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Oil Companies - Pricing Policy

What is the issue?

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The pricing policy adopted by oil companies for petrol and diesel needs review and they should be brought under GST at the earliest.

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What is the need?

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- While announcing a price cut recently, the Centre urged States to reduce their levies on the fuels (petrol and diesel).
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- Despite some states making rate cuts, Bihar has appealed to the Centre to reduce the base price of petrol and diesel.
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- It has pointed out that VAT on petrol and diesel in Bihar was among the lowest.
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- This highlights the need for shifting the focus to the pricing policy followed by the oil companies for the two fuels.
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What is the flaw in the pricing policy?

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- **Change in policy** - Prices of petrol and diesel were deregulated in 2010 and 2014 respectively.
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- Consequently, prices are market-determined i.e. by the forces of supply and

demand rather than input costs.
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- Since deregulation, the Public Sector Oil Marketing Companies (OMCs) are allowed to take appropriate decisions on petrol and diesel.
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- From June 2017 dynamic daily pricing is being followed.
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- Under this, the retail selling prices of petrol and diesel is revised daily, based on average international price and the currency exchange rate.
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- **Flaw** - Despite the changes, oil companies still follow policies dating back to the controlled pricing era.
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- According to this formula, retail prices are linked to imported landed cost and export parity price of the two fuels.
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- This is despite the fact that petrol and diesel are not imported but refined within the country, with imported crude oil.
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- This trade parity pricing being followed is unsuitable in the current free pricing regime.
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- This only results in offering undue protection to domestic refineries.
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- **Anomaly** - The prices of fuels refined from crude oil should be linked to the cost of crude plus the refining and transportation costs and margins.
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- By this, ideally, coastal States and those with refineries in their vicinity should be paying a lower price.
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- States in the hinterland where transportation costs involves should pay a higher price.
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- However, this is not the case at present, due to unregulated pricing by companies.
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What should be done?

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- The Centre should get the oil companies to review their pricing strategies and align them with the free market approach.

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- Besides, inclusion of petrol, diesel and other fuels under the GST would benefit oil companies and aid them in reforming the fuel pricing strategies.
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Quick Facts

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Trade Parity Price

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- Trade Parity Price (TPP) is the weighted average of import parity price (IPP) and export parity price (EPP) with weights of 80 and 20 respectively.
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- IPP is the price importers would pay in case of actual import at Indian ports, while EPP is the price oil companies would realise on export.
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- In short, the pricing assumes that 80 per cent of the petrol and diesel is imported and 20 per cent is exported.
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- Rather than showing the daily changes in the TPP and the rupee values, oil companies are adjusting price differences in the daily prices charged to dealers.
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- This gives the impression that the amount is going unfairly into the oil companies' coffers.
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Source: BusinessLine

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