No. PPD/OPC/1R/75

GOVERNMENT OF INDIA

MINISTRY OF PETROLEUM AND CHEMICALS

New Delhi, dated the 14th July, 1975

RESOLUTION

The Government of India have considered the interim report of the Oil Prices Committee (hereinafter referred to as the OPC) set up by the Government *vide* Government Resolution dated the 16th March, 1974 under the Chairmanship of Dr. K.S. Krishnaswamy, Executive Director, Reserve Bank of India, Bombay, to recommend general principles of pricing policy of petroleum products and on other connected matters. The decisions of the Government on the recommendations of the OPC are given below:

2.1 The principle of 'import parity' does not constitute a proper basis for pricing of indigenous crude oil or refined petroleum products and should be given up as recommended by OPC.

2.2 The Committee recommended that the price of indigenous crude oil should be based on the long-run social marginal cost of crude (discounted at 10% over 15 years as life of the project) and estimated it at Rs. 28.80, or $3.60 per barrel of 34° API calculated at the conversion rate of Rs. 8 per US dollar. The Committee also recommended an increase in the existing Oil Development Cess of Rs. 60 per tonne to Rs. 82.50 per tonne. Including this enhanced cess, the price of indigenous crude oil works out to Rs. 40 per barrel or $ 5 per barrel. For the present Government have decided not to increase the Oil Development Cess. The price of indigenous crude oil will continue to be $4.58 per barrel, inclusive of the existing Oil Development Cess of Rs. 60 per tonne.

2.3 Government have also decided that this price will be expressed in terms of rupees per barrel, *i.e.* Rs. 36.64 per barrel. Fluctuations in the US dollar/rupee exchange rate will not affect this price.

2.4 As a corollary to the discontinuance of the principle of 'import parity' in the pricing of crude oil, it would no longer be valid to estimate the cost of delivery of crude oil by pipeline on the basis of Notional AFRA, port wharfage and landing charges. The cost of delivery of crude oil by pipeline from the Central Tank Farm to refinery installations should be borne by the refinery based on the actual operating cost, plus a return on capital employed (represented by net fixed assets and working capital:

2.5 For the present, Government have decided not to transfer the liability of sales tax from the producers of ind[illegible]nous crude oil to refineries.

2.6 It would no longer be appropriate to continue the system of reimbursement of freight cost on notional AFRA basis. The actual costs of ocean transportation by Indian tankers should be reflected in the price of petroleum products and the refineries should be reimbursed on this basis. Additional expenditure on account of demurrage, inefficient operation etc. will not qualify for adjustment in the C&F Account. But additional expenditure (tugs, fender, baby vessel etc.) entailed in lightering of high capacity tankers will be reimbursed. Norms and parameters (*e.g.* on turn-round, bunker consumption etc.) should be determined by the oil industry with the approval of Government. Actual performance should be rated against these norms and parameters for adjustment in C & F Account.

2.7 The tanker freight rates should be on cost plus basis for all Indian flag tankers. The contractual rate should be in rupees per tonne.

3.1 The Committee has worked out the retention prices for each product and for each refinery, taking into account the average level of throughput, the standard pattern of production, the relevant cost of crude oil, the average refining cost, a return of 15% on capital employed and a set of indices for allocation of the total cost of each refinery among different products. This arrangement is expected to take care of the various factors peculiar to the oil industry in general and to the widely distributed and technologically disparates refineries in India in particular. Not only are the product patterns different and the processing cost, crude costs, freight rate etc. variable, but over and above this, there are also constraints placed by Government from month to month in the overall national interest regulating throughput, product pattern requiring the refineries to process different types of crude oil and the like. It is expected that the retention prices concept, with additional compensation from pool accounts when under recoveries are sustained on account of Government directives, will adequately provide for all such variations. Under recoveries on account of refinery deficiencies, break-down etc. will not be compensated.

3.2 Government have accepted all the norms, standards and parameters adopted by OPC in working out the retention prices except the 15% return (gross), on the total capital employed by the refineries. It is considered sufficient that under normal circumstances a 10% return on net fixed assets and 15% return on working capital (crude in stock and transit, intermediate and finished products at the refinery level not exceeding two month's stock) may be allowed.

3.3 OPC has based the marketing charges on the weighted average of the marketing and distribution costs of Indian Oil Corporation, Hindustan Petroleum Corporation Limited and Burmah Shell whose share in the marketing is 90%, and recommended a 12% return on capital employed by the marketing companies. Government consider that under normal circumstances this rate of return would be appropriate.

3.4 The Government have accepted the Committee's recommendation that the refineries should be the primary pricing points and the prices at upcountry depots or installations should be determined on the basis of the prices at the nearest refinery plus the cost of transportation by the cheapest

means of transport. As a result of this decision, the existing primary pricing points of Okha, Goa, Kandla and Calcutta shall cease to be the pricing points.

3.5 OPC has recommended an ex-refinery price at a level 'P' (which is equal to the weighted average retention prices for all refineries) for Bombay and Koyali, P+20 for Madras, Cochin and Vizag, P+30 for Haldia and Barauni and P+10 for Gauhati and Digboi refineries. It is considered that the ex-refinery prices should be uniform for all the refineries as the FOB cost of crude oil (imported and indigenous) which accounts for more than 80 per cent of the total expenditure of the refinery, has been pooled and kept at a uniform level of P+12 weighted average for all the refineries. This will not, however, imply any scheme for freight equalisation.

3.6 The flat transportation surcharge scheme in respect of motor spirit and kerosene which is applicable to all the places in Assam State would be abolished. The prices of these two products in Assam State would be determined in the same manner as in other States.

In view of the high transportation costs in the border States/Union Territories in the north east region, there should be a flat surcharge of 5 paise per litre on kerosene and high speed diesel oil and 7 paise per litre on motor spirit with Digboi and Gauhati as primary pricing points.

3.7 The OPC has recommended that as the refineries retention prices have been derived on the basis of actual costs plus a reasonable return rather than import parity, the levy of non-recoverable devaluation duty on bulk petroleum products is not warranted. To offset the resultant shortfall in Government revenue, a part of the existing selling price of lubes and greases should be converted into basic excise duty.

The OPC has also suggested that the WGOP and OPC duties should be merged with the basic excise duties.

Government have accepted in principle these two recommendations. Necessary action will be taken at the appropriate time.

3.8 The Freight Surcharge Pool for compensation for out of zone movement and coastal movement, crude oil price equalisation account, C&F Adjustment Account, Product Prices Adjustment Account will be continued. Only such items of expenditure as are approved by the Government will be adjusted in these accounts.

3.9 OPC has recommended certain norms for adjustments in the accruals to the oil companies in respect of shortfalls or excess in throughput, processing fees, variation in pattern of production, etc. Government have accepted these recommendations.

3.10 OPC has recommended that an Oil Coordination Committee should be set up for administering the Pool Account; deciding on allocation of crude oil and monthly production patterns; and coordinating transportation arrangements for crude oil imports and coastal movements. This should be an industry committee with a separate secretariat. The expenditure on this organisation should be borne by the C&F Account. This recommendation

has been accepted by the Government. The Oil Coordination Committee will consist of the Secretary, Department of Petroleum, a representative of the Ministry of Finance (Department of Expenditure), Chairman, IOC, Chairman and Managing Director, HPCL, Chief Executives of Burmah Shell, Caltex, MRL, CRL, IBP and AOC, and with the Joint Secretary, Department of Petroleum as Member-Secretary. The Secretariat should have the full time services of the experts of refineries, marketing and distribution, including transportation. In view of the complexity and number of Pool Accounts to be administered, there should be a full-fledged wing for Accounts/Finance.

3.11 For the first time Jute Batching Oil (JBO), Special Boiling Point Spirit (SBPS), Solvents, Hexane, Mineral Turpentine Oil (MTO), LPG for industrial use, naphtha for industrial use are brought under the pricing scheme.

3.12 All other recommendations of the OPC excepting the prices of a few products (*vide* paragraph 4 below) are accepted by the Government.

4. Taking into account the current costs of the oil industry and the floating exchange rates in the international monetary system, and taking note of the prevailing economic situation, Government have taken the following decisions on the prices recommended by the OPC:—

(*a*) The ceiling selling prices of kerosene oil at ex-storage points at Bombay, Koyali, Cochin, Madras, Visakhapatnam, Haldia, Barauni, Gauhati and Digboi will be increased by 5 paise per litre instead of 11.7 paise (at Bombay) recommended by the OPC.

(*b*) The basic ceiling selling prices of high speed diesel oil ex-storage points will be increased by 8 paise per litre instead of 14.6 paise per litre (at Bombay) recommended by the OPC.

(*c*) The basic ceiling selling prices of furnace/fuel oil ex-storage points will be enhanced by Rs. 80 per KL.

(*d*) The ceiling selling price of domestic cooking gas (LPG) will be increased by Rs. 2.50 per cylinder of 15 KG instead of a ceiling of Rs. 5 per cylinder recommended by the OPC.

(*e*) The prices of certain products, such as aviation gasolines, motor spirits, aviation turbine fuel and light diesel oil recommended by the OPC are lower than the current prices. The prices of these products will be retained at the existing levels.

(*f*) There will be no increase in the price of naphtha used as feedstock for fertilizer production.

(*g*) Recommendations of the OPC on the pricing of other products have been accepted by Government.

5. The decisions herein contained in respect of prices of indigenous crude oil and petroleum products and related matters will come into force with effect from 14th July, 1975 and will remain in force until further orders.

Sd/-

(C. VENKATARAMANI)

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