NINETY-FIRST REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1983-84)

(SEVENTH LOK SABHA)

BHARAT PETROLEUM CORPORATION LTD.

(Ministry of Energy, Department of Petroleum)

Presented to Lok Sabha on ..

Laid in Rajya Sabha on ...

LOK SABHA SECRETARIAT
NEW DELHI

April, 1984/Chaitra 1906 (Saka)

Price : Rs. 2.95

CORRIGENDA TO
THE 91ST REPORT OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS (1983-84).

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Ninety-First Report on Bharat Petroleum Corporation Ltd.

2. The Committee took evidence of the representatives of Bharat Petroleum Corporation Ltd. on 29 and 30 September, 1983 and of Ministry of Energy (Department of Petroleum) on 12 and 13 December, 1983.

3. The Committee considered and adopted the Report at their sitting held on 6 April, 1984.

4. The Committee wish to express their thanks to the Ministry of Energy (Department of Petroleum) and Bharat Petroleum Corporation Ltd. for placing before them the material and information they wanted in connection with examination of the Company. They also wish to thank in particular the representatives of the Department of Petroleum and the Bharat Petroleum Corporation Ltd. who gave evidence and placed their considered views before the Committee.

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

NEW DELHI;
April 18, 1984
Chaitra 29, 1906(S)

CHAPTER I

CORPORATE PLAN

Bharat Petroleum Corporation Ltd. is a wholly owned Central Government undertaking and the successor to Burmah-Shell Group of Companies which were taken over in January, 1976. It is an integrated company engaged in refining of crude oil and marketing of full range of petroleum products. The Corporation has a fuel Refinery at Bombay and two Lubricating Oils Blending plants, one each at Bombay and Calcutta. It has five port installations and fifty-nine bulk storage depots.

A. *Objectives and obligations*

1.2 The Committee were informed by BPCL in a note that the Corporation has a system of selling economy and financial objectives each year. Under this system, it prepares during the 3rd/4th quarter of each year, a long term plan covering a 5-year period with performance goals being set for the immediately following year and the subsequent four years. Under the Rolling Plan concept adopted by the Company, the objectives are reviewed and updated every year keeping in view the needs| change in the environment. While some of the objectives had a shorter span for achievement such as projects, others were continuous in nature, such as Cost Controls, Maximisation of Internal Resources, etc.

1.3 The Committee enquired during the oral evidence of the representatives of BPCL whether the company has not formulated its long term objectives and got them approved by Government as each undertaking is required to do in terms of the guidelines issued by BPE in 1972 and 1979 and if so, what were the reasons for delay in formulating the statement of objectives even 7 years after the formation of the Company.

1.4 The Chairman and Managing Director (CMD) of BPCL stated in reply :—

> "………In response to the Government letter of 12th June, 1979, BPCL had forwarded to the Government on 26th September, 1979 the corporate objectives approved by the Board of Directors of BPCL on 22-9-1979 for the period 1979-80 to 1983-84. It needs to be mentioned that the Government letter, however, did not indicate that any approval was to be given by them for these objectives and in actual fact, no formal approval of the Government was received by the BPCL for the objectives sent to them as mentioned earlier on 26-9-1979.
>
> In this background, it is submitted that it would not be correct to say that there was a delay of seven years in formulating the statement of objectives after the formation of the Company. The Government have recently vide their letter of

18th June, 1983 desired us to submit the statement of objective and obligations of the Corporation for getting the Government approval. After obtaining the Board's approval in the meeting on 24-9-1983, we have submitted to the Government on 26-9-1983 the statement of objectives and obligations of BPCL."

1.5 The Committee had made the following recommendation in their 72nd Report (1982-83) on Hindustan Petroleum Corporation Ltd.:—

> "As the Department is accountable for the efficient functioniug of the public undertakings under it and the clear definition of objectives is basic to the evaluation of efficiency, these and the Corporate Plans should be specifically approved by the Department. As regards financial objectives, the Ministry of Finance should also be consulted. The Committee hope that the Department would take action accordingly."

1.6 Asked what is the position in regard to implementation of this recommendation in relation to the Bharat Petroleum Corporaion Ltd., the Secretary, Department of Petroleum stated during evidence :—

> "The recommendation which the Committee has made when examining the Report on the Hindustan Petroleum Corporation was conveyed to the other oil companies also. In the case of Bharat Petroleum Corporation the objectives and obligations including the financial objectives have been approved by the Government and they have been communicated. This was done recently."

B. *Corporate Plan*

1.7 Hindustan Petroleum Corporation Ltd., has a system of preparing integrated corporate plan for five years. The Corporation's present plan covers the period from 1980-81 to 1984-85. The Committee, however, noticed that BPCL has a Rolling Plan and it prepares during the 3rd|4th quarter of each year, a long term plan covering a 5-year period. When the Committee enquired whether there was no uniform system of corporate planning in all the Oil Companies and also asked what type of planning in Ministry's view was considered suitable for adoption by all the oil companies, the Secretary, Department of Petroleum stated during evidence :—

> "I must concede at the outset that on this corporate plan business, there is no uniformity amongst all public sector undertakings and also within the oil sector, amongst the oil companies. Different companies have been following different practices."

Explaining the reason for this, the witness said :

> "The practice which these companies have been following—the Hindustan Petroleum and Bharat Petroleum—is a continuation of the one which they had adopted prior to their nationalisation."

1.8 He also informed the Committee that the IOC which was established on 1st September, 1964 has, of date, no corporate plan and stated, "We have advised them to prepare one and to let us have a look at it.

1.9 Regarding adoption of uniform system of corporate planning, the witness assured the Committee that the Ministry will look into this matter with a view to evolving a common approach by all the three or four oil companies.

1.10 According to Article 93 of the Articles of Association of BPCL "the Chairman shall reserve for the decision of the President of India among other things, any proposals or decisions of the directors in respect of Five Year Plan and Annual Plan of the Company". Asked whether the Corporate Plan|Rolling Plans of BPCL have the formal ratification of Government as envisaged in the above article, the CMD, BPCL replied during evidence :—

> "Every year an Annual Plan giving details of the proposed capital expenditure is submitted to the Government for approval. The Annual Plan is drawn up based on the corporate plan document. The Annual Plan submitted by the Corporation is formally, approved by the Government every year."

1.11 On the question of the need for Government's approval to the Corporate plan, the Secretary, Department of Petroleum opined :—

> "We have examined this thing. My submission would be that the corporate plan is something which the company evolves within its management tool and as such, approval by Government, may not be either necessary or even possible sometimes because, within a corporation, there may be an assumption that certain expenditure has to be incurred in order to achieve a certain objective which has been listed in the corporate plan. Unless the Government sanctions that, Govt. approval is not necessary. Therefore, our view about the corporate plan is that all these companies should have a corporate plan. Everything depends upon the view a company takes about the future planning. It may be a five year plan or it can even be longer. It should be approved by the Board and they should send us a copy for our information. We are pursuing this particular point and we are hopeful that we will be able to bring about a degree of uniformity in the operation of the corporate plans."

1.12 Asked how would it be possible for the Government to ensure that the Corporate plan of the company is properly correlated to the National Five Year Plans without their approval, the Secretary explained during evidence :—

> "......The Five Year Plan and the annual plans of all companies are really a part of the Ministry's Five Year Plan and Annual Plans...........The Five Year Plan concerns itself with concrete problems of financial and physical targets of generation of resources and implementation of its projects. Within that

plan every year annual plan is prepared by the Government in consultation with the Planning Commission and the Ministry of Finance, because it has to go with the approval of the individual projects to be implemented within that year. Annual Plan is a more concrete form of the implementation of the programmes which are included in the Five-Year Plan.....In the annual plans we have to indicate the physical targets for production, financial allocations, manufacturing, and other expenses, interest, depreciation, generation of internal resources, etc.........

Corporate plan on the other hand would be something more general and something different from this. It is not necessarily the annual plan or the aggregation of annual plans. The corporate plan is essentially a management tool to be used by the Corporation internally and, there is considerable scope for using this tool for a better long term planning for the company's growth in various spheres such as personnel planning, trainig, recruitment and providing of other facilities, product diversification, marketing and new growth areas etc. ....Whereas the Five Year Plan and the Annual Plans have to be prepared by the Government and handed down to the company for implementation, the corporate plan is something which the company will evolve itself as its own view of the future growth of that company, adopt it itself as a management outlay and renew it from year to year.

There would not be much point in saying that the Government should approve the Corporate Plan because what the Government has to prove are the financial projections and the financial and physical targets which are there in the Annual Plan. If we make the Corporate Plan that will be something like the Five-Year Plan or the annual plan, that will be unnecessary duplication and the purpose of having a separate corporate plan will not be served."

The witness informed the Committee further :—

"Now BPE is not involved in the preparation of corporate plans of various companies. They only want that they may be informed of this, so that for documentation purposes, they may keep copies of them. Ratification by Government is not required."

Productivity Targets

1.13 Enquired whether BPCL fixes productivity targets in their Rolling Plan, the CMD, BPCL said :—

"We do fix targets for productivity also so far as refinery is concerned. We also fix the targets for the different operations depending upon the Budget. On the marketing side we have the sales plan concept and according to the requirement we fix the targets. All these are reflected in the Annual Plan and these are also reflected from year to year."

1.14 Bharat Petroleum Corporation Ltd. is a wholly owned Central Government Undertaking and the successor to Burma-Shell Group of Companies which were taken over in January, 1976. The long term objectives and obligations of the company have been formulated and approved by Government only recently in terms of the Committtee on Public Undertakings' recomemndation contained in their 72nd Report (1982-83).

1.15 The Committee's examination of BPCL has revealed that oil companies have no uniform approach to corporate plans. BPCL is reportedly having a rolling plan and Hindustan Petroleum Corporation has a system of integrated Corporate plan for five years, while Indian Oil Corporation has no Corporate plan at all. BPCL and HPCL have been following the practice they had adopted prior to nationalisation. The Committee regret to note that the Government did not consider it necessary after nationalisation to review this situation and allowed old practices to continue in these oil companies all these years. The Committee would urge that as assured by the Petroleum Secretary, the Ministry should look into this question early with a view to evolve a common approach to Corporate plans for all the oil companies.

1.16 The Committee are surprised to note that the IOC which has been a Government company for nearly two decades now has no Corporate plan as such. The Ministry also appears to have overlooked IOCs failure in this respect thus far and has advised the company to prepare a Corporate Plan only recently. The Committee trust that the Ministry would ensure that the Corporate Plan of IOC is finalised soon.

1.17 It may be pointed out that as far back as 1974, BPE had issued some guidelines in regard to preparation and approval of Corporate Plan for each public enterprise. Under these guidelines each enterprise was required to draft its Corporate Plan, get it formally approved by a Resolution of the Board of Directors and send it to the Administrative Ministry for formal ratification. The Articles of Association of BPCL also stipulate that any proposals or decisions of the company in respect of Five Year Plan and Annual Plan should have the approval of the President. The Petroluem Secretary, however, expressed the view that approval of Corporate Plan by Government may not be either necessary or even possible. The Committee feel that specific approaval of Corporate Plan by Government is necessary having regard to the need to correlate it with the national Five Year Plans and to indicate the direction that the company should take.

CHAPTER II

PROJECTS

A. Expansion Projects

This project provides for debottle-necking of crude distiller unit at BPCL Refinery and establishment of additional secondary processing facilities to match the primary capacity of 6.0 m.m.t. per annum (m.m.t. p.a.) for any combination of Bambay High|Middle East crudes.

(i) *Cost escalation*

2.2 The original feasibility Report for this project was prepared in November 1978 based on September 1978 cost data. This was approved by Government in December, 1979 at an estimated cost of Rs. 36.05 crores. The cost was revised to Rs. 133.34 crores when a revised Feasibility Report was submitted to Government in November, 1981. This was approved by Government in June, 1982. The increase in cost which is about 270 per cent is stated to be due to increase in the scope and additions to the facilities, design change, escalation in costs, replacement schemes envisaged later and other factors. Asked how did the company justify the multiple increase in the cost of the project within a short span of less than 2 years the CMD, BPCL submitted during evidence :—

> "There was no project planning cell worth the name at the time of the take over because there was hardly any investment before the take over. Actually our experience in project planning was very much limited..... The costing of the original feasibility report was essentially based on lump sum estimates as the process package for this was available only after the project had been sanctioned and an agreement entered into with the foreign licensor. But when the revised feasibility report was prepared the process package had been received from the foreign licensor and the EIL had carried out process design and a fair amount of detailed engineering and ordering for the entire project had been done. Therefore, it was possible to revise and re-calculate costs on a more realistic basis."

2.3 When enquired whether at the time of preparation of the feasibility report many aspects were not taken into account, a representative of BPCL stated during evidence :—

> "The reason for enhancement is that the estimate was not absolutely in order. There were certain aspects which were left out. One aspect was the number of jobs that would have been done by way of replacements have now been included in the Feasibility Report. The other aspect is that we could not estimate the amount correctly until we had the licensed package

and that we could not have till we had the Feasibility Report. The magnitude of increase is due to various factors. For example, change in scope, addition|change in engineering, replacement which we would have done and the reasons like under-estimation etc."

2.4 In reply to a question whether experts were consulted when the original estimates were made, the witness said :—

"We did do a certain amount of cross check of estimates both with IEC and with Engineers India Ltd. at that time."

2.5 Asked whether it came to the notice of the Ministry that the project planning and implementation machinery of the company was weak, the Secretary, Petroleum conceded during evidence :—

"At the outset I would state that there were certain weaknesses in the original plan which was prepared by the Company which was approved by the Government.....I must concede, later on it was discovered that there were several deficiencies in the original proposals which were prepared........That explains the necessity of having to prepare a revised plan, which also resulted in elongation of the preparation and implementation of the plan and also escalation of costs."

2.6 Asked what was the increase in cost attributable to each of the factors mentioned by BPCL, the company, in a written reply furnished the following factor analysis of the increase in cost from Rs. 36.05 crores to Rs. 133.34 crores (i.e. an increase of Rs. 97.29 crores) :—

	Rs. Crores	Percentage
(a) Change in scope-additions	32.14	33.0
(b) Changes during detailed engineering	10.59	11.0
(c) Replacements	7.49	8.0
(d) Omissions	0.34	1.0
(e) Escalation in prices	17.37	18.0
(f) Under-estimation	4.49	4.0
(g) Provision for design changes etc.	6.99	7.0
(h) Increased provision for contingencies	8.37	9.0
(i) Preliminary expenses	2.40	2.0
(j) Pre-production interest	7.11	7.0
	97.29	100.0

2.7 Asked whether it would be possible to complete the project within the revised cost estimate, the CMD, BPCL stated :

"Except for price escalation we can confidently say that the increase in cost will be within 10 per cent of what has been approved."

2.8 The Secretary, Petroleum, however, stated that it was not possible to give a categorical answer to this. He, however, added :—

"But to the extent to which the commitments for the purchase of equipment etc. has been made, the sanction did not provide for escalation. Therefore, the estimate which was sanctioned in 1982 may undergo a change when the project is completed but the order of change would be within control because sizeable investments have already been made and the cost escalations will not affect that."

(ii) *Time Overrun*

2.9 The project which was originally scheduled to be completed in December, 1983 is expected to be completed in October, 1984 as per revised F.R. Asked whether the project execution would be completed as per revised schedule, the CMD, BPCL, said during evidence :—

"I do not think we would be able to complete it by October, 1984. It is because we had strike in refinery for five months followed by rain for three months. We have certainly been able to make up some time. We hope to make up some more time. In spite of all this we may be late by three months to complete it. We will be able to complete this project in January, 1985."

2.10 In a meeting between BPCL's Chairman and the Secretary, Petroleum on 3-4-1981 it was felt that scheduled period of completion which is generally 48 months in the case of BPCL's major projects approved by the Government was too long and a decision was taken that all efforts should be made to cut down this period. In the expansion project of BPCL, the time expected to be taken for completion is over 5 years which is far too long a period. Asked how did the Ministry initially approve the time schedule of 4 years for this project the Department of Petroleum stated in a written reply that the period of completion of large refinery projects had been reviewed as it was felt that a period of 48 months, for project execution was not unreasonable.

2.11 Asked how was it that in spite of the feeling that 4 years period was too long, the revised time schedule of 5 years was approved subsequently, the Secretary, Petroleum stated during evidence :—

"It was approved by the Government in November, 1979, but its implementation was delayed because in the process the licence agreement was signed as late as October, 1980. That resulted in delay in implementation....."

2.12 The Department, however, stated in a written reply that the revised schedule for mechanical completion was 48 months from October, 1980 at which time agreements were signed for process design of licensed units i.e. October, 1984.

(iii) *Preparation of DPR*

2.13 Asked whether the detailed Project Report (DPR) had been completed and if not, the reasons for delay in this regard, the BPCL stated in a written reply as follows :—

> "DPR is normally prepared after tying-up the process licensor, when detailed engineering has sufficiently progressed and major items of equipment supplies as well as contracts are tied up...... The time required for submission of the DPR should in our view, be anywhere between 18 to 24 months.......We expect to submit the Detailed Project Report (for this project) by December 1983."

2.14 Pointing out that DPR has not been completed for this project even four years after the approval of the project by Government the Committee asked whether the time given for preparation of DPR was settled in consultation with PIB as laid down in the procedures and what was the time period suggested by PIB. The Department stated in a written reply that the revised cost estimates were considered by PIB on 11th February, 1982. The Committee was also informed that in para 15 of the minutes of the meeting Secretary (Petroleum) mentioned that, in the case of refinery projects, it would require 2-3 years to prepare DPR and it would not be reasonable to expect submission of DPR within a period of one year.

(iv) *Internal rate of return*

2.15 Asked how did the internal rate of return on the investment and the foreign exchange savings compare with those anticipated at the time of initially sanctioning the project and when revised estimates were submitted to Government, BPCL furnished the following information :

	IRR (Economic analysis)	FE Savings
Original	35 2	Rs. 18 8 crores p.a.
Revised	24 5	Rs. 37.0 „

The figures are, however, stated to be really not comparable because of the change in the scope of the project including the inclusion of replacement items and augmentation of utilities for the refinery as a whole as well as a change in crude and product prices over the 3 year period.

(v) *Import of technology*

2.16 BPCL informed the Committee in a note that it has entered into agreements for acquisition of technical know-how for Refinery expansion from M/s. Universal Oil Products Inc. USA at the licence and Engineering fees of over US $ 8 lakhs and for Sulphur Recovery plant from M/s. Comprimo B. V. Holland at the fees of over DFL 1,44.073. Asked whether the technical know-hows for which collaboration agreements have been entered into are not available indigenously, the Secretary, Department of Petroleum admitted :

> "Sir, this is correct that we do not have the technology for Secondary Processing Facilities project and Sulphur Recovery plant."

2.17 Informing that M/s. Universal Oil Products are a well known international licenser a representative of BPCL said :—

> "They are the sole licensers for the treating units and of the accompanied process. They have provided the technology for the Mathura Refinery. They have also provided the technology for the Koyali refinery. They are providing the technology for all the four refineries expansions that are taking place currently. They are capable of updating their technology and we are quite satisfied with their proven—upto date—technology and that it suits our requirements."

2.18 In regard to foreign technology for sulphur recovery plant the witness said :

> "They (M/s. Comprimo) have provided technology for the Mathura Refinery; they have also provided technology for the HPC Refinery in Bombay. There again we are satisfied that the technology is satisfactory."

2.19 Asked whether it would be possible to develop indigenous technology in these areas after execution of these agreements, the witness said :—

> "........in terms of designing such a unit we will of course not have that capability. For that we may again have to go in for the foreign licenser for designing the unit."

The Secretary. Petroleum, replied in this connection :—

> "My answer to the question would be that we are setting it up with foreign licencee. That does not mean transfer of technology. We do not know the know-how or know-why of the design of that equipment.....So far we have set up the secondary process facilities on the basis of licence of each plant; that means, we import the design, we fabricate the equipment set up; that does not mean imported technology. For import of technology conscious efforts have to be made with the process licensers and agreement for the transfer of technology has to be concluded."

2.20 Asked what steps have been taken or are proposed to be taken by Ministry to evolve indigenous technology in these areas and how soon would it be possible, the witness outlined the strategy in this regard :—

> "In the development of indigenous technology, our view is that it is not so much a question of developing our own indigenous

technology as of transfer of technology and adopting it to our conditions. Our approach to the problem is that we should start from the point at which people in other countries have already reached. For this purpose, the strategy to be adopted for different areas, different recipient organisations, should be identified, who should make arrangements for import, transfer of technology, its adaptation, indigenisation and so on, so that repetition of modern technology does not become necessary. The most suited organisations are (1) Engineers India Ltd. who are our consulting engineers, or (2) IOC which has a research and development wing. We propose to request both these organisations and then to identify one for the purpose of transfer, indigenisation and adaptation and development of these technologies. We are going to enter into a collaboration with a most advanced organisation abroad.

B. Aromatics Project

2.21 The BPCL's aromatics project was originally approved by Government on 19th April, 1980. It envisaged manufacture of 61,000 tonnes benzene and 16,000 tonnes toluene. The estimated cost was Rs. 13.12 crores and import of technology was envisaged. One of the aims of the project is stated to be to reactivate the company's 2,97,000 MTPA catalytic reformer which has been idle for the past several years. In the beginning of 1981, the BPCL intimated the Government that they propose to enter into foreign collaboration with M/s. Universal Oil Products for this project. While this was under consideration, EIL approached the Government that they would like to offer their services utilising indigenous technology developed by the Indian Institute of Petroleum. After consideration by the Scientific Advisory Committee of the Department of Petroleum, it was jointly decided by Government, EIL and BPCL to accept the indigenous technology offer. EIL completed its process design and submitted a feasibility report through BPCL to Government in April, 1982. This report envisaged production of 98,300 MTPA of benzene and 17,600 MTPA of toluene. The schedule for mechanical completion was indicated as three years from the start of construction. The zero date, accordingly, was revised to August 1982. The cost was estimated at Rs. 51.52 crores. However, progress was effected because no inter-action was possible between EIL and BPCL project staff due to the prevailing industrial relations situation to BPCL. Based on the latest vendor data and further consideration, changes in design basis in detailed engineering became necessary. Revised approval to the project was issued in October, 1983. As a result of this exercise, import of technology was avoided, and for the first time domestic technology is being used. The foreign exchange savings as a result of reduction of product imports resulting from this project is estimated to be Rs. 12.1 crores per annum.

2.22 According to the original plan for the project completion would have been done by October, 1984 The revised project, for a higher capacity with domestic technology is expected to be completed in April, 1985.

C. Other Projects under execution

2.23 There are 11 other projects which are currently under execution by BPCL. The details of these projects as furnished to the Committee are as follows :—

Name of Project	Original Cost	Revised Cost	Completion Schedule	
			Original	Anticipated
1. Marketing of incremental LPG —Stage I	38.19	38.60	March 81	Sept. 83
2. Production of Aromatics—Phase I	51.52	..	Oct. 84	April 85)
3. Sulphur Extraction Plant .	3.19	9.37	March 84	Jan. 85
4. Marketing of Incremental LPG Phase II	20.58	23.98	March 84	—
5. Mandatory Crude Tankage .	9.92	.	March 85	June 84
6. Additional product Tankage—Phase I	19.56	23.57	March 85	—
7. Aviation Fuel Hydrant System at Palam	13.64	.	May 85	—
8. Marketing of Incremental LPG —Phase III	14.77	..	March 88	—
9. CO Boiler for Existing Fluid Catalytic Cracker Unit . .	6.13	..	March 87	—
10. New Furnace for existing High Vacuum Unit . . .	6.08	..	March 87	—
11. Additional Exchangers & Air Pre Heaters for Energy Conservation	7.43	..	March 86	—

2.24 The Committee observed that there was cost escalation in cases at Sl. Nos. 3, 4 and 6 above. Dalays in completion schedules were also anticipated in some projects. Asked what is the monitoring system followed at the enterprise level to ensure that the projects are completed as scheduled/anticipated and without any cost escalation, the CMD, BPCL stated during evidence :—

> "All our major projects are done through the consultants because we do not have enough technical resources. But we have full-fledged project team and in this programmes we have full time planning and monitoring manager. Now, all these large projects are monitored in terms of schedule network showing inter-relation of activities and break-up of these activities into detailed engineering activities, procurement activities, etc. When we monitor the progress of each one of these activities, if there is any slippage, we will then identify the reasons or anticipate the slippage, if any, and take measures to avert it. We have very regular meetings internally among ourselves and with our consultants, with the contractors and with the vendors, as the case may be. On the cost monitoring aspect we are keeping a track of all the commitments of

expenditure under major heads of accounts and we ensure that everything is quite in line. That is basically the monitoring system that we have for all our major projects."

2.25 Asked whether further escalation in costs of projects mentioned at Sl. Nos. 2, 5, 7, 8—11 above was not anticipated, the witness stated :—

"In so far as item Nos. 2, 5, 7, 9, 10 are concerned we do not expect major variations in cost except for reasons of price escalation due to inflationary pressures. In so far as item No 8 is concerned because of the mishap in the IOC Shakarbasti plant we are having a review of the design of the bottling plants. In that context, there may be some variation in cost which is not yet known."

D. *Project Planning Machinery*

2.26 BPCL informed the Committee in a written note that taking cognizance of the need to improve the reliability of Feasibility Reports and also to coordinate and centralise certain aspects of this activities, a Project Planning and Co-ordination Cell was formed in the Organisation in Mid-1981 at the Corporate level and is considered adequate. This cell prepares the required Feasibility Reports. The scope of work at the Project Planning stage has also been increased to ensure better cost estimates and time schedules. It has been stated further that it is BPCL's intention that all Feasibility Reports will be prepared only after sufficient preliminary engineering work is carried out to permit the preparation of budgetary cost estimates, based on process flow diagrams, preliminary P&ID's, equipment list etc. so as to ensure that estimates and time schedules are realistic.

2.27 Asked whether the Ministry was satisfied about the adequacy of the project planning and implementation machinery of the company, the Ministry informed in a post evidence reply as follows :—

"Whenever important large scale expansions are considered an expansion core group is created within the organisation by drawing officers from various disciplines involved for preparation of estimated, supply demand balance, etc. A post of General Manager (Planning and Management) Service in BPCL has also been created in the refinery. This is considered adequate. Incidentally, the whole issue of the preparation of feasibility reports and escalation in costs of refinery projects was entrusted to a study group to review these aspects and make comprehensive recommendations. This report has been received. While some of the recommendations have already been acted upon, the rest of it are being processed for acceptance by the Cabinet. Secretary (P) has also addressed a letter to the Chief Executives to ensure creation of Project Planning Groups staffed by relevant disciplines. Bearing in mind the progress achieved by BPCL to date on this project despite the loss of a period of 8 months of construction activity in 1982. The Ministry is satisfied that BPCL has now acquired adequate project planning/execution/cost control machanisms and have developed expertise and capability to handle very large projects."

E. *Project Clearance*

2.28 From the information furnished to the Committee, it was observed that the time taken by Government for clearance of various projects of BPCL ranged between 7 and 21 months in 11 cases. Asked what were the main reasons for undue delay in Government approval for projects, the Department informed in a post evidence reply :—

> "after a Feasibility Report is received, it is circulated for scrutiny and comments by the various Appraisal Agencies Discussions are also held with the Corporation concerned for seeking necessary clarifications on the queries raised by the appraisal agencies, whereafter approval of the PIB is sought. This process sometimes takes more than 6 months prescribed by the Ministry of Finance."

2.29 Enquired whether the time taken for clearance by the Department cannot be brought down to at least six months as prescribed by Ministry of Finance, the Department stated in a written reply that :—

> "Ministry of Finance has suggested two stage clearance of projects in order to reduce the time taken for giving approval to projects. This proposal is currently being examined by the Government."

2.30 Six of BPCL's new projects are stated to be under active consideration of the Government. These are (i) Bombay-Manmad pipelines, (ii) Captive Power Plant, (iii) LSHS Export Pipelines, (iv) Additional Crude Tankage (Indigenous), (v) C3/C4 Separation and (vi) Augmentation of Product Despatch Facilities at Bombay. The Committee have been informed by BPCL that the Feasibility Report for Bombay-Manmad pipelines was submitted to Government in November 1982, for captive power plant in December 1982 and for C3/C4 Separation facilities in February 1982. These projects are still pending clearance by Government.

2.31 One of the major projects undertaken by BPCL was an expansion project which provided for debottle-necking of crude distiller and installation of additional secondary processing facilities. This project which was estimated to cost Rs. 36 crores was approved by Government in December, 1979 on the basis of a Feasibility Report (FR) prepared in November, 1978. As there were admittedly several deficiencies in the Feasibility Report a revision became necessary in November 1981. The revised cost of the expansion project was Rs. 133 crores, which worked out to an increase of 270 per cent. Of this increase price escalation, underestimation, omissions, additional provision for contingencies etc. accounted for Rs. 40 crores which is even higher than the original cost of the project. Changes in scope, changes during detailed engineering, provision for design changes and replacements amounted to Rs. 57 crores. The Committee have gathered an impression that the project had been launched

by the company without developing necessary capabilities. The Company formed a project planning and coordination cell only in mid-1981 nearly 3 years after preparation of the original FR in this case.

2.32 Obviously, enough care was not exercised by Government to check the correctness of cost estimates made in the original FR nor was any attempt made to assess the effectiveness of project planning and implemention machinery in BPCL before sanctioning this major project. Admittedly there were several weaknesses in the project plan approved by Government. The Committee trust that Government will take care in future to see that Feasibility Reports are reliable and the cost estimates realistic. The Committee have been informed in this connection that a Study Group which went into the question of preparation of feasibility reports and cost escalation in refinery projects has submitted its report. The Committee desire that the action taken thereon be intimated to them.

2.33 The Committee are also unhappy with the equally unsatisfactory performance of BPCL in regard to execution of this expansion project. The completion schedule of the project has undergone revision twice. According to the original schedule the project should have been completed in December, 1983. However, as there was delay in entering into licence agreement which took about 10 months after sanctioning of the project, the completion schedule had to be revised to October 1984. In the meantime 8 months construction activity was reportedly lost due to 5 months refinery strike followed by 3 months' heavy monsoon period. As a result, the project is now expected to be completed in January 1985. The Committee would like to be assured that there shall not be any further delay in the completion of the project.

2.34 The Committee find that Detailed Project Report (DPR) was not ready even four years after the approval of the expansion project by Government. In BPCL's view, the time required for submission of DPR is between 18 to 24 months. According to the Ministry it would require 2-3 years to prepare DPR in the case of refinery projects. The Committee desire that the time limit for preparation of DPR in the case of refinery projects should be prescribed by the Department of Petroleum in consultation with Public Investment Board.

2.35 The Committee are concerned to note that no indigenous technology is available for secondary processing facilities and sulphur recovery plants. BPCL has entered into agreements for acquisition of technical know-how for refinery expansion from M|s. Universal Oil Products Inc. USA and for sulphur recovery plant from M|s. Comprimc BV Holland. The agreements, however, do not provide for transfer of technology. Thus so far there seems to have been no attempt at indigenisation. On the question being taken up by this Committee, the Ministry promised to evolve a strategy in order to identify the areas in the refining field for transfer of technology, its adaptation and indigenisation. The Committee desire that a comprehensive review to identify the areas needing indegenisation of technology in the oil refining field should be undertaken on urgent basis and a time bound programme evolved for swift action

2.36 While dealing with the question of indigenous technology the Committee cannot help commenting on the way the Government and

BPCL have overlooked exploitation of indigenous technology for the Company's Aromatics project at the initial stage. Foreign technology was envisaged presumably without ascertaining the availability of indegenous technology for the aromaties project approaved by Government in April, 1980. While the foreign collaboration proposal was under consideration in 1981 EIL on their own approached the Government offering their services for utilising indigenous technology which was later accepted. Another feasibility report was prepared thereafter in May 1982 and the 'Zero' date of the project was revised from April 1980 to August 1982. The Committee could not resist a feeling that had the company exercised caution to lok for indigenous technology, in the first instance, delay in completion of the project would have been avoided.

2.37 At the instance of the Committee, Ministry of Finance has prescribed a time limit of 6 months for clearance of projects by Government. The Committee note that the Government has taken between 7-21 months in 11 cases. Six of BPCL's new projects are reported to be awaiting clearance from the Government for more than one year. The feasibility Report of C3|C4 separation facilities project was submitted to Government in February, 1982., i.e. over 2 years back. Though Department of Petroleum have explained in a note the stages involved in the matter of clearance of a project, the Committee fail to understand why it is taking more than 2 years to take a decision on the issue. The Committee note that the Ministry of Finance have suggested two stage clearance of projects in order to reduce time taken for giving approval to projects. They trust this proposal will be examined by the Department of Petroleum quickly and a suitable procedure evolved for giving clearance to the project within the minimum time possible as suggested by Finance Ministry.

CHAPTER III

PRODUCTION

A. *Capacity Utilisation*

3.1 The figures of installed capacity, achievable capacity and percentage of capacity utilisation in BPCL's Refinery and Lubricating Oil Blending (LOB) plants at Bombay and Calcutta during 1976—83 were as given in the table below :—

Year	Installed capacity MT	Achievable capacity MT	Actual production	Percentage Utilisation on	
				Installed capacity %	Achievable capacity %
1	2	3	4	5	6
Bombay Refinery					
1976 . .	52,50,000	47,25,000	37,50,000	71.4	79.4
1977-78 . . .	52,50,000	47,25,000	45,12,000	85.9	95.5
1978-79 . . .	52,50,000	47,25,000	46,93,000	89.4	99.3
1979-80 . .	52,50,000	47,25,000	48,21,000	91.8	102.0
1980-81 . . .	52,50,000	47,25,000	49,01,000	93.4	103.7
1981-82 . . .	52,50,000	47,25,000	49,99,000	95.2	105.8
1982-83 . . .	52,50,000	47,25,000	44,85,000	85.4	94.9
LOB Plant, Bombay					
1976 . . .	75,000	67,500	52,200	69 6	77.3
1977-78 . .	75,000	67,500	45,500	60 7	67,4
1978-79 .	75,000	67,000	55,000	73.3	81.5
1979-80 . . .	75,000	67,500	54,400	72.5	80.6
1980-81 . .	75,000	67,500	57,650	76.9	85.4
1981-82 . .	75,000	67,500	50,400	67.2	74.7
1982-83 . .	75,000	67,500	54,800	73.1	81.2
LOB Plant, Calcutta					
1976 .	15,000	13,500	5,300	35.3	39.3
1977-78 . . .	15,000	13,500	5,580	37.2	41.3
1978-79 . .	15,000	13,500	8,140	54.3	60.3
1979-80 . . .	15,000	13,500	9,690	64.6	71.8
1980-81 . . .	15,000	13,500	10,220	68.1	75.7
1981-82 . . .	15,000	13,500	13,250	88.3	98.2
1982-83 . . .	15,000	13,500	16,970	113.1	125.7

(i) *Bombay Refinery*

3.2 The Committee observed that the capacity utilisation in Bombay Refinery had been steadily improving from 71% in 1976 to reach 95% in 1981-82. It, however, fell down to 85% in 1982-83. Asked what exactly were the reasons for low capacity utilisation in Bombay Refinery during 1982-83, the CMD, BPCL stated :

"In so far as the refinery part is concerned, though the installed capacity is 5.25 million tonnes, the actual achievable capacity each year is adjusted to take note of the annual turn round for maintenance, which is required once in 18 months to 24 months depending upon the Unit. On the basis of number of days working, the quantum of intake is adjusted. In addition to that, we are deducting another 5% of the capacity for unplanned or unscheduled shut down. Based on that, the achievable capacity was fixed at 4.87 million tonnes. Similarly, for the year, 1983-84 we have fixed the achievable capacity at 4.833 million tonnes and we expect to achieve this target."

3.3 Explaining the reasons for the fall in capacity utilisation during 1982-83, one of the representatives of BPCL stated during evidence :—

"But in 1982-83, it has been somewhat less because of the unfortunate strike which lasted for about 5 months when the management/staff operated a part of the refinery. Barring the secondary processing which is more complicated, the entire staff was put in to operate the primary processing so that the major needs of the area could be met."

3.4 Asked what was the production less on account of the strike, the CMD, BPCL informed the Committee :—

"17000 tonnes per day is the maximum achievable at any particular time. The average comes to 15,500 tonnes per day. That is the rate at which we budget for the whole year, taking note of the shut down period during the year for maintenance. In this background the less of throughput comes to baout 3500 tonnes per day."

3.5 The Committee were informed by BPCL in a note that disposal of LSHS has posed a serious problem and often has proved to be constraint on B.H. crude throughput. To reduce the impact of this problem BPCL has recently commissioned the facilities for rail movement of LSHS to upcountry Power Houses and other customers and has planned facilities with a view to export to the extent feasible. Another item which reportedly faces the problem of disposal is High Aromatic Naphtha which cannot be absorbed locally. It has been stated that the only available outlet is export.

3.6 Asked what was the quantity and value of these products produced by BPCL and what was the extent of surplus over demand, a representative of BPCL informed the Committee during evidence :—

"The figures are like this; for LSHS, our contracted production for the last three years has averaged around 900,000 tonnes per annum, and our actual production has varied from 8,01,000 to 9,01,000 tonnes in 1981-84...there is no real surplus, as of now. The surplus of LSHS is Nil. In so far as heavy aromatic naphtha is concerned, our estimated production for last year was

793,000 tonnes, and the actual production 297,000 tonnes, largely arising from the lower crude run of Bombay High. because the refinery had been shut for five months, and the export quantity was 57,000 tonnes. For 1983-84, the heavy aromatic naphtha is estimated to be 799,000 tonnes and the actual production expected is 741,000 tonnes. We expect to export a very large proporation o fthis, viz, 600,000 tonnes. The value that has been realised for export of heavy aromatic naphtha is about $ 270 per metric tonne."

3.7 Asked whether any study had been made of the export potential for these products and if so, what are the prospects, the witness said :—

"A survey of export requirements for LSHS has been done. I believe a market for this kind of fuel exists. The first consignment exported from Vizag fetched a price of about $ 150 per tonne."

3.8 As regards, the high aromatic naphtha, the CMD BPCL stated during evidence :

"We are exporting it over a number of years now and that problem has been solved temporarily. We will be able to resolve this problem in the next year or so."

(ii) *LOB Plants*

3.9 From the information furnished to the Committee for the period 1976—83 the Committee observed that the capacity utilisation in LOB plant at Bombay has been considerably low all along, varying between 61% and 77%. In the plant at Calcutta the capacity utilisation has been gradually improving from the bottom 35% in 1976 to reach the level of 88% in 1981-82 and 113% in 1982-83.

3.10 In connection with capacity utilisation in LOB plants, a representative of BPCL stated during evidence :—

"Regarding lubricants, the BPCL unlike IOC and HPC does not have the base oil which is available at three places, that is, Bombay, Madras and Haldia and in small amount at Digboi. So, the arrangement that we have with other oil companies is subject to transportation bottlenecks and the operational bottlenecks. If there are any transportation bottlenecks, then our availability gets affected. To that extent, our utilisation of the bottling plant capacity also gets adversely affected."

3.11 When enquired what remedial measures have been taken/proposed to be taken to achieve full capacity utilisation, the witness said :—

"In regard to lubricants specially, there is no particular action that was necessary. Although the licenced capacity is not being fully-utilised, the allocation of lubricants as made available to us for sale we were able to manufacture and distribute. So far as Calcutta is concerned, we did have operating problems which we have overcome by installing our own generators there, by installing 2-line filling machines and by improving the availablity of small containers, etc."

3.12 Enquired whether the under utilisation of capacity of LOB plant at Bombay came to the notice of the Government in the course of the performance Review Meetings and it so, when and what action the Department took to achieve full utilisation of capaicty in BPCL the Secretary, Petroleum stated during evidence :

> "The position is that the level of production in the plant depends upon the market demand and the explanation for under-utilisation is the depressed market demand. All the lubricants plants in the country have worked to less than the normal capacity because of the less demand."

3.13 When asked whether the under utilisation of capacity was deliberate, the witness said : "The answer is, yes."

3.14 When the Committee pointed out that according to BPCL the non-availability of base oil was the main reason for low capacity utilisation, the witness said :

> "Certainly with the supply of more base oil, the BPCL can work to full capacity. But to that extent the other plants (of IOC and PCL) will have to be stopped."

3.15 Asked why then excess capacity was created for LOB, the witness said :

> "Much of this capacity is what the old companies before nationalisation had established."

He added further :

> "To an extent there has to be some capacity in excess of today's demand because new capacity cannot be established overnight. Therefore, under utilisation of the capacity to some extent is not something alarming."

3.16 Asked whether export possibilities were explored, the Secretary, Petroleum explained :

> "About the export possibilities, the base oil itself is imported and where the import element is considerably high, we do not consider it as a good export item. Therefore, this possibility was not considered."

3.17 In a written reply furnished after evidence, the Department, however, informed the Committee as follows :—

> "Export possibilities to Middle East, Sri Lanka, etc. were investigated. Though Government granted in 1976 exemption from PPA and C&F surcharge on LVI oils used in greases for export, no export potential could be generated."

3.18 When enquired about the need for the import of base oil, the witness said :—

> "Our domestic production of base oil, is not sufficient. To the extent to which our requirements exceed the domestic produc-

tion, the imports are made. I may inform you that about 90,000 tonne base oil is imported against 550,000 tonnes domestically produced."

3.19 In regard to capacity utilisation of BPCL, LOB plants during 1983-84, the Ministry informed in a written reply :

"As against the Sales Plan entitlement of 89,000 tonnes, the licensed blending capacity of BPCL is 90,384 tonnes (Bombay 60,384 and Calcutta 30,000). The utilisation is almost 100%. At the time of take over the blending plant capacity utilisation was about 60%."

B. *Cost of Production*

3.20 The figures of cost of production for 1978-79 to 1982-83 compared with the provisional standards as furnished by BPCL (July 1983) are given in the statement below :

COST OF PRODUCTION

(Rs. in crores)

	1979-80		1980-81		1981-82		1982-83	
	Standard	Actuals	Standard	Actuals	Standard	Actuals	Standard	Actuals (Provisional)
1. Crude oil Cost	387.81	389.26	581.56	583.87	797.46	797.84	768.41	767.89
2. Fuel & Loss	18.96	19.03	30.26	30.38	39.91	39.93	36.93	36.91
3. Refining Costs	7.35	14.22	7.36	16.77	14.33	15.04	12.85	16.50
	414.12	422.51	619.18	631.02	851.70	852.81	818.19	821.30

3.21 The differential in Crude Oil cost is stated to be mainly because of certain adjustments required to be made under the pricing discipline. In regard to Fuel and loss it has been stated that although the Standard was fixed at 5.81% for the years 1979-80 and 1980-81 and 4.70% from 1981-82 onwards (provisional), the actuals were lower, except in 1981-82, resulting in savings in overall production costs as follows :—

1979-80	1980-8.	1981-82	1982-83 (Provisional)
4.69	5.30	(0.56)	0.92

3.22 The Committee, however, observed that the actual refining costs of BPCL had been about 100% higher than the provisional OPC standards during 1979-80 and 1980-81 and about 25% higher during 1982-83. The variation in refining costs is attributed to provisional standards having been based on the 1975 cost data and to major renewals and replacements of equipment and facilities on revenue account.

3.23 The Committee enquired whether the proivsional standards have not since been revised and if so, how the actuals compared with the revised standards. A representative of BPCL said :

> "The provisional standards have now been revised w.e.f. 1-4-1981. The actuals are Rs. 30 and Rs. 34.76 for 1981-82 and 1982-83 respectively as against Rs. 28.69 or Rs. 29."

3.24 Asked to explain the reasons for the variation during 1981-82 and 1982-83 the witness said :—

> "The Corporation has not been provided with details of calculation of Rs. 28.69 with the result we have not been able to identify in which particular element the increase is there."

3.25 Consolidated printouts which compare actuals with targets both on monthly and cumulative basis are reportedly circulated to top management and any abnormalities are investigated and remedial measures taken. The Committee asked what were the abnormalities noticed during the last four years and how soon they were corrected. Indicating that there are 3 parameters viz. capacity utilisation, fuel and loss and yield pattern which are being looked at by the Director (Refinery) and the Technical Audit Staff on a day-to-day basis, a representative of BPCL illustrated the functioning as follows :—

> "For example, we talk about our capacity utilisation which should be something like 15,700 tonnes per day. If that is not processed the manager has to take corrective action to see what has gone wrong and which plant is malfunctioning. It may be maintenance problem or operation problem. This has to be overcome.....In the case of malfunctioning of plant, the corrective action has to be taken immediately. If there is a variation in the product-pattern, i.e. we are expecting 'x' quantity of LPG and that is not coming through, then the operator or the manager has to look into it immediately and take corrective action."

3.26 The witness, however, informed the Committee that no record was kept of such incidents as it was a continuous process.

3.27 A review Committee constituted by Government in July, 1983 to make a comprehensive review of costs which form the basis of current pricing arrangements of petroleum products and other related issues is expected to submit its report by April 1984.

C. *Value added*

3.28 The Committee observed from the information furnished to them by BPCL that the value added (at constant prices) for man month in BPCL refinery was steadly declining from Rs. 83 lakhs in 1978-79 to Rs. 6.16 lakhs in 1979-80, Rs. 5.80 lakhs in 1980-81 and Rs. 4.98 lakhs in 1981-82. Lower value added in 1981-82 was stated to be because of strike by the employees from mid January 1982 to mid June 1982. Asked what precisely were the reasons for declining trend in value added since 1978-79, one of the representatives of BPCL stated during evidence :-

"There are two reasons. We had to make large scale recruitment for taking care of retirements (and departures). Secondly, the recruitment was undertaken to meet requirements of additional staff for refinery expansion project.....The second factor is that with the progressive increase in the processing of the Bombay High Crude we have increased production of LSHS which is a low value added product. We do not have the matching secondary processing facilities. It is for this reason that the refinery is being expanded. These secondary processing facilities are being put up so that LSHS will reduce and will have higher value products."

3.29 Asked what would be BPCL's strategy to reverse the declining trend of value added and improve the productivity, the witness outlined :—

"We have two strategies. Firstly the expansion project which provides for adequate secondary matching facilities and would enable us to increase the quantum of crude throughout. We would also get high value added products. The other aspect is that the Bombay High crude has got high aromatic content and this project is being simultaneously implemented so that we can produce benezene and toulene which are high 'value added' products."

3.30 Enquired whether any value added estimates have been made in the DPR of the expansion project, the witness said, "In terms of man-months we have not calculated," He, however, mentioned :

"We estimated foreign exchange savings of the order of Rs. 37 crores per annum or something like that. This is the value added one can say. This will come into effect when the refinery expansion project and the secondary matching facilities come into operation in January 1985."

3.31 The Committee noticed discrepancies in the figures of value added per man month of BPCL furnished by it and those indicated in the public Enterprises Survey of BPE. The relevant figures furnished by BPCL and those noted from public Enterprises Survey are as follows :—

	Value added per man—month		
	1979-80	1980-81	1981-82
Figures furnished by BPCL (Rs. in lakhs) . . .	6.16	5.80	4.98
Figures noted from BPE Survey (Rs.) . . .	13,487	14,960	14,466

3.32 Asked to clarify the reasons for the discrepancies in these figures, BPCL submitted in a written reply furnished after evidence that the value added figures, as per the BPE Survey Report represent the total 'Value Added' by the Corporation in the year on an integrated basis (i.e. Refining and Marketing activities), whereas the figures furnished by BPCL represent 'Value Added' per man month at constant prices for the Refining activity only.

D. Water Pollution

3.33 The Central Board for the Prevention and Control of Water Pollution (CBPCWP), New Delhi have reportedly proposed minimal national standards (MINAS) on effluents from Oil Refineries both in concentration and quantum limits. While BPC Refinery meets the concentration limits proposed in MINAS, the quantum limits of pollutions per tonne of crude presented by the CBPCWP, which are more stringent are not met—since the Refinery designed in the early fifties, uses sea water on once-through basis for Refinery processing.

3.34 Drawing attention to the press reports which stated that BPCL refinery has been found polluting, the coastal waters threatening fishing and contact water recreation around there and that the Central Board after a survey of the refinery's waste water discharge into the sea, has directed that the refinery should either reduce its waste water discharge volume or arrange for better methods of waste water treatment, the Committee asked what were the findings of the Central Board and what specific directions were issued by them in this regard. A representative of BPCL stated during evidence :

> "This board has gone into details of all the refineries and found that in many cases including the BPCL, the effluents standards are not met as far as the quantum limits are concerned.
>
> Sir, all these refineries have been originally designed and BPCL was one such coastal refinery, for using a sea water as cooling medium.....The standards that have been established earlier is the concentration limit. This means, only a few ppm of oil can remain in the water and go into the sea which we are observing even now.
>
> But the latest development suggested by the MINAS Standards is replacing the once-through system, recycling.....In the once through system, we are finding it difficult to observe the quantum limit because large quantity of water is to be circulated. We take advantage of the abundant sea water available for cooling purposes. If we use fresh water, it is not even possible to get the large quantity of water required for our cooling purposes. We have represented to the board that some of the oil refineries which were constructed on this basis should be allowed to continue the concentration limits which have already been approved by the various State authorities for effluents disposal into the sea."

3.35 Asked when was this represented to CBPCWP, the witness said during evidence (Sep. 1983) "About nine months back.....We have not yet got any reply on this matter."

3.36 Enquired whether it would not be possible to recirculate the cooling water in the refinery so as to keep discharging waste water at a low level, the witness said that the re-circulation of sea water is not possible because of the metallurgy involved. Explaining the difficulties of BPCL in this regard, the witness said :

> "One method of reducing the total pollution that enters with effluents is by reducing the total water flow. The problem is that the various equipment in the refinery are designed for cooling sea water containing a certain amount of salt, silt and various other impurities. We are using higher metallurgy for tackling this problem. Once we go in for re-circulation, the corresion aspect of sea water increases, tremendously and we have to change almost all the major equipment in the refinery to achieve the corresion resistence which besides an expensive proposition, will also involve long outgages of the units."

> As regards the second aspect i.e. instead of sea water we go in for fresh water which is less corrosive, we can conveniently go in for re-circulating system. That also has been looked into. If we go in for that system, we will need something like 10,000 tonnes of fresh water per day which is rather difficult to get from the Bombay Municipal Corporation which is already stretched to the limit in the matter of supply."

Enquired about the deleterious effect of the pollution on the sea life, the witness stated :—

> "There cannot be any damage to the sea, for example to the fish or any other vegetation. So the percentage limit, a few PPMs, which has been specified has no harmful effect to any of the activities there. Actually, our limit of effluent is only 6 PPM as against 15 PPM fixed by State authorities."

3.38 BPCL stated in a brief furnished to the Committee in connection with study tour that it has approached BIL to undertake a feasibility study on effluent treatment for further improvement.

3.39 Enquired whether the Ministry does not consider it desirable to insist on designing the new refinery plants with the combination of recycle system/air cooling in order to keep discharging wastes at a low level, the Secretary, Petroleum agreed to the suggestion and said :—

> "Yes we are considering it highly desirable particularly in the context of the heightened awareness of the environmental problems. We shall be insisting upon this aspect in the designing of the unit. The reforms have to conform to the minimum national standards which have been prescribed."

3.40 BPCL informed the Committee in this connection during evidence :—

> "In the case of new projects and expansions which are coming up. we are using air cooling and re-circulation along with that."

3.41 The Committee are glad to note that the capacity utilisation in Bombay refinery has been steadily improving from 71 per cent in 1976 to reach 95 per cent in 1981-82. It, however, fell down to 85 per cent

in 1982-83 due to strike in the refinery which reportedly resulted in throughput loss of about 3500 tonnes per day during the 5 months strike period. Capacity utilisation in the refinery would have been even more but slowing down of production of LSHS and aromatic naptha, the disposal of which has posed a serious problem. The Company expects to overcome this by undertaking exports to the extent possible. The Committee feel there is need for exploiting the export potentials in these commodities more effectively. The capacity utilisation in LOB plant at Bombay has been poor all along varying between 61 per cent and 77 per cent during 1976-83. In Calcutta LOB plant capacity utilisation has been gradually improving from 35 per cent in 1976 to reach the level of 113 per cent in 1982-83. The Committee regret to hear from the Petroleum Secretary that under utilisation of capacity in LOB plants was deliberate due to depressed demand. The Committee trust that the demand constraint has since been fully overcome and that there will not be any further under-utilisation of capacity.

3.42 The refining costs of BPCL had been about 100 per cent higher than the provisional OPC standards during 1979-81 and about 25 per cent higher during 1982-83. The provisional standards have been revised in April, 1981. It needs to be pointed out that in the absence of proper norms the comparison of provisional standards with actuals is meaningless and leaves no scope for immediate remedial action being taken for effective cost control by oil companies. They, therefore, recommend that the feasibility of laying down standards in this respect in the beginning of every year should be examined with a view to enable realistic assessment of costs. In this connection the Committee are surprised to note that although the company's actual refining costs were higher (Rs. MT 30 in 1981-82 and Rs MT 34.76 in 1982-83) than the OPC norm (Rs. MT 28.69), BPCL was not provided with the details of calculation of OPC norm with the result the company reportedly was not able to identify the increase in cost elements. They hope that there may not be any difficulty on the part of Government to furnish these details to oil companies to enable them to take timely corrective action when the actuals exceed the norms.

3.43 Value added per man month (at constant prices) in BPCL refinery has been sharply declining year after year from Rs. 6.83 lakhs in 1978-79 to Rs. 4.98 lakhs in 1981-82. The declining trend in value added is attributed to large scale recruitment and progressive increase in processing of BH crude which results in production of low value added item. The Company expects that the value added per man month in BPCL refinery will start increasing with the commissioning of the expansion project and aromatics project. These projects will reportedly enable production of high value added products. The Committee were informed by the BPCL that value added in terms of man-month has not been computed for inclusion in the DPR of expansion project. They fail to understand how this important productivity index has been ignored by the company while preparing the DPR. The Committee desire that value added in terms of man-month may now be calculated to enable a comparison with the actuals in future. Incidentally, the Committee are not sure whether the value added is being computed by the Company correctly in accordance with the formula adopted by the BPE. In any case, the Committee desire these should be

got checked by the BPE and the value added in regard to the Refining activities as well as in regard to the entire activities of the Company should be correctly depicted in the Annual Reports in future.

3.44 The minimal national standards in quantum limits proposed by the Central Board for the Prevention and Control of Water Pollution on effluents from oil refineries are not met by the BPCL refinery as it uses sea water on once-through basis for refinery processing. Although it would be possible to minimise discharging waste water by recirculation of cooling water, BPCL's problem is stated to be one of getting fresh water to the order of 10,000 tonnes per day. It is not known whether the question of fresh water supply was taken up with the Municipal authorities. Although BPCL has claimed that its effluent water does not cause any harm to the sea life, the Committee desire that the proposal made to EIL to undertake study of effluent treatment should be vigorously followed and necessary steps taken as a result thereof to strictly observe the quantum limits proposed by the Central Board.

CHAPTER IV

MARKETING

A. *Supply of LPG to smallers towns*

The Committee (1981-82) in their 47th Report had *inter alia,* made the following recommendations in regard to marketing of LPG :—

> "The oil industry, is however, hopeful of covering the majority of towns with a population of 20,000 and above by 1983-84. The Committee would urge that this should be achieved without fail and in any case it should be ensured that there is regional balance in the matter of supply of LPG Gas. The Committee do not approve the rural areas being completely neglected. To begin with attempt should be made at least to cover the rural areas on the pericheries of towns."

4.2 Drawing attention to this recommendation, the Committee asked what was the extent of coverage upto 31-3-1983 by oil industry in regard to Marketing of LPG in the towns with a population of 20,000 and above. Describing the oil industry's earlier anticipation as very ambitious, the Secretary Petroleum stated during evidence :—

> "Sir, the total number of towns with a population of between 20,000 and 50,000 are 739. Out of this, by June, 1983, 162 towns have been reached. I would not say 'covered' because all the applicants have not got the gas connection. 280 more towns will be covered by 1984 so that, we shall have 442 towns in this category reached so far as LPG connection is concerned."

Nearly 300 towns are yet to be covered under this category.

4.3 Asked about the extent of coverage by BPCL in this respect, representative of BPCL informed the Committee during evidence :

> "For the two years 1980-81 an 1981-82, Bharat Petroleum have given distributiorship in 20 towns with population ranging between 20-50 thousand. For 1982-83, 130 distributorships were planned, of which 27 would fall in this category, 20-50 thousand population."

4.4 Explaining the reasons for low coverage, the witness said :

> "For 1982-83, we have been behind schedule because the guidelines for selecting the distributors were delayed and these have been finalised only early this year. To that extent plan for 1982-83 will take time to materialise. I should also inform the Committee that there is presently a review of the level of population of the towns where the LPG should be marketed,

because the recent experience has indicated that the expected potential that we had calculated for the small towns in fact does not exist. The potential is much lower. And to that extent the dealership appointed are tending to become non-viable."

4.5 Asked about the reasons for the industry's coverage of smaller towns in regard to marketing of LPG being lower than anticipated the Secretary, Petroleum explained during evidence :

"Our capacity to expand the network is limited. One of the factors is that during the last three years there has been a phenomenal increase in connections. In March, 1980, the total number of connections was less than 32 lakhs and during this period of three years, it has more or less doubled. Today, the number of connections is about 61.5 lakhs. So, the whole infra-structure, whether it is administrative, managerial equipment, etc. has been under heavy strain and that is responsible for an unsatisfactory situation today. The biggest constraint today is the availability of cylinders and the bottling equipment."

4.6 Admitting the Ministry's failure in this regard, the witness said :—

"As a matter of fact there have been failure both in planning, in forecasting the requirements and in taking action to see that the required number of cylinders are available."

B. Shortage of Cylinders

4.7 The Committee were informed that there was steep increase in the LPG availability from the year 1981-82 onwards. According to the approved plans, the following enrolments were required to be done in the years 1981-82, 1982-83 and 1983-84.

1981-82	11.5 lakhs
1982-83	14 lakhs
1983-84	16 lakhs

4.8 The assessment of cylinder requirements to meet these additional enrolments and replacements, the cylinder manufacturing capacity and actual materialisation during these years were as follows :—

(Figures in lakhs)

Year	Installed capacity	Requirement	Actual materialisation
1981-82	21.10	20	13.43
1982-83	41.20	24	18.90
1983-84	56.50	36	29.00

4.9 Asked about the reasons for shortfall in indigenous manufacture of cylinders during these years, BPCL informed in a written reply that the manufactures could not produce cylinders t their capacity for various reasons like shortage of power, labour unrest, breakdown in machinery and shortage of LPG steel. Hence, the indigenous production of cylinders was not enough to meet the industry demand. The Committee were also informed that till end of 1981-82 the main constraint was inadequate capacity for manufacture of cylinders.

4.10 Enquired how the shortage of cylinders would be met, the representative of BPCL said that a decision had been taken that the industry shall import 8 lakh cylinders during the current year (1983-84).

(i) *LPG Steel*

4.11 BPCL informed the Committee in a note that there have been problems in getting LPG steel from SAIL, who are not able to meet the industry's demand as the indigenous production of LPG steel is below target. According to the information furnished by the Department of Petroleum, the year-wise demands for LPG steel, the actual production by SAIL and the quantum of imports during 1981—84 were as follows :—

(Figures in tonnes)

Year	Requirement	Production	Imports
1980-81	..	..	14.686
1981-82	36,000	27,500	15,868
1982-83	43,500	27,898	Nil
1983-84	1,16,000	88,000 Anticipated	..

The Committee were informed by the Department of Steel that the C&F value of the orders placed by SAIL for import of steel during 1980-81 was Rs. 47.57 million and during 1981-82 Rs. 27.51 million.

4.12 The Committee were informed by the Department of Petroleum that the local steel availability was always inadequate and year after year imports were being made. With the imports made, on time, there was no problem in the manufacturing programmes of LPG cylinders. It was only when the imports failed in the year 1982-83 that this present crisis has been created. Elaborating this point in a written reply, the Department stated as follows :—

> "SAIL indicated that the total indigenous availability would be 46,000 tonnes (during 1982-83). However, actual availability has been only 27,986 tonnes...... The moment the shortfall in local availability was envisaged in July, 1982, a request was made to the Stetl Ministry for import of 16,000 tonnes of steel on an immediate basis. The clearance came from the Steel Ministry only in January, 1983. SAIL could not import 16,000 tonnes in time. Therefore, the oil companies were given NCO in March, 1983 for import of 53,000 tonnes of LPG steel."

4.13 Regarding 1983-84, the Committee were informed that after taking into account the imports likely to materialise before March, 1984, the total availability may roughly match the requirements. Department of Steel informed the Committtee in a note that during 1983-84 "No objection Certificates" (NOC) for LPG steel has been issued to the extent of 81,400 tonnes valued at Rs. 282.66 million. This is expected to take care of the shortfall upto March, 1985.

4.14 Asked what was the production capacity for LPG steel in SAIL and private sector, the Department of Steel informed the Committee in a written note that there was no specific capacity for the production of LPG steel in SAIL and in the Private Sector Steel Plants because they are manufactured in hot rolling mills that can produce a fairly wide variety which includes LPG steel. It was also stated that there is no constraint so far as making of LPG steel is concerned and SAIL can meet the entire demand.

4.15 Enquired why SAIL could not produce adequate quantity of LPG steel during 1981-82 and 1982-83, the Department of Steel stated in a written note as follows :—

> "Production of LPG steel sheets commenced in Bokaro during 1980-81 and it could not fully meet the demand during initial years. The issue of inspection and quality standards took some time to be resolved. Therefore, production during 1981-82 and 1982-83 could not fully meet the projected demand."

4.16 SAIL's Centre for Engineering and Technology is reportedly examining the possibility of installing a facility either on line or off line for inspection purposes. Referring to the question of importing cylinders and LPG steel, the Secretary, Petroleum, stated during evidence :—

> "It is not something to be proud of that we had to import this item. Even the import of steel is something that could have been avoided."

4.17 The Department of Petroleum however, stated in a written reply that in view of the rapid expansion in the past three years in the availability of LPG, the indigenous steel producion capacity and the indigenous cylinder manufacturing capacity could not keep pace and lagged behind resulting in the present shortage but with the encouragement now being given to the cylinder manufacturers and the steps being taken by the SAIL, it is likely that this problem cylinder shortage would be overcome in the next three months.

(ii) *Cylinder manufacture*

4.18 The LPG cylinder industry is not covered by the First Schedule to the Industries (Development and Regulations) Act. 1951. No licence for manufacture of LPG cylinders is therefore, required Manufacturing facilities can be created merely by registration with DGTD in medium scale sector or Directorate of Industries of the appropriate State Government, if the industry is proposed in small scale sector.

4.19 Asked about the number of cylinder manufacturers in the conutry, the Department of Petroleum stated in a written reply as follows :—

"This Department has written to various State Directorates for information regarding small scale manufacture but collection of information would take time."

4.20 Asked what sort of coordination does the Department have with the Department of Steel, DGTD and the manufacturers of cylinders to ensure adequate indigenous manufacture of new cylinders conforming to the required standard, the Secretary Petroleum said during evidence :—

"Coordination between the Ministry of Industries and the Ministry of Petroleum uptil now is not very satisfactory because the Ministry of Industry is licensing the registration by the Directors of Industries in the States and any control that we may be exercising over all these things is inadequate, or coordination is inadequate, with the result that though there may be capacity, there may be some practical difficulties in the way of cylinder manufacturers also, to manufacture and give to us. We are at present engaged in this exercise so that we can streamline the process because our purchase procedures also have an effect on the way the manufacturers will manufacture cylinders and make them available. We are considering now to evolve a system so that, whether in the organised sector with licences or in the small-scale sector the parties who are registered with the State Directorates of Industry, there is some sort of registration with us and we can the monitor the supply of steel to them and purchase cylinders from them."

C. Quality of valves and regulators

4.21 Traditionally the 'F' Type valve and regulator combination was being used in the country. Thereafter M/s. Kosan Metal (India) started manufacture of MB type valves and regulators. In 1978 the Chief Controller of explosives issued a directive asking the oil companies to discontinue use of 'F' type valves on the ground of safety and replace them by a self-closing pin type valves. A Committee under the Chairmanship of Shri R. N. Bhatnagar, Chairman BPCL set up thereafter recommended that a third type known as Kosan compact regulator and self-closing valves should be adopted as the standard. The Committee also recommended that the quickest way of doing this was to import its technology and pass it on to the indigenous manufacturers. No decision has yet been taken on import of technology.

4.22 Asked what was the reason for inordinate delay in taking decision in this regard, the Department of Petroleum explained in a written reply as follows :—

"Following these recommendations negotiations were initiated to explore the possibilities of having a collaboration with Kosan "Compact" system in India. While these negotiation were in progress M/s. Vanaz Engineers Pvt. Ltd. were able to produce a few proto type samples of their indigenously developed click on type valves|regulators which were found acceptable on evaluation tests conducted by the oil industry Technical Committee. As a result it was decided to manufacture the compact type indigenously.........The local manufacturers, however, adopted minor deviations from original design and there have also been differences in the quality of materials used, the workmanship etc. Experience of the past 2 years has shown that these minor variations introduced by the indigenous manufacturers had to some extent an adverse impact on the safety aspects of pressure regulators and valves."

4.23 Drawing attention in this connection to the press reports that defective valves and pressure regulators have been used in LPG cylinders resulting in safety hazards and considerable damage, the Committee enquired about the quality of the indigenously produced self closing valves and pressure regulators. A representative of BPCL said during evidence :

"I do believe that in the design aspect in fact the combination is safer than the erstwhile equipment used. I am limiting my comment to the design aspect. But.......in the manufacturing process certain tolerances which should have been used have in fact not been used and there have been different teething troubles for the manufacturers resulting in a not proper fit between the cylinder and valve."

4.24 The witness also admitted that "in some cases accidents have occurred because the tilt of the cylinder and the value has been too much and the gas leaked as a result of it.

4.25 Asked what steps Government have taken to ensure safe quality of valves and regulators, the Department of Petroleum stated in a written reply as follows :—

"Consequent to the devastating fire at Indian Oil Corporation Shakurbasti bottling plant, another committee known as Vasudevan Committee was formed to look into various aspects of safety relating to filling, transportation and distribution of LPG. This Committee has recommended that the Kosan-Denmark self-closing type of valves are now to be standardised and its technology imported........Similarly in regard to regulators, Government have decided to adopt the Kosan Denmark compact type regulator and the sierra regulator as the two standards since both would fit with Kosan self-closing valve and hence would be interchangeable.

Government is taking steps to finalise the import of technology and to pass the same to all the existing and intending indigenous manufacturers who would be required to enforce strict discipline regarding quality control of materials testing etc. and bring about uniformity in their production parameters."

4.26 On enquiring about the type of valves presently used in cylinders, a representative of BPCL said during evidence (September, 1983) :

> "Today, the Hindustan Petroleum used two types of equipment (1) Traditional "MB" type. (2) Self-closing type. The Bharat Petroleum uses the traditional 'F' type and the self-closing type. The India Oil uses 'F' type and the self closing type. The intention is to make all the three companies use the self-closing type for the future."

4.27 Asked about the need for replacing the 'F' type valve, the witness said :—

> "It is a valve which is external to the cylinder. Being external, any mishandling of the cylinder by the transport operation could result in the handle of the valve sheering off. If the handle sheers off then the gas will escape freely till it is exhausted. 'F' equipment is having a security nut. If the valve is opened and the security nut has been kept open, the same thing will happen. So, arising from these considerations the oil companies and the explosive authorities came to the conclusion that this equipment was not suited to Indian conditions where mishandling of equipment does occur."

4.28 The Committee were informed by BPCL that presently there being inadequate number of indigenous manufacturers who have the requisite experience and proven capabilities, it may be necessary to import certain quantities of valves and pressure regulators.

D. LPG Tank wagons

4.29 The Committee were informed by BPCL that there had been problem with the Railways with regard to delivery of underframes for fabrication of LPG tank wagons. The Oil Industry had ordered 1972 underframes for LPG tank wagons against which due to cuts in their planned allocations the Railways have planned production of only 700 underframes.

4.30 Asked how does the Ministry propose to make up the shortfall and ensure timely supply of required number of underframes by Railways to avoid delay in BPCL's LPG project, the Department of Petroleum informed in a post evidence reply as follows :—

> "The Railway Board have now confirmed that 850 underframes would be available by end of 1983-84. Out of this total the share of BPCL works out to 222 underframes (against their requirement of 254). Upto 30-9-83 BPCL have received 186 underframes and the balance is likely to be available by end of 1983-84 or early 1984-85."

4.31 According to BPCL it is expected that 189 LPG tank wagons for phase I will be completed by March 1984 (original target September, 1983). Department of Petroleum, however, informed the Committee that on account of delay in supply of underframes there is likely to be very marginal delay in execution of BPCL's LPG project.

E. Establishment of retail outlets

4.32 The rationale in fixing the targets for establishment of retail outlets is to set up the distributive infra-structure to meet the anticipated growth in the consumption of petroleum products. The additional throughout likely to be sold in a year ahead is determined and the number of outlets required to cater for this additional throughout is fixed.

4.33 The number of retail outlets (both MS & HSD) planned to be established and the number actually commissioned by BPCL during the period 1978-83 is as given below :—

Year	Planned	Actually commissioned
1978-81 (3 years)	103	50
1981-82	121	10
1982-83	151	29

4.34 Pointing out the huge shortfall in commissioning every year, when the Committee asked whether it did not disclose that BPCL's record is poor in this regard, a representative of BPCL admitted during evidence :

"It has to be admitted that we are behind schedule in commissioning number of retail outlets we planned to do........unfortunately the performance was rather poor........"

4.35 Explaining the reasons for poor performance the witness said :

"The field officers are not only to do preliminary work before retail outlet is commissioned but they have the task of commissioning LPG dealership. During the same period there was need for accelerating the commissioning and installation of LPG dealership; and this was taken on hand. Bharat Petroleum, for historical reasons, before nationalisation of this company, was denuded of participation in consumer class of trade. Bulk consumer accounts for HSD were to be cared for Railways, Defence etc. It was decided that it would be desirable for Bharat Petroleum to re-enter consumer—class rather than retail outlet. Priority was given to field officers to concentrate on getting back our participation in the consumer-class.'

4.36 Enquired whether the Ministry reviewed BPCL's performance in this regard during the course of the performance appraisal meetings and if so, what directions were given to improve the performance the Secretary, Department of Petroleum said during evidence :—

"The view taken by the Ministry was that the situation was not as unsatisfactory as it appears from the statistics. It is correct that there have been delays in the establishment of new retail outlets for Motor Spirit and HSD. We hope that the progress will be better in future and the speed at which new retail outlets are being set up will show signs on the higher side."

4.37 The Department, however, informed in a written reply furnished after evidence that the number of cases pending at various stages were analysed and these were brought to the notice of BPCL and that they have been asked to strictly adhere to the time limit of 4 months after the grant of letter of intent for commissioning of the dealership except in very exceptional cases of genuine difficulty in procuring land etc.

4.38 During the current year (1983-84) BPCL has targetted to develop 121 newretail outlets. Enquired whether, considering the past performance of the Corporation, it would be really possible to establish all lop 121 new retail outlets. Enquired whether, considering the past per-follows :—

> "Actual commissioning during the period April|November 1983 is 28 and the Corporation expects to commission another 90 outlets by 31-3-83. Although the above number would appear very ambitious, the Corporation has taken effective steps to clear the backlogs on new commissioning by the end of the year 1983-84. The Corporation has been asked to give due emphasis to commissioning of retail outlets."

4.39 The Committee regret to note that in regard to marketing of LPG although the oil industry was hopeful of covering the majority of towns in the category of population between 20,000 and 50,000 by 1983-84, it was possible to cover only 162 towns out of the total 739 by June 1983. Even in these towns all applicants have not got the supply. Another 280 towns are now expected to be covered by 1984. This will leave nearly 300 towns uncovered against industry's earlier anticipations. The Committee find that although there has been rapid expansion in the availability of LPG during the past three years, the indigenous manufacture of cylinders has not kept pace and there is acute shortage of cylinders. This constitutes the main constraint in expanding LPG supply to smaller towns. The shortfall in cylinder manufacture against the oil industry requirements was 6.5 lakhs in 1981-82, 5.1 lakhs in 1982-83 and 7.0 lakhs in 1983-84. To meet the present shortage, it has been decided to import 8 lakhs cylinders during 1983-84. Besides import of cylinders, it may be reportedly necessary to import certain quantities of valves and pressure regulators also. Petroleum Secretary admitted before the Committee that there had been failures in planning and taking advance action which was responsible for these shortages and necessitated imports of these items. It is clear from Petroleum Secretary's statement before the Committee that not only the import of cylinders but even the import of steel for cylinders could have been avoided. The Committee cannot help expressing their unhappiness at the lack of planning and foresight.

4.40 One of the reasons for shortfall in cylinder manufacture was stated to be shortage of LPG steel. According to Department of Petroleum the local LPG steel availability was always inadequate and year after year imports were being made. The Committee note that the value of orders placed by SAIL for import of LPG steel was Rs. 4.8 crores in 1980-81,

and Rs. 2.8 crores in 1981-82 and NOC issued for import during 1983-84 valued at Rs. 28.3 crores. Department of Steel has, however, reported that there is no constraint so far as making of LPG steel is concerned and that SAIL can meet the entire demand. The shortfall in steel production during 1981—83, according to Department of Steel was due to inspection and quality problems. These factors are entirely within the control of the Government. The Committee are, however not clear as to what necessitated issue of NOC for import of LPG steel to the extent of 89,400 tonnes during 1983-84. This clearly contradicts the Steel Department's claim that SAIL can meet the entire demand.

4.41 As far the shortage of cylinders are concerned, the constraint till end of 1981-82 was stated to be inadequate capacity for manufacture of cylinders. During the succeeding years although the installed capacity for manufacture of cylinders was much higher than demand, there was no system of control or monitoring to ensure adequate indigenous manufacture of new cylinders conforming to the required standard. Surprisingly the Department of Petroleum does not have even a list of cylinder manufactures in the country particularly in small scale sector. Admittedly the Department's coordination with the Ministry of Industry in this respect was anything but satisfactory. The Committee trust that the question of evolving a suitable system of coordination and streamlining the purchase procedures for cylinders will be considered early and the Committee be informed.

4.42 The observations of the Committee in the foregoing paragraphs of this section would unmistakably show that the failure in planning and coordination on the part of the Department of Petroleum have resulted in avoidable foreign exchange outgo on account of import of LPG steel and cylinders. The Committee hope that in future the Department would show more alertness and foresightedness in discharging responsibility of planning and coordination in this regard.

4.43 The Committee regret that although Chief Controller of Explosives (CCE) directed the oil companies as far back as 1978 to discontinue use of 'F' type valves on the ground of safety and replace them by a self-closing pin type valve, the oil companies still continue to use the traditional types thus exposing consumers to safety hazards all these years. A Committee set up thereafter known as Bhatnagar Committee recommended adoption of Kosan compact regulator and self-closing valves as the standard and also recommended that the quickest way of doing this was to import its technology. Notwithstanding these recommendations, it was decided to accept the indigenously designed compact type which was found acceptable on evaluation tests. Owing to lack of strict discipline in the matter of quality control the local manufacturers adopted minor deviations from the original design which to some extent had an adverse impact on safety aspects. Sadly, in some cases these have reportedly caused accidents. The Committee would like the Government to have a reassessment of the effectiveness of their quality control machinery and the extent of its responsibility for failure of quality in valves and regulators. They would urge that the use of traditional types of valves should be discontinued at the earliest as recommended by CCE and the question of import of technology, if found inevitable should be finalised without further loss of time.

4.44 Targets for establishment of retail outlets are fixed every year in order to set up the distributive infrastructure to meet the anticipated growth in the consumption of petroleum products. BPCL's performance in regard to achievement of these targets has, however, been very unsatisfactory. The company was able to set up only 89 outlets against the target of 375 during the 5 year period 1978—83. The reasons advanced for this failure are hardly convincig. The company's target for 1983-84 is 123 outlets which appears to be ambitious considering its past record. The Committee have been informed that the Corporation has taken effective steps to clear the backlogs on new commissionings by the end of 1983-84. The Committee would await the results of efforts of the Corporation in this regard and would watch with interest the actual number of outlets established during 1983-84.

CHAPTER V

INDUSTRIAL RELATIONS

A. Refinery Strike

The Committee observed from the information furnished by BPCL that the total man-days lost in BPCL due to industrial disputes/strikes etc. was 2,19,611 during 1981-83. The major reason for the mandays lost during 1981-83 is stated to be a 5 month long strike of the entire work force in the refinery from mid January 1982 to mid June 1982. The loss in the quantity of oil processed on account of this strike is stated to be 7,23,700 M.T. Although an interim settlement was arrived at on 17-6-82 for a period of 4 years, a long term settlement still remains to be finally resolved.

5.2 Asked what exactly were the reasons for the strike in the refinery being prolonged for a 5 month period and why it could not be averted, the CMD, BPCL explained during evidence :—

> "Our workmen who are recruited after the nationalisation of the company i.e. 24-1-76 have been demanding the terms and conditions of service applicable to workmen of erstwhile Burmah Shell Company Staff. They want a DA rate of 5.08 for every point rise or fall in the CPI Index as against the public sector rate of 1.3 for a point rise or fall.......This is an area where there can be no meeting ground because if we concede this, then it is likely to extend to our marketing division apart from violating the Government laid down norms in this. It will not stop with the Marketing Division but will go to other oil companies in the public sector and it may even extend further to other public sector companies also. But the union did not come down on this issue. In fact, prior to workmen going on strike, I was personally present in the refinery to negotiate with the workers and to bring home to them that under no circumstances, Government would relent on this and it was not right on their part to precipitate matter on this issue. But they were not prepared to listen........Perhaps they were carried away by the feeling that in this way, they would get some more benefit and by going for a longer period of strike, they could precipitate the issue."

5.3 On a query made by the Committee, a representative of BPCL clarified during evidence :—

> "It is true there are two types of DA for the workers in the factory. Those who are employees of the erstwhile Burmah Shell Company were entitled to certain terms and conditions including higher DA formula. Those who have joined the Company after the take-over have not been extended those terms and conditions."

5.4 The views of the Ministry on the issue of pay scales and allowances to new entrants are as follows :—

> "On the question of granting the pay scales and service conditions of the erstwhile Burmah Shell Refinery Employees to the new workmen could not be conceded as that would have resulted in creating high wage islands in a public sector system which is contrary to Govt. Policy. Besides, creating such high wage islands would have had serious repercussions not only in the oil industry but in the entire public sector group of undertakings. In addition this would have amounted to punishing the new workmen in the Marketing Divn. after having come to an Agreement with the Management regarding the terms and conditions of service on public sector pattern."

5.5 Enquired whether the question of referring the issues for arbitration to find an amicable solution was not considered. the witness said :—

> "One method of resolving this problem is adjudication. In fact, the workers have been making the claim that whatever is paid to the erstwhile employees should also be paid to the new employees. They, therefore, said no issue needs to be referred to a tribunal and hence they would seek no adjudication on his issue."

5.6 Enquired about the position in Marketing Division, it was stated by BPCL in a written reply :—

> "We have already signed Long Term Settlement based on the Public Sector wage scales and service conditions in the Calcutta, Madras and Bombay (except old clerks) Regions of the Marketing Division. This objective has also partly been achieved in settlements signed in Ernakulam and Delhi Regions and it is expected that these Regions will also be brought fully on the Public Sector Pattern when the subsisting settlements come up for renewal early next year."

5.7 Enquired whether the Ministry have any suggestions to bring a long term settlement in regard to pay and allowances of employees and promote industrial harmony in BPCL refinery, the Ministry stated in a written reply :

> "The Ministry is examining various legalities involved in the demands of the workmen and further course of action on this problem are being examined by the Govt."

B. Grievance Committee

5.8 From the information furnished to the Committee by BPCL the Committee observed that apart from the major strike in the refinery in 1982, there had been 38 occasions when BPCL employees resorted to strike in refinery and marketing divisions during 1978—83 with mandays lost ranging from 9 days to 9713 days. The Corporation is stated to have grievance handling procedure and Bipartite|Tripartite forums to solve the problems and disputes.

5.9 Asked how was it that inspite of these machineries there were so many instances of strikes, BPCL stated that 9 incidents resulting in a loss of 14,897 mandays were relating to the issue of introduction of public sector wages and conditions, 16 incidents were on account of extraneous matters not directly connected with the workmen's place of work. These strikes were called in sympathy with all India Bandh, State bandhs, Morchas; Bandhs in support of the textile strike in Bombay, 2 instances of strike resulting in a loss of 2,597 mandays were on account of delay in Government's approval for payment of bonus|ex-gratia. About 10 instances of strikes which resulted in a loss of 10,688 mandays, BPCL stated in a written reply :—

"Only 10 incidents during the period 1978—83 were directly connected with our establishments. These also were in respect of such factors as valid suspension|termination of some workmen on disciplinary grounds and insistance by the Corporation for the fulfilment of production targets mutually agreed under valid settlement on which no compromise was possible."

5.10 Enquired to what extent the strikes were due to want of speedly settlements, BPCL stated in a reply furnished after evidence that complaints|representations both individual and collective are dealt with expeditiously in accordance with the machinery already available. It has, however, been admitted that there were 3 disputes where workmen initially went on strike and settlements followed subsequently. A representative of BPCL, however, assured during evidence that "at the moment we do not allow such matters to escalate."

5.11 Asked what was the reason for delay in according approval for payment of bonus|ex-gratia amount, the Department of Petroleum stated in a post evidence reply as follows :—

"As payment of the ex-gratia amount in lieu of the bonus is outside the purview of the Bonus Act, it would normally take some time to process the proposal through the various Departments of the Government concerned with such payment. It is unfortunate that the workers had resorted to precipitate action of going on strike despite the fact that the Management had advised them to await Government instructions."

5.12 Enquired whether there is any forum with which workers representatives are associated for handling grievances and if so, whether it is effectively functioning, a representative of BPCL stated during evidence :

"As far as grievance is concerned, there is no Committee as such. But the grievance procedure is there : if any workman has a grievance he has to take it up with his immediate superior and has to get it remedied; if, however, he is not satisfied with that, then he can go a step above and represent his case to the officer above his immediate superior."

5.13 Informing, however, that in the Marketing Division there are Works Committees, the witness explained :

"The suggestions made by the workers in the Works Committee relate to improvement of conditions in the Plant or service conditions by way of improvement in working conditions and to that extent also some of the grievances of some employees who are affected, are resolved. To that extent, it is a part of the grievance machinery."

The witness however, admitted :

"Other than this, there is no other machinery as such on which the responsibility of resolving the disputes lies."

C. Workers' Participation

5.14 The Committee were informed by BPCL in a note furnished in connection with examination of productivity in public undertakings that the Workers' Participation Scheme, introduced in 1976 by forming 4 shop councils and a joint council worked well for a period of 2 years. In September, 1978, the unions in the Refinery, however decided not to participate in any of the forums for joint participation as they felt that no useful purpose would be served by these forums. In the absence of resolution of problems relating to pay structure of workmen and in some cases improvement of existing terms and conditions, the workmen and the unions have shown much interest in participating in the Scheme. BPCL has pleaded that despite the Company's renewed efforts to persuade the unions to reactivate the forums for workers' participaiion, their response continues to be negative.

5.15 Asked about the present position in regard to workers' participation, representative of BPCL said (September 1983) "the present position is nobody is participating in any of the joint forums in the refinery." The witness also added :

"At the moment in the refinery there is no Joint Committee, there is no Works Committee, there is no Canteen Committee."

5.16 Enquired whether there is workers' participation in safety management, canteen management, club management etc. so that the views of the workmen are taken into account in deciding and implementing policies concerning welfare activities, representative of BPCL indicated during evidence that the workers participate in the safety committees, cooperative credit society, Medical benefit scheme and in sports clubs. It was stated in a written reply that subsidised canteens managed by representatives of the workmen are operated in all major establishments of the Marketing Division. Asked about the position in the refinery, a representative of BPCL said :

"Till recently, we had canteen management committee where the workers and the management were represented. Sometime in 1978, they decided not to participate in all the committees."

5.17 It was stated that presently the canteens in the refinery are run on contract basis. Asked why the workers should not be pursuaded to run them on co-operative basis, the witness said :

"We have tried this proposal but the workers are not willing to co-operate on the issue."

5.18 The Committee pointed out that if the management cannot convince the workers to participate in a small endeavour like running of a canteen, how they hoped to secure the co-operation in other areas of workers participation. In this connection, when the Committee asked what steps have been taken to secure full cooperation, improve the level of motivation and invite total commitment and participation of all employees at various levels, BPCL in a written reply, indicated that the following schemes had been adopted by the Company :

(a) Productivity incentive scheme introduced from 1982-83,

(b) Safety incentive scheme

(c) Suggestion scheme

(d) Policy of giving to employees at all levels various Long Service Emblems.

5.19 Besides the above directly work related incentives for motivation, BPCL is stated to have the following schemes in force which also help improve employees' commitment :—

(i) Housing loan scheme ;

(ii) Meritorious Scholarships for children of employees ;

(iii) Loans for scooters and cycles ;

(iv) Sports and Recreation club, consumer co-operative stores, subsidised canteen facilities, annual picnics etc.

5.20 The Committee asked whether there was any review at the Government level of the situation arising out of workers' indifference towards the Joint forums of BPCL, its impact on production and if so, what was the outcome and what concrete measures were taken to resolve the deadlock. The Department of Petroleum stated in a reply furnished after evidence as follows :

> "BPCL have already introduced grievance procedure which applied to all the workmen|employees governed by the Industrial Disputes Act, 1947. There are separate grievance procedures for the workmen|employees of the Marketing Division, and for these of the Refinery Division of the Company."

5.21 Enquired as to whether there is any scope for decentralisation and delegaion of powers and authority with a view to motivate workers' participation, BPCL stated in a written reply that "the suggestion for delegation of powers and authority to these committees will be examined."

5.22 Industrial relations climate particularly in BPCL's refinery left much to be desired. The BPCL refinery faced a 5-month long strike of the entire work force from mid January to mid June 1982 resulting in 2,19,611 mandays loss and 7,23,700 M.T. throughput loss. The workmen were demanding extension of pay scales and service conditions applicable to the employees of the erstwhile Burma Shell Refinery to the new workmen recruited after takeover by Government. According to the Department of Petroleum this could not be conceded as this would have resulted not only in creating high wage islands in the public sector system but would also have had serious repercussions in the rest of the public undertakings. Although an interim settlement covering a period of four years was reached

at the end of the strike, a long term settlement still remains to be reached. The Committee would urge that Government should expedite its examination of this issue keeping in view the urgent need to bring an early long term settlement between employees and management and in order to secure the full co-operation and participation particularly of refinery employees who are reported to be still boycotting the joint forums. It is heartening in this connection to note that the workmen in the Marketing Division have already signed a long term settlement on the issue of wages and service conditions.

5.23 Apart from the major strike in 1982 there had been 37 occasions during 1978—83 when BPCL employees both in refinery and marketing divisions resorted to strikes. Out of these, 16 incidents were stated to be on account of extraneous factors and the rest due to internal factors such as introduction of public sector wages, delay in payment of bonus, disciplinary action by management, fulfilment of production targets, want of speedy settlements etc. The Committee feel that at least some of these could have been obviated had there been Grievance Committees entrusted with the responsibility of resolving workers' grievances and disputes. It is surprising that no thought appears to have been given by the management to evolve forums for this purpose despite strikes time and again. The Committee hope that at least now the undertaking will take action to set up grievance committees in the refinery and marketing divisions with a view to speedily resolve workers' grievances in a climate of confidence.

5.24 BPCL introduced workers' participation scheme in 1976 by forming 4 shop councils and a joint council, in the refinery. Since September, 1978 the workers are, however, not participating in any of the forums for joint participation in the absence of resolution of problems relating to their pay structure. The Company has pleaded that despite its renewed efforts to persuade the union to reactivate the joint forums, their response continues to be negative. Frankly, the Committee did not expect an expression of helplessness in this regard from the company. It should be possible to carry conviction with the workers, infusing in their mind the perspective of their larger interest. With a view to create favourable climate for securing workers' participation in these Joint forums, the Committee feel that it is necessary that the issue of pay scales and conditions of service of workers should be expeditiously resolved. The Company should also examine the question of delegation of powers and authority at appropriate level in the organisation to secure involvement of employees for development and growth of the Company.

CHAPTER VI

GENERAL

A. Working Results

According to the information furnished to the Committee by BPCL, the financial results of the company during the period 1978—83 were as given below :—

(Rs. crores)

	1978-79	1979-80	1980-81	1981-82	1982-83
Gross profit before int. and tax					
Refinery	5.58	2.94	4.53	12.97	21.74
Marketing	16.29	19.68	21.50	22.80	17.24
	21.87	22.62	26.03	35.77	38.98
Interest paid/(Earned) . . .	(2.68)	(2.20)	2.92	6.17	9.02
Profit before tax	24.55	24.82	23.11	29.60	29.96

6.2 The profits of the Company according to the above table were Rs. 29.60 crores in 1981-82 and Rs. 29.96 crores in 1982-83. These figures, however, included prior years income (net) to the extent of Rs. 5.54 crores in 1981-82 and Rs. 13.95 crores in 1982-83. The operating profits of the Company after exclusion of the prior year's income were Rs 24.06 crores in 1981-82 and Rs. 16.01 crores in 1982-83. The profits of the Company have thus sharply declined by about 33 per cent in 1982-83.

6.3 There has been decline in the profits of Marketing Division from Rs. 22.80 crores in 1981-82 to Rs. 17.24 crores in 1982-83. Asked for the reasons for sharp decline in the profits in the marketing division 1982-83, BPCL mentioned the following reasons :—

(a) higher depreciation charge primarily because of purchase of larger number of LPG cylinders, pressure regulators and valves on which depreciation is charged on 100 per cent basis in the year of acquisition itself (Rs. 2.9 crores).

(b) increase in cost of staff including provision of Productivity Incentive Bonus (Rs. 1.1 crores).

(c) Under-recoveries on transportation costs arising from increases in prices of petroleum products more particularly High Speed Diesel Oil and Lubricating Oils (Rs. 1.7 crores).

(d) increased cost of losses—again because of hikes in prices of petroleum products (Rs. 1.4 crores).

6.4 BPCL, however, claimed that during 1982-83 the profits of Rs. 21.74 crores in the refinery division were marginally higher than the revised estimates of Rs. 21.71 crores and stated that the position would have been even better but for the difficult IR situation in the early part of the year, plant breakdown, quality of crude and LSHS containment problems resulting in a loss of throughput of about 0.25 mililon metric tonnes over the revised estimates.

6.5 The Committee observed that the profits in the refinery division had sharply declined from Rs. 5.6 crores in 1978-79 to Rs. 2.9 crores in 1979-80 and remained lower in 1980-81 at Rs. crores. Asked for the reasons for low profits in the refinery during 1979-81, representative of BPCL stated during evidence :—

> "There is an adjustment which requires to be done as a part of pricing discipline. In case of refinery division we have earned a profit. But under the present arrangement we had to surrender (in 1979-80) something like Rs. 2.3 crores to the Industry pool Account......This incidentally, arose because of the price of BH crude, we were processing that time, being low........Under the OPC parameter, we had to surrender the excess return to the Industry pool account. At that time the price of BH crude was too low. In the year 1980-81 again the main reason for lower profit was on account of adjustment of Rs. 2.3 crores on account of return on the working capital which had to be surrendered to the industry pool account in accordance with the pricing discipline. After 1980-81, the price of Bombay-high went up because the Government taking into account the international price, increased it upwards. We are now working on the average price which really means that we do not have to surrender any more this amount to the industry pool account."

6.6 In reply to a question as to how far the decline in profits was beyond the control of the Company, BPCL stated in a written reply :—

> "Having regard to the nature of the items involved and the pricing discipline, the decrease in profits, by and large, was beyond the control of the Corporation."

6.7 The percentage of profit before interest and tax to capital employed during the period 1978—83 was as shown below:—

	1978-79	1979-80	1980-81	1981-82	1982-83 (Provisional)
1. Capital employed (Rs. cr.) .	49.83	63.32	133.99	143.03	187.13
2. Profit before interest & tax (Rs. cr.)	21.87	22.62	26.03	35.77	36.48
ntage of profit before tax to capital employed	43.89	35.72	19.43	25.01	19.4[illegible]

6.8 The Committee observed that the profits of the Corporation as percentage to capital employed had been sharply declining year after year since 1978-79 except in 1981-82. It is observed from BPE Survey that the percentage of gross profit to capital employed was only 36.9 during 1982-83 as against 43.3 indicated by the Administrative Ministry as the performance criterion for 1982-83. The decline was attributed to increase in requirement of working capital coupled with the need to maintain stock levels and heavy expenditure on new projects such as Refinery Expansion.

6.9 Enquired about the rate of return on incremental capital employed, a representative of BPCL said during evidence :—

> "The margin has not increased. In actual fact, in the case of refinery, we have this system, If we process upto 3.75 million tonnes, we were given Rs. 17.99 per ton, and for incremental crude processed a rate of Rs. 5.49 per ton It was inadequate. It was much lower than the actual cost on the processing that has to be done."

6.10 The witness informed the Committee that the question of reviewing norms in this regard has been taken up with the Government.

6.11 Enquired whether the Company is satisfied about the rate of return on capital employed, the witness said :—

> "The Oil price Committee envisaged for oil industry a gross return of 15 per cent on capital employed. After tax it comes to 5 to 6 per cent that is envisaged in pricing formula. If I achieve it, I should be satisfied."

6.12 The Committee also observed from the Review of Accounts (1981-82) that the working capital increased from Rs. 27.69 crores in 1979-80 to Rs. 87.87 crores in 1980-81 and to Rs. 70.42 crores in 1981-82. The working capital as on 31-3-83 was stated to be Rs. 56.80 crores.

6.13 Asked to quantify the factors responsible for increase in the working capital during each of the years and state how far they were inevitable, a representative of BPCL stated during evidence that the main factors for increase in working capital 1980-81 and 1981-82 were as under:

	(Rs. in crores)
A. 1980-81	
(i) Increase in inventories from 14 to 24 days	32.3
(ii) Hikes in prices of petroleum products	17.6
(iii) Increase in amounts due from Industry Pool A/c on account of certain reliefs under pricing discipline	32.0
	81.9
Off set by	
(iv) Decrease in cash and bank balance	11.2
Balance	70.7

B. 1981-82

(i) Increase in inventories from 14 to 22 days	32.4
(ii) Hike in price of petroleum	26.8
(iii) Increase in trade debtors	6.6
	65.8
Offset by	
(iv) Amounts payable to industry pool/ac	6.4
(v) Deposits against LPG	7.9
(vi) Increase in taxation	4.4
	18.7
	65.8
	—18.7
Balance:	47.1

6.14 Asked what would be BPCL's corporate strategy to arrest the deteriorating trend in profitibility and stabilise the profits at a reasonable level in order to create sufficient internal resources for future needs, BPCL stated in a written reply as follows :—

> "The Corporation's strategy to improve overall profitability is to complete the projects expeditiously so that these projects yield appropriate returns under the pricing discipilne. As regards increase in working capital, the matter is under review of the Review Committee appointed by the Government."

B. Inventories

6.15 The Committee observed from the Public Enterprises Survey (1981-82) Vol. I that the inventories of finished goods (as no. of days of net sales) during the year 1981-82 were 56.0 in BPCL, while in HPCL and IOC it was only 24.3 and 22.8 and asked how does BPCL explain high inventory holdings in BPCL *vis-a-vis* other similar undertakings. BPCL stated in a written reply that the apparent high level of inventories in case of BPCL *vis-a-vis* IOC and HPCL was because of inclusion of products given by BPCL to IOC on loan account against payment of cash.

6.16 The Committee observed that the stores and spares inventories of the company were as stated below :—

(Rs. crores)

	1980-81	1981-82	1982-83
Estimates	13.62	21.17	21.58
Actuals	17.59	26.84	19.30 (provisional)

According to Public Enterprises Survey of BPE the level of spares which represents 607.8 days consumption is higher than the prescribed norms. The company reportedly aims to keep the level of spares to 558 days consumption. It has been further reported that 10424 items valued at Rs. 2.50 crores have not moved for more than two years. Surplus stores worth Rs. 2.14 lakh were disposed of during the years and the balance awaiting disposal at the end of March 1983 was Rs. 1.24 lakhs.

6.17 ABC analysis in respect of all the stock items except drum-steel and project materials has been done. Catalogues for stock items have not yet been prepared. 2740 demands were outstanding at the end of the year, out of which 1207 demands were over 3 months old. Similarly 146 consignments were pending for accountal for more than 1 months.

6.18 BPE has reportedly requested the Company to reduce the inventor of spares, given high priority to the work of review of non-moving items, and take urgent action for disposal of surplus stores after classifying them into X, Y and Z categories according to their value. BPCL has also been requested to carry out ABC analysis in respect of the remaining items, and prepare catalogues for all the stock items early.

C. Manpower

6.19 The manpower requirements and the actual strength in BPCL during the years 1979 to 1983 in respect of the three categories of employees were as given in the table below :—

Year	Management Establishment	Management Strength	Clerical Establishment	Clerical Strength	Labour Establishment	Labour Strength
1-4-1979 . . .	989	924	1400	1553	3012	2723
1-4-1980 . . .	1074	998	1445	1560	3166	2866
1-4-1981 . . .	1241	1086	1538	1611	3527	3153
1-4-1982 . . .	1413	1229	1669	1648	4036	3561
1-4-1983 . . .	1637	1497	1770	1708	4116	3753

6.20 The Committee observed that the actual strength of management staff and labour workmen had been consistenly much less than the assessed requirements. The shortfalls in the case of management staff and workmen *vis-a-vis* assessed requirements were 65 and 289 respectively in 1979, 76 and 300 in 1980, 155 and 374 in 1981, 184 anl 475 in 1982 and 140 and 363 in 1983. Thus, the shortfalls in the management staff had gone up from 65 to 184 during the 4 years period 1979-82 and from 289 to 475 in the case of workmen. The shortfalls, however, came down marginally in 1983.

6.21 The shortfalls in case of labour workmen were stated to be mainly due to :—

(a) Non-availability of skilled workmen as per requirements;

(b) Delays|difficulties on account of obtaining suitable candidates through Employment Exchange;

(c) Delayed|difficulties on account of obtainig suitable candidate in the reserved category."

6.22 Enquired whether delays in recruitment could not be avoided by taking advance action, the CMD, BPCL stated during evidence :

"Recently we have reviewed the situation and what we are presently doing is that we are taking action in advance of even a year or so, so that the gap is kept to the minimum possible level."

6.23 Enquired if the effect of shortfall is marginal and whether BPCL would agree that assessment of manpower requirements was unrealistic, BPCL stated in a written reply that "the effect of the shortfall is not marginal and every effort is made to take care of it through alternate short term methods available."

6.24 Asked how far the shortfalls have affected the operations of the company during the above period, the CMD, BPCL claimed during evidence :—

"I would say that there was no effect on the operations of the company so far as shortfall is concerned because that is made up by putting people on overtime or by engaging workers temporarily from outside or in some extreme cases by even contracting out the job for short duration."

6.25 The Committee asked whether the Ministry approved of the above course of action by BPCL and if so, what cognisance of this had been taken by the Ministry. Pointing out in this connection the factors responsible for shortfall in manpower, the Ministry mentioned in a written reply one more factor, in addition to those mentioned already by BPCL as of people leaving for gulf countries, private sector etc. Further, pointing out that absenteeism amongst workers in the refinery side was about 12 per cent, the Ministry stated that in these circumstances, recourse to overtime, engagement of temporary hands and contracting out specific work cannot be avoided.

6.26 The Committee noted from the information furinshed to them by BPCL that in-house facilities to train and develop persons in the area of specialised requirements and managerial skill are available in BPCL refinery and at the Residential Training Centre at Juhu, Bombay.

D. Performance appraisal

6.27 Although the Ministries are required to take performance review meetings once a quarter, the Committee were informed by BPCL that during the 4 year period 1978—1982 there were only 4 performance review meetings as against the required number of 16 meetings. Asked how does the Department explain the absence of systematic and regular review of performance of BPCL, the Secretary, Petroleum admitted during evidence :—

"I think no justification can be given for it. It is wrong. My own experience is that it is possible to hold them. We have been holding them in different departments. But if the record shows that performance review meetings where BPCL's work was reviewed were not held in some years, we regret it. These meetings should be held regularly."

6,28 The Department, however, claimed in a written reply as follows:—

"While it is admitted that there has been a shortfall in the number of formal performance Review Meetings during the period 1978—82, this has not in any way affected the review of the performance of the Corporation periodically as apart from the formal performance Review Meetings, the performance of the Corporation also comes up for review in other forums such as Project Review Meetings, Monthly Supply Plan Meetings, Monthly Industry Co-ordination Meetings, OCC Apex Body Meetings, Annual Plan Meetings etc. . ... Besides, the Government Directors on the performance of the concerned Corporation from time to time. It may thus be observed that the performance of the Corporation is reviewed/discussed on a continuous basis for achieving the desired objective."

6.29 The Committee are distressed to find that the marginal increase in the profits (before tax) of the company from Rs. 29.60 crores in 1981-82 to Rs. 29.96 crores in 1982-83 is only illusory in as much as if one excludes the prior year's income which stood at Rs. 5.5 crores in 1981-82 and Rs. 14.0 crores in 1982-83, the operating profits of the company would actually show a sharp decline during 1982-83 by about 33 per cent. The Committee find that the annual accounts presented by the company do not bring out the working results in a manner that would make for comparison from year to year on a reliable basis in view of the prior period adjustments. They, therefore, require that the prior period adjustments should be made in annual accounts in such a way that the accounts depict the true picture of profitability and enable correct comparison of the operation of the company over the years. This may be done in consultation with the C&AG of India.

6.30 The Committee note that sharp fall in profits during 1982-83 was attributed to the marketing division where there was higher depreciation (Rs. 2.9 crores), increase in cost of staff (Rs. 1.1 crores), under recoveries on transportation costs (Rs. 1.7 crores) and increased cost of losses (Rs. 1.4 crores). The Committee also observe that the profits of the company as a percentage to capital employed had been sharply declining year after year since 1978-79 except in 1981-82. During 1982-83 the percentage of gross profit to capital, employed was only 36.9 against the target of 44.3 indicated by the Ministry. The decline was reported to be due to increase in requirement of working capital coupled with the need to maintain stock levels and heavy expenditure on new projects such as refinery expansion. The Committee would urge that in order to generate sufficient internal resources for future needs, the company should expeditiously complete the projects so that they yield appropriate returns in time.

6.31 According to BPE, the level of spares inventory in BPCL which represents 607.8 days' consumption is higher than the prescribed norms.

Items worth Rs. 2.5 crores have not moved for more than two years. The Committee would urge that directives issued by BPE in the regard should be expeditiously implemented by the Company to achieve the desired results.

6.32 The Committee do not appreciate the practice of adopting short term methods to meet huge shortfalls in manpower every year. The shortfalls in the management staff against the assessed requirements went up from 65 to 184 during 1979—82 and in the case of work-men from 289 to 475. Further, the rate of absenteeism in the company has been as high as 12 per cent. To meet these shortfalls, the company was reported to have adopted the practice of putting workers on overtime or engaging workers temporarily or contracting out jobs. One of the reasons for shortfall in actual strength has been delay in recruitment. The present prescribed procedure is, of course, cumbersome and dilatory. The Committee recommend that the Government should examine the possibility of devising a speeder procedure for making recruitment in Oil Companies in view of nature of their operations and importance of the industry.

6.33 It is evident that the company's man-power policy did not attract the attention of the Government so long. The Committee feel that the shortfalls in man-power could have been largely avoided by taking advance action for recruitment. The possibility of having coordination with Industrial Training Institutes to ensure adequate number of skilled workers should have also been examined.

6.34 The Committee are of the view that the performance of BPCL would have been better had it been kept under close review by the Board as well as administrative Department. In this connection, the Committee note that although according to the guidelines issued by BPE, the administrative Ministry should hold performance review meetings at least four times in a year, the review meetings were not held systematically and as frequently as was required. The Committee hope that in future these meetings will be held regularly by undertaking critical review of he working of the company and necessary directives issued from time to time to improve the Company's performance.

NEW DELHI;
April 18, 1984
Chaitra 29, 1906 (*Saka*)

MADHUSUDAN VAIRALE
Chairman,
Committee on Public Undertakings.
Committee an Public Undertakings.

APPENDIX

Summary of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report

Sl. No.	Reference to Para No. in the Report	Summary of Conclusions/Recommendations
(1)	(2)	(3)
1.	1.14-1.15	Bharat Petroleum Corporation Ltd. is a wholly owned Central Government Undertaking and the successor to Burma-Shell Group of Companies which were taken over in January, 1976. The long term objectives and obligations of the company have been formulated and approved by Government only recently in terms of the Committee on Public Undertakings' recommendation contained in their 72nd Report (1982-83). The Committee's examination of BPCL has revealed that oil companies have no uniform approach to corporate plans. BPCL is reportedly having a rolling plan and Hindustan Petroleum Corporation has a system of integrated Corporate plan for five years, while Indian Oil Corporation has no corporate plan at all. BPCL and HPCL have been following the practice they had adopted prior to nationalisation. The Committee regret to note that the Government did not consider it necessary after nationalisation to review this situation and allowed old practices to continue in these oil companies all these years. The Committee would urge that as assured by the Petroleum Secretary, the Ministry should look into this question early with a view to evolve a common approach to Corporate plans for all the oil companies.
2.	1.16	The Committee are surprised to note that the IOC which has been a Government company for nearly two decades now has no Corporate plan as such. The Ministry also appears to have overlooked IOC's

(1)	(2)	(3)
		failure in this respect thus far and has advised the company to prepare a Corporate Plan only recently. The Committee trust that the Ministry would ensure that the Corporate Plan of IOC is finalised soon.
3.	1.17	It may be pointed out that as far back as 1974, BPE had issued some guidelines in regard to preparation and approval of Corporate Plan for each public enterprise. Under these guidelines each enterprise was required to draft its Corporate Plan, get it formally approved by a Resolution of the Board of Directors and send it to the Administrative Ministry for formal ratification. The Articles of Association of BPCL also stipulate that any proposals or decisions of the company in respect of Five Year Plan and Annual Plan should have the approval of the President. The Petroleum Secretary however, expressed the view that approval of Corporate Plan by Government may not be either necessary or even possible. The Committe feel that specific approval of Corporate Plan by Government is necessary having regard to the need to correlate it with the national Five Year Plans and to indicate the direction that the company should take.
4.	2.31-2.32	One of the major projects undertaken by BPCL was an expansion project which provided for debottlenecking of crude distiller and installation of additional secondary processing facilities. This project which was estimated to cost Rs. 36 crores was approved by Government in December, 1979 on the basis of a Feasibility Report (FR) prepared in November, 1978. As there were admittedly several deficiencies in the Feasibility Report a revision became necessary in November, 1981. The revised cost of the expansion project was Rs. 133 crores, which worked out to an increase of 27%. Of this increase price escalation, under-estimation, omissions, additional provision for contingencies etc. accounted for Rs. 40 crores which is even higher than the original cost of the project. Changes in scope, changes during detailed engineering, provision for design changes and replacements amounted to Rs. 57 crores. The Committee have gathered

(1)	(2)	(3)
		an impression that the project had been launched by the company without developing necessary capabilities. The Company formed a project planning and coordination cell only in mid 1981 nearly 3 years after preparation of the original F.R. in this case.
		Obviously, enough care was not exercised by Government to check the correctness of cost estimates made in the original F.R. nor was any attempt made to assess the effectiveness of project planning and implementation machinery in BPCL before sanctioning this major project. Admittedly there were several weaknesses in the project plan approved by Government. The Committee trust that Government will take care in future to see that Feasibility Reports are reliable and the cost estimates realistic. The Committee have been informed in this connection that a Study Group which went into the question of preparation of feasibility reports and cost escalation in refinery porjects has submitted its report. The Committee desire that the action taken thereon be intimated to them.
5.	2.33	The Committee are also unhappy with the equally unsatisfactory performance of BPCL in regard to execution of this expansion project. The completion schedule of the project has undergone revision twice. According to the original schedule the project should have been completed in December, 1983. However, as there was delay in entering into licence agreement which took about 10 months after sanctioning of the project, the completion schedule had to be revised to October, 1984. In the meantime 8 months construction activity was reportedly lost due to 5 months refinery strike followed by 3 months' heavy monsoon period. As a result, the project is now expected to be completed in January, 1985. The Committee would like to be assured that there shall not be any further delay in the completion of the project.
	2.34	The Committee find that Detailed Project Report (DPR) was not ready even four years after the approval of the expansion project by Government. In BPCL's

(1)	(2)	(3)
		view, the time required for submission of DPR is between 18 to 24 months. According to the Ministry it would require 2-3 years to prepare DPR in the case of refinery projects. The Committee desire that the time limit for preparation of DPR in the case of refinery projects should be prescribed by the Department of Petroleum in consultation with Public Investment Board.
6.	2.35	The Committee are concerned to note that no indigenous technology is available for secondary processing facilities and sulphur recovery plants. BPCL has entered into agreements for acquisition of technical know-how for refinery expansion from M/s. Universal Oil Products Inc. USA and for sulphur recovery plant from M/s. Comprimo B.V. Holland. The agreements, however, do not provide for transfer of technology. Thus so far there seems to have been no attempt at indigenisation. On the question being taken up by this Committee, the Ministry promised to evolve a strategy in order to identify the areas in the refining field for transfer of technoloxy, its adaptation and indigenisation. The Committee desire that a comprehensive review to identify the areas needing indigenisation of technology in the oil refining field should be undertaken on urgent basis and a time bound programme evolved for swift action.
7.	2.36	While dealing with the question of indigenous technology the Committee cannot help commenting on the way the Government and BPCL have overlooked exploitation of indigenous technology for the Company's Aromatics project at the initial stage. Foreign technology was envisaged resumably without ascertaining the availability of indigenous technology for the aromatics project approved by Government in April, 1980. While the foreign collaboration proposal was under consideration in 1981 EIL on their own approached the Government offering their services for utilising indigenous technology which was later accepted. Another feasibility report was prepared

(1)	(2)	(3)
		thereafter in May 1982 and the 'Zero' date of the project was revised from April 1980 to August 1982. The Committee could not resist a feeling that had the company exercised caution to look for indigenous technology, in the first instance, delay in completion of the project would have been avoided.
8.	2.37	At the instance of the Committee, Ministry of Finance has prescribed a time limit of 6 months for clearance of projects by Government. The Committee note that the Government had taken between 7-21 months in 11 cases. Six of BPCL's new projects are reported to be awaiting clearance from the Government for more than one year. The feasibility Report of C3/C4 separation facilities project was submitted to Government in February, 1982., *i.e.* over 2 years back. Though Department of Petroleum have explained in a note the stages involved in the matter of clearance of a project, the Committee fail to understand why it is taking more than 2 years to take a decision on the issue. The Committee note that the Ministry of Finance have suggested two stage clearance of projects in order to reduce time taken for giving approval to projects. They trust this proposal will be examined by the Department of Petroleum quickly and a suitable procedure evolved for giving clearance to the project within the minimum time possible as suggested by Finance Ministry.
9.	3.41	The Committee are glad to note that the capacity utilisation in Bombay refinery has been steadily improving from 71% in 1976 to reach 95% in 1981-82. It, however, fell down to 85% in 1982-83 due to strike in the refinery which reportedly resulted in throughput loss of about 3500 tonnes per day during the 5 months' strike period. Capacity utilisation in the refinery would have been even more but for slowing down of production of LSHS and aromatic naphtha, the disposal of which has posed a serious problem. The Company expects to overcome this by undertaking exports to the extent possible. The Committee feel

(1)	(2)	(3)
		there is need for exploiting the export potentials in these commodities more effectively. The capacity utilisation in LOB plant, at Bombay has been poor all along varying between 61% and 77% during 1976-83. In Calcutta LOB plant capacity utilisation has been gradually improving from 35% in 1976 to reach the level of 113% in 1982-83. The Committee regret to hear from the Petroleum Secretary that under utilisation of capacity in LOB plants was deliberate due to depressed demand. The Committee trust that the demand constraint has since been fully overcome and that there will not be any further under-utilisation of capacity.
10.	3.42	The refining costs of BPCL had been about 100% higher than the provisional OPC standards during 1979-81 and about 25% higher during 1982-83. The provisional standards have been revised in April, 1981. It needs to be pointed out that in the absence of proper norms the comparison of provisional standards with actuals is meaningless and leaves no scope for immediate remedial action being taken for effective cost control by oil companies. They, therefore, recommend that the feasibility of laying down standards in this respect in the beginning of every year should be examined with a view to enable realistic assessment of costs. In this connection the committee are surprised to note that although the company's actual refining costs were higher (Rs./MT 30 in 1981-82 and Rs./MT 34.76 in 1982-83) then the OPC norm (Rs./MT 28.69), BPCL was not provided with the details of calculation of OPC norm with the result the company reportedly was not able to indentify the increase in cost elements. They hope that there may not be any difficulty on the part of Government to furnish these details to oil companies to enable them to take timely corrective action when the actuals exceed the norms.
11.	3.43	Value added per man month (at constant prices) in BPCL refinery has been sharply declining year

(1)	(2)	(3)
		after year from Rs. 6.83 lakhs in 1978-79 to Rs. 4.98 lakhs in 1981-82. The declining trend in value added is attributed to large scale recruitment and progressive increase in processing of B.H. crude which results in production of low value added item. The Company expects that the value added per man month in BPCL refinery will start increasing with the ocommissioning of the expansion project and aromatics project. These projects will reportedly enable production of high value added products. The Committee were informed by the BPCL that value added in terms of man-month has not been computed for inclusion in DPR of expansion project. They fail to understand how this important productivity index has been ignored by the company while preparing the DPR. The Committee desire that value added in terms of man-month may now be calculated to enable a comparison with the actuals in future. Incidentally, the Committee are not sure whether the value added is being computed by the Company correctly in accordance with the formula adopted by the BPE. In any case, the Committee desire these should be got checked by the BPE and the value added in regard to the Refining activities as well as in regard to the entire activities of the Company should be correctly depicted in the Annual Reports in future.
12.	3.44	The minimal national standards in quantum limits proposed by the Central Board for the Prevention and Control of Water Pollution on effluents from oil refineries are not met by the BPCL refinery as it uses sea water on once-through basis for refinery processing. Although it would be possible to minimise discharging waste water by recirculation of cooling water, BPCL's problem is stated to be one of getting fresh water to the order of 10,000 tonnes per day. It is not known whether the question of fresh water supply was taken up with the Municipal Authorities. Although BPCL has claimed that its effluent water does not cause any harm to the sea life, the Committee desire that the proposal made to EIL to undertake study of effluent

(1)	(2)	(3)
		treatment should be vigorously followed and necessary steps taken as a result thereof to strictly observe the quantum limits proposed by the Central Board.
13.	4.39	The Committee regret to note that in regard to marketing of LPG although the oil industry was hopeful of covering the majority of towns in the category of population between 20,000 and 50,000 by 1983-84, it was possible to cover only 162 towns out of the total 739 by June 1983. Even in these towns all applicants have not got the supply. Another 280 towns are now expected to be covered by 1984. This will leave nearly 300 towns uncovered against industry's earlier anticipations. The Committee find that although there has been rapid expansion in the availability of LPG during the past three years, the indigenous manufacture of cylinders has not kept pace and there is acute shortage of cylinders. This constitutes the main constraint in expanding LPG supply to smaller towns. The shortfall in cylinder manufacture against the oil industry requirements was 6.5 lakhs in 1981-82, 5.1 lakhs in 1982-83 and 7.0 lakhs in 1983-84. To meet the present shortage, it has been decided to import 8 lakhs cylinders during 1983-84. Besides import of cylinders, it may be reportedly necessary to import certain quantities of valves and pressure regulators also. Petroleum Secretary admitted before the Committee that there had been failures in planning and taking advance action which was responsible for these shortages and necessitated imports of these items. It is clear from Petroleum Secretary's statement before the Committee that not only the import of cylinders but even the import of steel for cylinders could have been avoided. The Committee cannot help expressing their unhappiness at the lack of planning and foresight.
14	4.40	One of the reasons for shortfall in cylinder manufacture was stated to be shortage of LPG steel. According to Department of petroleum the local LPG steel availability was always inadequate and year after year imports were being made. The Com-

(1)	(2)	(3)
		mittee note that the value of orders placed by SAIL for import of LPG steel was Rs. 4.8 crores in 1980-81 and Rs. 2.8 crores in 1981-82 and NOC issued for import during 1983-84 valued at Rs. 28.3 crores. Department of Steel has, however, reported that there is no constraint so far as making of LPG steel is concerned and that SAIL can meet the entire demand. The shortfall in steel production during 1981—83, according to Department of Steel was due to inspection and quality problems. These factors are entirely within the control of the Government. The Committee are, however not clear as to what necessitated issue of NOC for import of LPG steel to the extent of 89,400 tonnes during 1983-84. This clearly contradicts the steel Departmet's claim that SAIL can meet the entire demand.
15	4.41	As far the shortage of cylinders are concerned, the constraint till end of 1981-82 was stated to be inadequate capacity for manufacture of cylinders. During the succeeding years although the installed capacity for manufacture of cylinders was much higher than demand, there was no system of control or monitoring to ensure adequate indigenous manufacture of new cylinders conforming to the required standard. Surprisingly the Department of Petroleum does not have even a list of cylinder manufactures in the country particularly in small scale sector. Admittedly the Department's coordination with the Ministry of Industry in this respect was anything but satisfactory. The Committee trust that the question of evolving a suitable system of coordination and streamlining the purchase procedures for cylinders will be considered early and the Committee be informed.
16	4.42	The observations of the Committee in the foregoing paragraphs of this section would unmistakably show that the failure in planning and coordination on the part of the Department of Petroleum have resulted in avoidable foreign exchange outgo on account of import of LPG steel and cylinders, The

(1)	(2)	(3)
		Committee hope that in future the Department would show more alertness and foresightedness in discharging responsibility of planning and coordination in this regard.
17	4.43	The Committee regret that although Chief Controller of Explosives (CCE) directed the oil companies as far back as 1978 to discontinue use of 'F' type valves on the ground of safety and replace them by a self-closing pin type valve, the oil companies still continue to use the traditional types thus exposing consumers to safety hazards all these years. A Committee set up thereafter known as Bhatnagar Committee recommended adoption of Kosan compact regulator and self-closing valves as the standard and also recommended that the quickest way of doing this was to import its technology. Notwithstanding these recommendations, it was decided to accept the indigenously designed compact type which was found acceptable on evaluation tests. Owing to lack of strict discipline in the matter of quality control the local manufacturers adopted minor deviations from the original design which to some extent had an adverse impact on safety aspects. Sadly, in some cases these have reportedly caused accidents. The Committee would like the Government to have a reassessment of the effectiveness of their quality control machinery and the extent of its responsibility for failure of quality in valves and regulators. They would urge that the use of traditional types of valves should be discontinued at the earliest as recommended by CCE and the question of import of technology, if found inevitable should be finalised without further lose of time.
18	4.44	Targets for establishment of retail outlets are fixed every year in order to set up the distributive infrastructure to meet the anticipated growth in the consumption of petroleum products BPCL's performance in regard to achievement of these targets has, however, been very unsatisfactory. The company was able to set up only 89 outlets against the target

(1)	(2)	(3)
		of 375 during the 5 year period 1978—83. The reasons advanced for this failure are hardly convincing. The company's target for 1983-84 is 123 outlets which appears to be ambitions considering its past record. The Committee have been informed that the Corporation has taken effective steps to clear the backlogs on new commissionings by the end of 1983-84. The Committee would await the results of efforts of the Corporation in this regard and would watch with interest the actual number of outlets established during 1983-84.
19	5.22	Industrial relations climate particularly in BPCL's refinery left much to be desired. The BPCL refinery faced a 5-month long strike of the entire work froce from mid January to mid June 1982 resulting in 2,19,611 mandays loss and 7,23,700 M.T. through put loss. The workmen were demanding extension of pay scales and service conditions applicable to the employees of the erstwhile Burma Shell Refinery to the new workmen recruited after takeover by Government. According to the Department of Petroleum this could not be conceded as this would have resulted not only in creating high wage islands in the public sector system but would also have had serious repercussions in the rest of the public undertakings. Although an interim settlement covering a period of four years was reached at the end of the strike, a long term settlement still remains to be reached. The Committee would urge that Government should expedite its examination of this issue keeping in view the urgent need to bring an early long term settlement between employees and management and in order to secure the full co-operation and participation particularly of refinery employees who are reported to be still boycotting the joint forums. It is heartening in this connection to note that the workmen in the Marketing Division have already signed a long term settlement on the issue of wages and service conditions.
20	5.23	A part from the major strike in 1982 there had been 37 occasions during 1978—83 when BPCL

(1)	(2)	(3)
		employees both in refinery and marketing Divisions resorted to strikes. Out of these, 16 incidents were stated to be on account of extraneous factors and the rest due to internal factors such as introduction of public sector wages, delay in payment of bonus, disciplinary action by management, fulfilment of production targets, want of speedy settlements etc. The Committee feel that at least some of these could have been obviated had there been Grievance Committees entrusted with the responsibility of resolving workers' grievances and disputes. It is surprising that no thought appears to have been given by the management to evolve forums for this purpose despite strikes time and again. The Committee hope that at least now the undertaking will take action to set up grievance committees in the refinery and marketing divisions with a view to speedily resolve workers' grievances in a climate of confidence.
21	5.24	BPCL introduced workers' participation scheme in 1976 by forming 4 shop councils and a joint council, in the refinery. Since September, 1978 the workers are, however, not participating in any of the forums for joint participating in the absence of resolution of problems relating to their pay structure. The Company has pleaded that despite its renewed efforts to persuade the union to reactivate the joint forums, their response continues to be negative. Frankly, the Committee did not expect an expression of helplessness in this regard from the company. It should be possible to carry conviction with the workers, infusing in their mind the perspective of their larger interest. With a view to create favourable climate for securing workers' participation in these Joint forums, the Committee feel that it is necessary that the issue of pay scales and conditions of service of workers should be expeditiously resolved. The Company should also examine the question of delegation of powers and authority at appropriate level in the organisation to secure involvement of employees for development and growth of the company.

(1)	(2)	(3)
22	6.29	The Committee are distressed to find that the marginal increase in the profits (before tax) of the company from Rs. 29.60 crores in 1981-82 to Rs. 29.96 crores in 1982-83 is only illusory in as much as if one excludes the prior year's income which stood at Rs. 5.5 crores in 1981-82 and Rs. 14.0 crores in 1982-83, the operating profits of the company would actually show a sharp decline during 1982-83 by about 33%. The Committee find that the annual accounts presented by the company do not bring out the working results in a manner that would make for comparison from year to year on a reliable basis in view of the prior period adjustments. They, therefore, require that the prior period adjustments should be made in annual accounts in such a way that the accounts depict the true picture of profitability and enable correct comparison of the operation of the company over the years. This may be done in consultation with the C&AG of India.
23	6.30	The Committee note that sharp fall in profits during 1982-83 was attributed to the marketing division where there was higher depreciation (Rs. 2.9 crores), increase in cost of staff (Rs. 1.1 crores), under recoveries on transportation costs (Rs. 1.7 crores) and increased cost of losses (Rs. 1.4 crores). The Committee also observe that the profits of the company as a percentage to capital employed had been sharply declining year after year since 1978-79 except in 1981-82. During 1982-83 the percentage of gross profit to capital employed was only 36.9 against the target of 44.3 indicated by the Ministry. The decline was reported to be due to increase in requirement of working capital coupled with the need to maintain stock levels and heavy expenditure on new projects such as refinery expansion. The Committee would urge that in order to generate sufficient internal resources for future needs, the company should expeditiously complete the projects so that they yield appropriate returns in time.
24	6.31	According to BPE, the level of spares inventory in BPCL which represents 607.8 days' consumption

(1)	(2)	(3)
		is higher than the prescribed norms. Items worth Rs. 2.5 crores have not moved for more than two years. The Committee would urge that directives issued by BPE in this regard should be expeditiously implemented by the Company to achieve the desired results.
25	6.32	The Committee do not appreciate the practice of adopting short term methods to meet huge shortfalls in manpower every year. The shortfalls in the management staff against the assessed requirements went up from 65 to 184 during 1979—82 and in the case of workmen from 289 to 475. Further, the rate of absenteeism in the company has been as high as 12%. To meet these shortfalls, the company was reported to have adopted the practice of putting workers on overtime or engaging workers temporarily or contracting out jobs. One of the reasons for shortfall in actual strength has been delay in recruitment. The present prescribed procedure is, of course, cumbersome and dilatory. The Committee recommend that the Government should examine the possibility of devising a speedier procedure for making recruitment in Oil Companies in view of nature of their operations and importance of the industry.
26.	6.33	It is evident that the company's man-power policy did not attract the attention of the Government so long. The Committee feel that the shortfalls in man-power could have been largely avoided by taking advance action for recruitment. The possibility of having coordination with Industrial Training Institutes to ensure adequate number of skilled workers should have also been examined.
27.	6.34	The Committee are of the view that the performance of BPCL would have been better had it been kept under close review by the Board as well as administrative Department. In this connection, the Committee note that although according to the

(1)	(2)	(3)
		guidelines issued by BPE, the administrative Ministry should hold performance review at least four times in a year, the review meetings at least four times in a year, the review meetings were not held systematically and as frequently as was required. The Committee hope that in future these meetings will be held regularly by undertaking critical review of the working of the company and necessary directives issued from time to time to improve the Company's performance.

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C.P.U. No. 541

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Sixth Edition) and printed by the Manager, Govt. of India Press, Ring Road, New Delhi.