Petrol, diesel: PIDE suggests annual review of OMC, dealer margins

Proposes Consumer Price Index as base for calculating margins.

Zafar Bhutta | February 21, 2014

PIDE suggests that the CPI estimated in the federal budget may be considered as the base for any increase in margins in the future. PHOTO: FILE

ISLAMABAD:

A study conducted by Pakistan Institute of Development Economics (PIDE) has recommended annual review of margins of oil marketing companies (OMCs) and dealers based on mark-up on assets and the Consumer Price Index (CPI) published by the State Bank of Pakistan (SBP).

However, after going through the proposed mechanism, the Ministry of Petroleum and Natural Resources has suggested that the CPI estimated in the federal budget might be considered as the base for any increase in margins in the future. It should be subject to the condition that margins should not exceed 3% of the sum of ex-refinery prices of each of the petroleum products and inland freight equalisation margin.

In a summary sent to the Economic Coordination Committee (ECC) for discussion in a meeting on February 13, the ministry said PIDE had also proposed annual review of margins and a separate formula for calculating the margins of OMCs and dealers.

The formula proposed by PIDE was based on 30% mark-up on assets/investments and the CPI announced by the central bank.

According to sources, the ministry submitted the summary in haste and sought comments of stakeholders including the Finance Division, Planning Commission, Federal Board of Revenue and Oil and Gas Regulatory Authority during the meeting. However, the ECC asked the ministry to seek views of the ministries and departments concerned in writing and then bring the summary again for approval.

In its report, PIDE took into account various cost factors of OMCs and dealers separately. Based on its findings and analysis of expenditures and existing margins as well as keeping in view the importance of oil industry in the economy, PIDE recommended an upward revision in margins.

For petrol, it proposed an increase of Rs0.63 per litre for OMCs and Rs0.64 per litre for dealers and for high-speed diesel, it suggested Rs0.82 per litre for OMCs and Rs0.81 per litre for dealers.

However, for consumers, the increase was estimated at Rs1.49 per litre in petrol and Rs1.91 per litre in diesel including the impact of general sales tax.

The ministry told the ECC that OMCs were willing to implement PIDE recommendations, but the dealers demanded an increase of 53% in petrol margin and 52% in diesel margin, which it said was unrealistic.

The ministry had proposed deregulation of petrol margins for six months. However, it suggested an increase of Rs0.16 per litre in diesel margin for OMCs and Rs0.40 per litre for dealers.

Now, sources said, OMCs opposed the deregulation of dealer margins, saying they would not take any responsibility of the dealers in case they manipulated the situation.

OMCs wanted to fix petrol margins for themselves as well as dealers. “Consultation in this regard is under way and a summary will be tabled again before the ECC while seeking comments of other ministries and departments,” an official said.

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