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## Guest Column

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# Anomalies in feedstock pricing

THE Government has reportedly promised to ensure supplies of feedstock viz, naphtha, fuel oil and LSHS from oil PSUs to fertiliser plants at prevailing import parity price (IMPP) plus 4 per cent sales tax. There is nothing new about this. When, prices of these feedstock were decontrolled in April 1998, oil PSUs were directed to fix these based on IMPP. Unfortunately, they have not followed this principle in true spirit. As a result, price actually charged from users has been significantly higher than warranted by IMPP. The oil PSUs were also required to adjust ex-refinery price to fully reflect variations in IMPP. This rule has also been flouted with impunity. Thus, when, IMPP declined as in 1998-99, reduction in price was less than proportionate. But, when, IMPP went up — as in 1999-2000 and during major part of 2000-01 — price was promptly raised. Clearly, so far, oil PSUs have not behaved. Will there be a change of mindset? With substantial addition to refinery capacity especially in private sector, there is surplus of petroleum products including naphtha and fuel oil. This has broken continued monopoly of oil PSUs. They are inclined to talk now. Besides, pressure is building on another front. In his Budget speech for 2001-02, Finance Minister (FM) has announced Government's decision to implement urea concession scheme recommended by ERC. He has also stated that concession under it will be linked to prevailing IMPP of feedstock.

Already, on this basis, ERC had recommended reduction in concession by Rs 1,900 per tonne for plants in naphtha group and Rs 3,200 per tonne for plants based on fuel oil/LSHS. Now, if, realisations of fertiliser units are drastically reduced without corresponding reduction in cost of feedstock, they will be sunk. This can be averted only if, feedstock is made available at price used by ERC for computing concession rates.

The Ministry of Finance is convinced about this logic. In a meeting held in early March 2001, it impressed up on Ministry of Petroleum and Natural Gas to do the needful.

There are serious anomalies in the existing structure of feedstock pricing which leads to exceptionally high price levels. For arriving at ex-refinery price, oil companies take C&F landed cost of import plus handling charges at port plus marketing margin. In case of fuel oil, even customs duty is added. The IMPP principle, in true sense of the term, requires that the prevailing FOB price of feedstock alone should be taken. This is what refineries abroad realise on sales in the international market and will also be the realisation of our oil companies from their exports. The various 'add ons' to the FOB price viz, ocean transport, charges for handling at port, customs duty and marketing margin are totally unjustified and unwarranted. The fact of the matter is that oil companies simply do not incur these costs! Consequently, there is no valid basis for loading these.

Oil PSUs argue that fertiliser units should at least pay an amount equal to what it will cost them if, they were to import. This argument is not valid as being a major consumer of feedstock, if, latter decide not to take domestic supplies, former will have no option but to export. Ironically, even under C&F route, oil companies add customs duty and marketing margin which a fertiliser producer will not incur on imports!

A major factor leading to high cst of feedstock — at plant site — supplied from domestic refineries is sales tax (ST). In states like Gujarat, where ST is a high of 20 per cent, the cost goes up by a huge about Rs 2,500 — 3,000 per tonne on this account alone. Units can easily save on this if, they source supplies from abroad. In view of above, ideally, MPNG should aim at fixation of ex-refinery price of feedstock on the basis of prevailing price. As a second best option, price may be fixed using C&F cost plus port handling charges alone as this is what units will incur on import. A suitable modus operandi has also to be worked out to ensure that only 4 per cent ST is charged.