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POL products' shortage, Blame laid at the door of ECC

ISLAMABAD: The blame of the current petroleum products' supply crisis across the country is laid at the door of Economic Coordination Committee (ECC) of the Cabinet, which rejected a new price mechanism proposed by the Petroleum Division.

According to sources, Petroleum Division, in its summary tabled on May 30, 2020 clearly indicated the distinct possibility of a severe crisis of POL products in the country if their proposal of new price mechanism is not approved with immediate effect, the sources added.

Sharing the details, the sources said, prices of petroleum products are determined under the ECC's decision of October 15, 2010 read with the ECC decision of August 16, 2011 whereby refineries are allowed to fix and announce the ex-refinery sales prices on a monthly basis. This is subject to the condition that the ex-refinery price of the petroleum products cannot be more than the PSO's average actual landed import price of the previous month which was the price on C&F basis on a 5-day average of the Arab Gulf Market Platts price around the date of the Bill of Lading (B/L).

In case of non availability of PSO's import prices, the ex-refinery price was to be fixed as per import parity pricing formula on the basis of prices established by the Platts Oil Gram for Arab Gulf Market.

Oil Marketing Companies (OMCs) follow the same process with PSO's benchmark as the price cap. PSO has historically imported approximately four vessels each of HSD and PMG every month, spread out roughly evenly over 30 days. Each parcel covers five pricing days. The current pricing mechanism would generally mean that any current month's price was roughly based on the average of the previous month's Platts prices (given 20-22 pricing days in a month). There were over 10 active importing OMCs and they were bound to follow PSO's price cap provided it makes commercial / business sense to them.

The present system of monthly price adjustment based on PSO's last month procurements serves as a disincentive especially when there is volatility in the market. Therefore, OMCs were reluctant to import when the margin was unfavourable and instead let the inventory run dry. This in turn resulted in supply side insecurity at the national level.

The sources said, Petroleum Division recommended the following proposals to the ECC on May 30, 2020: (i) ex-refinery price may be based on the average of fortnightly/ monthly Platts price plus premium (average premium based on the tender awarded by PSO) including PSO's incidentals and ocean gain/loss, taxes etc. as per the current practice. This mechanism shall be the basis for determining the selling prices for both refineries as well as OMCs; and (ii) to avoid any possibility of shortage of PMG from June onwards, there is a need to address the fundamental pricing issue by minimizing the volatility risk, by reducing the price risk from 30 days to 15 days and creating visibility of pricing index. Therefore, the forthcoming price may be announced from June 16, 2020, rather than from June 1, 2020. This would result in providing an incentive to OMCs to import product at the current PSO rate and thereby avoid inventory losses. Previous Cabinet decision of August 31, already allows fortnightly price for this dispensation.

Petroleum Division opined that if they do not change the mechanism and continue with the present pricing regime, there is a high likelihood that not only refineries would curtail their production but also the imports by OMCs(other than PSO) would be insufficient to meet the demand leading to widespread shortage/dryouts.

Petroleum Division maintained that the proposed mechanism may allow OMCs to reduce inventory losses in the first 15 day period but thereafter alignment with the market conditions would be happening automatically. The sources said, Petroleum Division tabled before the ECC on May 30, 2020 that due to the urgency of the matter the Finance Division, Planning and Ogra would submit their comments at the meeting. However, during the ensuring discussion, ECC observed that the price of the petroleum products in the international markets is on the rise due to increase in demand after softening of the Corona lockdown in many countries. Therefore, in view of rising trend, there is no need to adopt proposed mechanism for fixing of prices of petroleum products. The ECC, after detailed deliberation, did not approve the proposed mechanism.