**Over a third of PSU refineries will become unviable**

The idea of export parity pricing, last raised by then finance minister P Chidambaram, is a seductive one as it lowers the levels of subsidies given in the oil sector in comparison with the current system of trade parity pricing. If PSU oil companies, the argument goes, do not import diesel or LPG, why should a notional import duty on diesel or LPG be added to their ‘costs’; so, if the ‘costs’ of PSUs goes down, so does the level of subsidy. This, in some senses, is the basis of the argument made by the Comptroller and Auditor General (CAG) last week when it said PSU oil marketing companies had collected R26,000 crore extra over the past five years. The argument, however, is over-stated for a variety of reasons. For one, since crude oil is imported—this is then processed by local oil marketing companies—whether freight is charged on this or on diesel/LPG, it doesn’t make much of a difference. And to the extent import duty is levied on crude oil—there is no duty at the moment, though—this offsets some of the import duty advantage imputed to the PSUs. What is important, however, is the amount of advantage these PSUs are supposed to be getting. The CAG puts it at around R5,000 crore a year; a calculation by the Kirit Parikh committee put the amount at R14,000 crore in FY12. Compared to the size of the petroleum under-recoveries—R1.4 lakh crore in FY14—the amount is small, almost irrelevant.

More important is what this will do to PSU oil refineries. Of the 15 PSU refineries in operation in FY13, the Kirit Parikh report found, the gross refinery margins were negative in three; if the price of petroleum products was reduced by a mere $1.5 per barrel, this would ensure another two refineries would become unviable. For the rest, the gross refining margin would fall by 30-40%. Nor should it be concluded that PSU refineries are inefficient, and that the current pricing regime is simply a way to keep them afloat. The refineries have lower refining margins than their private counterparts, or even their newer PSU cousins, for the simple reason that they are old. What makes the difference between high and low margins is the ability of a refinery to process crude oil; the newer the refinery, the greater the amount of products it produces, and the greater its ability to process even cheaper crude oils. So, if the export parity regime is to be implemented, the government has to be prepared to fund PSUs to scrap their existing refineries and replace them with brand new ones. Till then, the existing trade parity regime is a small price to pay.

# A THIRD OF PSU REFINERIES TO GO BROKE IF CAG RULE APPLIED

THE latest CAG report on oil PSUs which talks of ₹26,000 crore extra earnings by oil marketing companies IOC, HPCL and BPCL between 2007 and 2012 reiterates an old point. For years, the finance ministry has been arguing that PSU refiners are being paid extra as their 'costs' are calculated on what is called trade-parity pricing. This takes into account both imported prices (80% weight) as well as the price at which products are exported (20% weight). So even though diesel is not imported, the trade-parity pricing imputes a value to the notional import duty, to the freight on imports, and so on. The amount itself is small relative to the under-recoveries that the oil PSUs—including ONGC and GAIL—have to bear. Besides, as the report by the Kirit Parikh panel that was tasked to go into the matter pointed out, were export-parity to be applied, this would lower the price charged for petroleum products by around $1.5 per barrel. While the amount was a small one, it would ensure a third of PSU refineries were unviable and would reduce the refining margins of the others by around 30-40%. Something the government needs to keep in mind.

## Oil on the boil

| Company | Refinery | Capacity (in mmtpa) | Gross refining margin (FY13) | Export parity GRM* |
|---|---|---|---|---|
| IOC | Barauni | 6 | 0.94 | -0.56 |
| | Gujarat | 13.7 | 4.75 | 3.25 |
| | Haldia | 7.5 | -0.56 | -2.06 |
| | Mathura | 8 | -0.67 | -2.17 |
| | Panipat | 15 | 2.31 | 0.81 |
| BPCL | Kochi | 9.5 | 5.36 | 3.86 |
| | Mumbai | 12 | 4.67 | 3.17 |
| HPCL | Mumbai | 6.5 | 2.08 | 0.58 |
| | Visakh | 8.3 | 2.08 | 0.58 |
| CPCL | Chennai | 9.5 | 0.99 | -0.51 |
| MRPL | Mangalore | 9.69 | 2.45 | 0.95 |

*Gross Refining Margin, based on lowering products price by $1.5 per barrel.

In FY13, reported Guwahati GRM was **$2.31**, Digboi: **$11.9**; Bongaigaon: **$-1**; Numaligarh 4.83

Source: Report of the expert group headed by Kirit Parikh