks are the principal raw material in the manufacture of finished lubricating oils and greases. A system of retention prices of lube base stocks for individual lube plants on the basis of the latest cost data available and revised norms and parameters will be introduced as in the case of finished petroleum products. Uniform ex-refinery prices have been determined on the basis of the weighted average retention prices of lube plants for all lube base stocks classified into three categories *viz.* LVI base stocks, HVI/Bright stocks and Turbine oils. As in the case of fuel products the difference between the ex-refinery and retention prices would be adjusted in the pool accounts.

8.2 There has been no price formulation, so far, for finished lubricants and greases, prices of which have been controlled under the system of lube "block control", as recommended by previous pricing committees. In this system, the oil companies recovered the actual costs themselves and fixed selling prices of individual products in such a manner that taking all grades together, their recovery towards marketing/distribution charges and profits during a financial year did not exceed the ceilings laid down from time to time. In the changed situation *viz.* that the country is nearly self-sufficient in lube base stocks and in the supply of additives packages and almost the entire oil industry is now in the public sector, it has been decided to determine ceiling selling prices for automotive lubes and non-additive secondary grade lube oils, which account for about 70 per cent of the total sale of lubes and greases in the country. This would bring down the selling prices of the commonly used automotive lubes, although there would be some marginal increases for superior grade lubes.

8.3 For the balance of about 30 per cent of lubes and greases, which are mostly industrial grades, the prices will for the time being stand at the existing levels and will be operated through a modified and improved form of block control mechanism providing, *inter alia*, new norms and parameters to the extent possible for certain elements of cost such as blending charges, marketing margins, packaging etc.

9. On the recommendation of the Interim Report, a number of products were, for the first time, brought under the pricing scheme. Certain other special products such as low sulphur heavy stock (LSHS), hot heavy stock (HHS), refinery gas, aromex, iomex, waxes, raw petroleum coke, calcined petroleum coke, carbon black feed stock, phenol extract, benzene and toluene will also be brought within the pricing scheme. It has been decided that these products would also hereafter be included like other products in the pool accounts pertaining to crude oil. The recommendations of the OPC on the selling prices of these products would be considered in due course.

10. The Committee has observed that several State Governments have levied sales taxes and surcharges which cannot be recovered from consumer prices and would, therefore, seriously affect the financial viability of the oil companies, when prices of their products are based on costs. Government has noted these observations, and is of the view that State Governments should discontinue such levies and may levy only recoverable levies. Until this is done, the various surcharges being added to the selling prices in the States concerned to compensate the oil companies, may continue and their rates reviewed from time to time.

11. The OPC has recommended escalation and adjustments in the pool accounts due to variations in actual costs over the norms and parameters included by them in the pricing structure. Besides, other items of adjustment have also been spelt out such

as capital cost and operating cost thereon for expanding facilities for supply of essential commodities such as Taluka Kerosene Depots and Farm Fuel Outlets, investment for minor projects towards improving the pattern of production and/or reducing the incidence of own consumption of fuel and loss etc. These recommendations have been accepted for adjustments in the pool account subject to the approval of Government.

12. The decisions herein contained will come into force with effect from 16th December, 1977 and will remain in force until further orders.

13. In regard to some of the other recommendations of the Committee, the decision of Government will be announced in due course.

S. KRISHNASWAMI,
Secretary to the Government of India.

ORDER

Ordered that a copy of this Resolution be communicated to all the State Governments/Union Territory Administrations, Lok Sabha and Rajya Sabha Secretariat and the concerned Ministries and Departments of the Government of India. Ordered also that the Resolution be published in the Gazette of India for general information.

S. KRISHNASWAMI,
Secretary to the Government of India.

NEW DELHI,
the 16th December, 1977.

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