

TWENTIETH REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1995-96)

(TENTH LOK SABHA)

PRICING OF PETROLEUM PRODUCTS

(MINISTRY OF PETROLEUM & NATURAL GAS)

*(Action taken by Government on the recommendations contained in the
9th Report of the Standing Committee on Petroleum & Chemicals)*



*Presented to Lok Sabha on 16 DEC 1995
Laid in Rajya Sabha on*

LOK SABHA SECRETARIAT
NEW DELHI

October, 1995/Kartika, 1917 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON
PETROLEUM & CHEMICALS (1995-96)

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Shri Sriballav Panigrahi

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Lok Sabha

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3. Dr. Ravi Mallu
4. Shri Surinder Singh Kairon
5. Shri Sant Ram Singla
6. Shri A.G.S. Rambabu
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- *37. Shri Suresh Pachouri
38. Shri Jagdish Prasad Mathur
39. Shri V. Narayanasamy
40. Shri Yerra Narayanaswamy
41. Shri Ramji Lal

*Ceased to be Members of the Committee consequent upon their appointment as Ministers in the Council of Ministers w.e.f. 19th September, 1995.

(iv)

42. Shri Chimanbhai Haribhai
43. Shri Balbir Singh
44. Shri S.S. Surjewala
45. Shri Dineshbhai Trivedi

SECRETARIAT

1. Shri S.N. Mjshra — *Additional Secretary*
2. Smt. Roli Srivastava — *Joint Secretary*
3. Shri G.R. Juneja — *Deputy Secretary*
4. Shri Brahm Dutt — *Under Secretary*
5. Shri S.N. Dargan — *Asstt. Director*

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (1995-96) having been authorised by the Committee to submit the Report on their behalf, present this Twentieth Report on Action Taken by Government on the recommendations contained in the Ninth Report of the Standing Committee on Petroleum and Chemicals (1994-95) (Tenth Lok Sabha) on Pricing of Petroleum Products.

2. The Ninth Report of the Committee was presented to Lok Sabha on 15th December, 1994. Replies of Government to all the recommendations contained in the Report were received on 31st August, 1995.

3. The replies of the Government were considered by the Committee on 13th October, 1995. The Committee considered and adopted the Report at their sitting held on 13th October, 1995.

4. An analysis of action taken by Government on the recommendations contained in the Ninth Report (1994-95) of the Committee is given in Appendix II.

NEW DELHI;
October 28, 1995

Kartika 6, 1917 (Saka)

SRIBALLAV PANIGRAHI,
Chairman,
Standing Committee on Petroleum & Chemicals.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by the Government on the recommendations contained in the Ninth Report (1994-95) (Tenth Lok Sabha) of the Standing Committee on Petroleum and Chemicals on 'Pricing of Petroleum Products' relating to Ministry of Petroleum and Natural Gas which was presented to Lok Sabha on 15th December, 1994.

2. Action taken notes have been received from the Government in respect of all the 14 recommendations contained in the Report. These have been categorised as follows:—

- (i) Recommendations/observations which have been accepted by the Government
Sl. No. 1, 4 to 11 and 14
- (ii) Recommendation/observation which the Committee do not desire to pursue in view of the Government reply
Sl. No. 13
- (iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee
Sl. No. 2 and 3
- (iv) Recommendations/observations in respect of which final reply of the Government is still awaited
Sl. No. 12

3. The Committee will now deal with the Action taken by the Government on some of their recommendations.

A. Steps for reduction in Cost of Production

Recommendations (Sl. No. 1, Para No. 2)

4. The Committee had observed that cost of production of crude oil in ONGC increased from Rs. 917 per tonne in 1991-92 to Rs. 1124 per tonne in 1993-94. Similarly in case of OIL it increased from Rs. 517 in 1991-92 to Rs. 781 per tonne in 1993-94. Since 94% of the cost of petroleum products ex-refinery constituted the cost of crude oil alone and ONGC and OIL get cost plus 15% return on capital employed, the Committee has stressed the

need for concerted efforts by the oil producing companies to contain the increasing cost of production of crude oil. The Committee also asked the Govt. to review the performance of both the oil companies and carry out periodic cost analysis in order to reduce the cost of production of crude oil.

5. The Ministry in their reply have stated that the performance of the oil producing companies is reviewed on quarterly basis and constant monitoring is done to keep the cost of production at a reasonable level.

6. The Committee find that Govt. reply is too general and ambiguous. The reply does not specify the *modus operandi* being exercised by the Ministry for reviewing performance and monitoring cost analysis and the impact thereof on the prices. The Committee desire that the Govt. replies should be self explanatory and complete in all respects. The Committee would therefore await necessary details from the Govt. in this regard.

Release of Funds to OI DB

Recommendations (Sl. Nos. 2 and 3, Para Nos. 3 and 4)

7. The Committee had noted that as against the huge amount to the extent of about Rs. 20,000 crores were collected as cess levied under Oil Industry (Development) Act 1974 an amount of only Rs. 902 crores *i.e.* even less than 5% of the total collection has been released to the OI DB so far for giving loans/financial assistance to oil companies for the programmes connected with the exploration, production, refining and marketing of oil/petroleum products. The Committee had recommended that as per the provisions of the Act, after deducting the collection charges etc. the cess collected should be made available in full to the designated authority *i.e.* OI DB for making these funds available to the oil companies for projects in the field of exploration, production, refining and marketing of oil and gas.

8. In their reply the Ministry have stated that as per direction of the Committee, the Ministry had referred this matter to the Attorney General of India for legal opinion, who has observed as follows:—

“There is clearly a commitment in the statement of Objects and Reasons and in the Preamble as well as in Section 15(1) that money is being raised for the purposes of the Act, which broadly speaking is for development of oil industry. However, in view of the specific language of Section 16 that the matter of disbursement is left for Parliament to make a law for appropriation, the future disbursement will therefore be dependent on Parliamentary legislation. Legally speaking, one cannot anticipate Parliamentary legislation or policy which will be enforced by it. However, if Parliamentary legislation leaves the matter of disbursement to the Central Government, then the Central Government could exercise its discretion for making over the funds for being utilised exclusively for the purpose of the Act, the discretion being in what stages and instalments the

fund is to be released and the discretion being exercised in a reasonable manner."

The Ministry also referred the matter to Ministry of Finance whose comments are as under:—

"The proceeds from the cess are to be utilised for the development of oil industry, which includes not only Petroleum and Petrochemicals but also fertilizer industry."

9. The Committee find that the Statement of Objects and Reasons for the OID Bill 1974, its preamble and other provisions clearly provide that the cess collected under the provisions of OID Act 1974 will be made available for development of petroleum sector, after deducting the collection charges etc. The Attorney General in his opinion has also highlighted these factors. As regards the interpretation of Section 16 of the OID Act 1974 which empowers the Central Govt. to allocate sums to OIIB, "as may it think fit", the Attorney General has brought out that the discretionary power given to the Govt. has to be exercised in a reasonable manner. In Committee's view allocation of 5% of funds to OIIB out of the cess collected so far, certainly can not be construed as in a reasonable manner.

10. Besides, from the perusal of the debates of Lok Sabha and Rajya Sabha when the OID Bill was passed, it is noticed that the intention of the Minister of Petroleum as also of the House was to utilise these funds exclusively to provide financial assistance to the organisations engaged in development programmes of oil industry in all its aspects from exploration for, and the production of crude oil, its refining, further downstream processing, distribution, marketing, research and development. While participating in the debate in Lok Sabha one Member had specifically expressed his doubts over the interpretation of Section 16 of the OID Bill specifically over the words "as it may deem fit". Replying to the Debate the then Minister of Petroleum stated in the House that it was a usual phrase. The Minister also stated that the whole amount "first go to Consolidated Fund of India and required sum is withdrawn". He added that there was no danger in it.

11. In view of the growing demand of petroleum products in the country the Committee feel that funds requirements for the petroleum sector is paramount. For completing the 37 oil sector projects in the remaining 2 years of the 8th Plan, the amount required reportedly over Rs. 7500 crores. In Ninth and Tenth Five Year Plans also the Committee expect four fold increase in funds requirement for the sector.

12. Since the OID Bill was initiated in Parliament by the Petroleum Ministry (and not by the Finance Ministry) the Ministry must be bringing records/notes/files including the interaction with the Ministeries of Finance and Law. In view of the position emanating from the foregoing paragraphs the Committee strongly recommend that the Ministry should re-examine the whole issue relating to release of cess funds to OIIB in full. After

examining the issue afresh if the Ministry still find that the wording of Section 16 of the OID Act 1974, is an impediment in implementing the spirit of the OIIB Act 1974 passed by the Parliament, they should initiate the process for carrying out necessary amendment in the OI Act, 1974. The Committee would like to be apprised of the concrete action taken by Govt. in this regard within three months of presentation of this Report in the Parliament.

13. At the time of examination of Demands for Grants in April 1995 the Committee were informed by the Ministry that in pursuance of Committee's recommendations OIIB had revised its schemes and intended to give loans to oil companies on attractive conditions. However, during the discussions held by the Committee during the on-the-spot visit with the management of Public Sector Undertakings (Viz. ONGC, IOC, HPCL, BPCL, MRL and CRL) it emerged out that these companies are not eager to take loans from OIIB because of higher rates of interests. They, therefore, prefer to arrange loans/funds from the open market which are available at much cheaper rates. Since the OIIB funds are meant for development of Petroleum Sector and particularly when these are raised through a special cess, the Committee strongly recommend that the terms and conditions for giving OIIB loans should be thoroughly reviewed and revised so as to make the loans available to oil sector PSUs at cheaper rates than the market loans/borrowings etc.

C. Capacity utilization of refineries

Recommendation (Sl. No. 6, Para No. 7)

14. The overall capacity utilisation of the public sector refineries during the years 1991-92, 1992-93 and 1993-94 was 99%, 103% and 102% respectively. However, from the refinery-wise capacity utilisation it was noticed that capacity utilisation in IOC—Barauni refinery was only 74-76% during these years. The Committee had recommended that necessary steps modernisation programmes should be taken to enhance its capacity utilisation.

15. The Ministry in their reply have stated that they have taken short term measures to move imported crude oil from Haldia to Barauni by Railway tank wagon since October, 1994 so as to increase availability to Barauni Refinery by about 0.3 MMTPA. As a long term solution, a new crude pipeline of 4.2 MMTPA capacity from Haldia to Barauni is proposed to be laid. Second stage approval of PIB has already been accorded.

16. The Committee desire that implementation of the Haldia-Barauni pipeline project should be taken up at the earliest and all efforts be made to complete the project within stipulated time and cost.

D. Expansion of Pipeline Network

Recommendation (Sl. No. 9, Para No. 10)

17. The Committee had observed that the movement of Petroleum products through pipelines was much cheaper than other modes of transportation. The Committee had therefore, urged upon the Govt./oil companies to chalk out expansion programmes for the existing crude/product pipelines as also for the new pipelines for transportation of petroleum products in the country.

18. The Ministry in their reply have stated that the oil industry is presently having product pipeline capacity of 13.94 MMTPA. A new pipeline from Kandla to Bhatinda of 6 MMTPA capacity is under construction by IOC and is expected to be completed by the end of 1995. Another pipeline with a capacity of 3.3 MMTPA (Bombay-Manmad) is being set up by BPCL. HPCL have also a proposal to lay Visakh-Vijaywada product pipeline of the capacity of 4 MMTPA. Oil industries have identified a number of product pipeline projects for transportation of petroleum products to reduce the cost of transportation and for efficient movement from the region to another to meet the demand of petroleum products. This proposal of the cross country pipeline network is being processed for investment decision.

19. The Committee note that a new pipeline from Kandla to Bhatinda of 6 MMTPA capacity is under construction by IOC which is expected to be completed by the end of 1995. Another pipeline (Bombay-Manmad) with a capacity of 3.3 MMTPA is also being set up by BPCL. Further HPCL have a proposal to lay Visakh-Vijaywada product pipeline of the capacity of 4 MMTPA. The Ministry have also identified a number of other product pipelines projects. In view of the huge cost over-runs in implementation of some of the oil sector projects including Kandla - Bhatinda Pipeline Project where the cost went up from Rs. 917 crores to Rs. 2391 crores, the Committee in their 5th Report had recommended for strengthening the project planning and implementation systems in oil sector PSUs. The Committee accordingly reiterate that the Ministry should call for progress reports of all the on-going projects periodically and review their position. This exercise should be dealt with in all seriousness by giving necessary directions for taking corrective measures to the implementing agencies.

E. Cost Control measures in PSUs

Recommendation (Sl. No. 11, Para No. 12)

20. Taking note of the fact that Oil Companies have vast network of their offices/establishments spread over the country, the Committee had observed that any economy in their operation costs will have its favourable impact on consumer price for petroleum products. In the context of liberalisation policy of the Govt. where private/multinational companies would also compete with PSUs, the Committee had emphasized the need

to improve the work culture and to reduce the avoidable expenditure in marketing of oil products. As agreed to by the Petroleum Secretary, strict watch would be kept on manpower requirements of the companies to keep the wage bill at the minimum.

21. In their reply the Ministry have stated that concerted efforts are being made by the oil marketing companies to improve the work culture and reduce expenditure in marketing of products including rationalisation of manpower strength.

22. The Committee would like to know the detail of measures taken by oil marketing companies for bringing economy measures in their operations including rationalisation of manpower and concrete results achieved thereby.

F. Revamping of PDS

Recommendation (Sl. No. 12, Para No. 13)

23. The Committee had recommended that the supply of kerosene oil through PDS system should be reviewed expeditiously and people having higher income should be excluded.

24. In their reply the Ministry have stated that all the Chief Secretaries of the State Govts./UTs have been advised in May, 1995 to consider the question of discontinuing the supply of kerosene to LPG consumers, especially those with Double Bottling Connection (DBC).

25. The Committee are unhappy to note that the Ministry took more than 5 months in addressing a letter to the Chief Secretaries of States/Union Territories. They also feel that the responsibility of the Ministry does not end in the matter by merely writing to Chief Secretaries of the State Govts. The Committee desire that the Ministry should pursue the matter vigorously for conclusive action in this regard.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 1, Para No. 2)

Oil and Natural Gas Corporation Ltd. (ONGC) and Oil India Ltd. (OIL) are two main public sector organisations under the administrative control of the Ministry of Petroleum & Natural Gas engaged in production of oil and gas. The Committee find that cost of production of crude oil in ONGC increased from Rs. 917 per tonne in 1991-92 to Rs. 1124 in 1993-94. Similarly in case of OIL it increased from Rs. 517 in 1991-92 to Rs. 781 in 1993-94. As regards the reasons for vast variations between the costs of two companies the Committee were informed that this was due to the fact that ONGC's production mainly comes from off-shore projects where the cost of production was high. On the other hand OIL's projects were on-shore where cost of production was less. The oil companies are reported to have taken various steps to cut-down the cost of crude oil production which *inter-alia* include application of value engineering techniques, controlling over-head and semi-variable expenditure, use of latest technologies and introduction of improved managerial techniques etc. in addition to increasing efficiency at all the levels. Since 94% of the cost of petroleum products ex-refinery constitute the cost of crude oil alone and ONGC and OIL get cost plus 15% return on capital employed, the Committee stress the need for concerted efforts by the oil producing companies to contain the increasing cost of production of crude oil. The Committee also urge upon the Govt. to constantly review the performance of both the oil companies and carry out periodic cost analysis with a view to reducing the cost of production of crude oil.

Reply of Government

The performance of the oil producing companies are reviewed quarterly and constant monitoring is done to keep the cost of production at a reasonable level.

[Ministry of Petroleum & Natural Gas O.M. No. P-38011/1/95-PP
Dated 31.7.1995]

Comments of the Committee

Please see para 6, of Chapter I of the Report.

Recommendation (Sl. No. 4 Para No. 5)

The Committee find that all along the cost of production of indigenous crude has been cheaper than the cost of imported crude. For instance as against the cost of production of Rs. 3296 per tonne of indigenous crude during the year 1993-94, the cost of imported crude worked out to Rs. 5145 per tonne during the same period. Presently the ratio of indigenous and imported crude oil is almost 50:50. Considering the wide difference between cost of indigenous crude oil and imported one there is a strong case for adopting an accelerated exploration strategy to enhance the indigenous crude oil production. The Committee accordingly reiterate the recommendation made in their 4th Report presented to Parliament in February, 1994 that Govt. should adopt result oriented strategy for accelerated exploration of all the basins with a view to locate and develop the new oil and gas reserves in a time bound programme. Needless to point out that apart from gaining self-sufficiency in petroleum products, the enhanced production of indigenous crude oil being cost effective as compared to imported crude will have a favourable impact on the prices of petroleum products in the country.

Reply of the Government

After completion of first two years of VIII plan. period, review and analysis of exploration results indicated the necessity for course correction by reorienting the priorities, enhancement of inputs and opening up new thrust areas.

Accordingly an Accelerated Programme of Exploration (APEX) was launched for period 1994-97. The exercise involved identification of region/sector wise priority areas and quantum of inputs needed in terms of seismic surveys and exploratory drilling. It also identified the new thrust areas for exploration in deep water areas, Kutch Mesozoics, Vindhans etc. any breakthrough in these thrust areas will open up new vistas for intensive exploration.

[Ministry of Petroleum & Natural Gas O.M. No. P-38011/1/95-PP
Dated 31.7.1995]

Recommendation (Sl. No. 5, Para No. 6)

The Committee find that yet another major component included in the price of crude oil is the royalty payable to the oil producing States. The royalty @ 20% of well head price of oil is collected under the provisions of Oil Fields (Regulations and Development) Act, 1948 and the Petroleum and Natural Gas Rules, 1959. Incidentally, it came to the notice of the Committee that Nagaland had some complaints over the payment of royalty by ONGC which had been asked to stop the oil production in the State. In this context the Petroleum Secretary informed the Committee

that the rates of royalty were fixed on the basis of an Expert Committee Report which consulted all concerned States also. The rates were being revised after every three years. He also stated that the efforts to resolve the issue in Nagaland were being made at the Home Ministry level. Since the prolonged agitation may hamper the oil production targets, the Committee would like the Govt. to deal the matter at the highest level. The Committee also suggest that the whole question of royalty payment should be reviewed expeditiously.

Reply of the Government

Periodicity of review of royalty rates for mineral resources is based on the statutory provisions governing their exploitation. In the case of mineral oil, comprising petroleum and natural gas, the rates of royalty cannot be enhanced in less than 3 years. Government had revised the rate of royalty for crude oil for the period 1.4.1990 to 31.3.93 to Rs. 481/- per metric tonne. This rate will now be revised once the well-head cost of production of oil for the block 1993—96 is available. In the meantime from 1.4.1993 onwards, an 'On Account' payment at the enhanced rate of Rs. 528/- per metric tonne towards royalty on crude oil is being made subject to adjustment on notification of the final rate of royalty and the finalisation of crude price in due course.

The Nagaland Government has informed that they are trying to mobilise public opinion for formulating a long term policy for exploration and exploitation of mineral resources, including petroleum, in the State. They have also indicated that oil extraction from Nagaland has become a highly sensitive issue and it will be in the interest of both the State and the Centre as well as the ONGC that production of crude oil from Nagaland should be undertaken after proper agreement and that urgent steps are being taken by the State Government in this regard.

In the meantime, the Chief Minister of Nagaland has also advised patience to allow the State Government to get the confidence of the people to work out a policy on long term basis.

[Ministry of Petroleum & Natural Gas O.M. No. P-38011/1/95-PP
Dated 31.7.1995]

Recommendation (Sl. No. 6, Para No. 7)

Under the retention price concept, the refineries are compensated their operating cost plus 12% post tax return on their networth. Presently there are 12 refineries with a refining capacity of 53.25 MMT per annum. In view of the growing demand of petroleum products in the country, the refining capacity is proposed to be increased to 111 MMT by the 2001-2002 A.D. through setting-up new refineries as also through expansion of existing refineries. The overall capacity utilisation of the refineries during

the years 1991-92, 1992-93 and 1993-94 was 99%, 103% and 102% respectively. However, from the refinery-wise capacity utilisation it is noticed that capacity utilisation in IOC-Barauni refinery was only 74-76% during these years. The Committee would like the Govt. to examine the reasons for such a low capacity utilisation in Barauni refinery. Necessary steps/modernisation programmes should be taken to enhance its capacity utilisation.

Reply of the Government

Barauni is dependent on crude supply only from the production in the North-East Region. Any shortfall in crude production in North East cannot be supplemented through imports or alternative sources as such facilities does not exist. The crude production in North-Eastern region is lower compared to the combined processing capacity of Digboi, Guwahati, BRPL and Barauni dependent wholly on the crude oil from North-Eastern Region.

In order to enhance capacity utilisation at Barauni Refinery, the following steps have already been taken:

As a short term measure imported crude is being moved from Haldia to Barauni by Railway tank wagon since October, 1994. This is expected to increase availability to Barauni Refinery by about 0.3 MMTPA.

As a long term solution, a new crude pipeline of 4.2 MMTPA capacity from Haldia to Barauni is proposed to be laid. Second stage approval of PIB has already been accorded.

[Ministry of Petroleum & Natural Gas O.M. No. P.-38011/1/95-PP Dated 31.7.1995]

Comments of the Committee

Please see para 16, of Chapter I of the Report.

Recommendation (Sl. No. 7, Para No. 8)

The Committee find that there are wide variations between refining costs of various refineries. As against the refining cost of Rs. 144 per MT in IOC-Koyali and Rs. 185 Per MT in IOC-Mathura, the refining cost of IOC-Guwahati and IOC-Digboi was Rs. 489 and Rs. 746 per MT respectively. Similarly the refining cost in BRPL was Rs. 335 per MT. The Committee were informed by the Ministry that due to different infrastructural facilities, technologies, the types of crude processed and secondary processing facilities, the performance of various refineries was not comparable. Similarly the capital employed for various refineries inclusive of cost of net fixed assets and working capital vary from refinery to refinery based on the age of refinery, location configuration and volumes handled. The representative of the Ministry informed the Committee that modernisation/renovation programmes of refineries which were under implementation, would maximise capacity utilisation and optimise the product pattern. The Committee urge that concerted efforts

should also be made to expedite the completion of on-going renovation/modernisation programmes. As regards the other steps taken by the refineries to curtail their operational costs, the Petroleum Secretary stated that since the cost of crude oil alone constituted about 99% of production cost, scope of reducing cost of petroleum products was marginal. However, to effect economy, the refineries are stated to have taken several cost control measures in areas like saving in chemicals, catalysts, stores, overtime, travelling, printing and stationary, communication, staff car and repairs and maintenance.

The Committee recommend that the administrative Ministry should monitor and periodically review the performance of refineries at periodic intervals and ascertain the results of oil companies economy measures so that the refining cost is kept to the absolute minimum.

Reply of the Government

All refineries have been endeavouring constantly to improve the product pattern and reduce fuel and loss in the refinery so that the cost of production is minimised.

All the parameters related to fuel and loss in the refineries are monitored on monthly; quarterly and annual basis by the Central for High Technology/MOP&NG. After every three years the standard product pattern of the refineries is also updated taking into account the improvements which have taken place and the refineries are advised for undertaking various actions commensurate with the development in technologies. The operational and financial performance to the oil companies are also evaluated on quarterly basis and the same is reviewed by MOP&NG. Additional aspect of cost control/economic measures taken and achievement in the refineries will also be reviewed in the future QPR meetings.

[Ministry of Petroleum & Natural Gas O.M. No. P—38011/1/95—PP
Dated 31.7.1995]

Recommendation (Sl. No. 8, Para No. 9)

Some quantity of crude oil is lost during processing at refinery. A small quantity is also used as fuel. For the purpose of standard through-put of the refinery, an allowance is made for these two factors on a normative basis. The Oil Prices Committee Report (1976) stressed that refineries should take effective steps to bring down the incidence of refinery fuel and loss in view of the high cost of crude oil. The OPC recommended that Oil Coordination Committee (OCC) should undertake a periodical review of the refinery fuel and loss percentage. An analysis of the past performance of the refineries for the years 1991-92, 1992-93 and 1993-94 indicate that the fuel and loss vary significantly from refinery to refinery and range from 5.7% to as high as 14.6%. In the case of BRPL as against the standard percentage of fuel and loss of 9.80%, the actual fuel and loss ranged

between 16.09% to 14.92%. Similarly in case of CRL and IOC—Koyali the actual fuel and loss was more than the standard norms during 1993-94. In this context, the Petroleum Secretary apprised the Committee that a refinery producing lubricant oil and high percentage of diesel and kerosene require more fuel consumption due to other intensive secondary processing. Apart from that high capacity refinery is normally more efficient and therefore in a smaller refinery on percentage basis fuel and loss is higher. As regards the higher fuel and loss in BRPL, the witness explained that the standard percentage of fuel and loss of 9.8% was for the refinery part whereas the actual fuel and loss included the fuel and loss for petro-chemicals also and hence the difference. In view of the huge cost of crude oil, the Committee urge the Government to make concerted efforts to further reduce the fuel and loss percentage so as to bring it within the standard norm.

Reply of the Government

The refinery fuel and loss as a percentage of crude throughput is dependent on the size of the refinery and complexities in terms of energy intensive secondary processing units. However the following measures have been taken by oil companies to reduce the fuel and loss in their refineries.

Heat integration between the units, improving the efficiency of furnaces, replacing old equipments with highly efficient ones, providing air-preheaters in the furnaces to increase the efficiency, adoption of technologies based on the concept of low energy consumption etc. have been initiated. Fuel & Loss of the refineries are regularly being monitored and award system for the lowest fuel consuming refinery and the best improver in fuel and loss have been introduced to encourage the refineries to minimize fuel and loss.

[Ministry of Petroleum & Natural Gas O.M. No. P—38011/1/95—PP
Dated 31.7.1995]

Recommendation (Sl. No. 9, Para No. 10)

One of the areas having a bearing on refining cost/prices of petroleum products is the efficiency of pipe-lines network laid for transportation of crude oil and petroleum products. The analysis of data relating to on land/coastal movement of POL furnished by the Ministry reveals that the capacity utilisation of pipelines except Digboi-Tinsukhia Product Pipe-line (DTPL) has been optimal. The low utilisation DTPL has been attributed to the non-availability of the product. It also came out during the course of examination that the movement of petroleum products through pipelines was much cheaper than other modes of transportation. For instance as against the transportation cost of Rs. 127 per 1000 k.m. for HSD the transportation cost for the same product by road and rail was Rs. 994 and Rs. 907 respectively. It shows that if more and more petroleum products are transported through pipelines, the cost of production (in turn marketing cost) can be reduced considerably. The Committee therefore,

urge upon the Govt./Oil Companies to chalk out expansion programme for the existing crude/product pipelines as also for the new pipelines for transportation of petroleum products in the country.

Reply of the Government

The oil industry is presently having products pipeline capacity of 13.94 MMTPA. A new pipeline from Kandla to Bhatinda of 6 MMTPA capacity is under construction by IOC and is expected to be completed by the end of 1995. Another pipeline (Bombay-Manmad) with a capacity of 3.3. MMTPA is being set up by BPCL. HPCL have also a proposal to lay Visakh-Vijaywada product pipeline of the capacity of 4 MMTPA. Oil industries have identified a number of product pipeline projects for transportation of petroleum products to reduce the cost of transportation and for efficient movement from one region to another to meet the demand of petroleum products. This proposal of the cross country pipeline network is being processed for investment decision.

[Ministry of Petroleum & Natural Gas O.M. No. P-38011/1/95-PP
Dated 31.7.1995]

Comments of the Committee

Please see para of Chapter I of the Report.

Recommendation (Sl. No. 10, Para No. 11)

When crude is transported by ocean tankers some loss is inevitable. The OPC, 1976 laid down a uniform rate of ocean loss at 0.5% of the Bill Lading quantity (difference between the quantity loaded and the quantity received in the shore tanks of the disports). The loss beyond the prescribed norm is not to be adjusted in the Oil Industry Pool Account. But savings, if any, in the ocean loss with reference to this norm is surrendered to the Oil Industry Pool Account. As is evident from the data furnished by the Ministry for the years 1988-89 to 1993-94 the oil companies have reduced the ocean loss from 0.39% in 1988-89 to the present level of 0.32%. The Ministry informed the Committee that a Industry Committee set up in 1987 under the Convenership of Joint Secretary (C&A) Ministry of petroleum & Natural Gas closely monitors the ocean losses. The Oil Coordination Committee (OCC) & Ministry of Petroleum & Natural Gas also review the ocean loss figures on monthly basis. The Committee comprising the Members from the Marketing Divisions of all Oil companies were also active in analysing the ocean loss on a voyage to voyage basis. The Ministry is also reported to have taken additional precautions by way of utilisation of new technologies is measurement of temperature, volume and density of the crude, sounding system of the ships etc. These companies have now set a target to achieve further saving by slicing it down to 0.30% in 1994-95. The Committee hope that with the application of latest technologies and

concerted efforts made to reduce ocean loss, oil companies will be able to achieve the targets.

Reply of the Government

The system of surrender of ocean loss savings to the Pool was modified based on the recommendations of OCRC. There is now an incentive to the refineries in checking the ocean loss as the benefit of reduction in losses is allowed to be retained by the individual oil company. The oil companies are making concerted efforts with the application of latest technology to reduce ocean loss.

[Ministry of Petroleum & Natural Gas O.M. No. P-38011/1/95-PP Dated 31.7.1995]

Recommendation (Sl. No. 11 Para No. 12)

Like the refineries, oil companies viz. IOC, HPCL, BPCL and IBP also get operating cost plus 12% post tax on their networth for marketing the oil products. The Committee have not gone into the details of the level of marketing costs in these companies. However, taking note of the fact that these companies have vast network of their offices/establishments spread over the country, in Committee's view any economy in their operation costs will have its impact on consumer price for petroleum products. With the liberalisation policy of the Government, where private/multinational companies would also compete with PSU,s, the Committee would like to emphasize the need to improve the work culture and to reduce the avoidable expenditure in marketing of oil products. As agreed to by the Petroleum Secretary, strict watch may be kept on manpower requirements of the companies to keep the wage bill at the minimum.

Reply of the Government

Concerted efforts are being made by the oil marketing companies to improve the work culture and reduce expenditure in marketing of products including rationalisation of manpower strength.

[Ministry of Petroleum & Natural Gas O.M. No. P—38011/1/95—PP Dated 31.7.1995]

Comments of the Committee

Please see para 22 of Chapter I of the Report.

Recommendation (Sl. No. 14 Para No. 15)

With a view to augment the availability of petroleum products the import of petroleum products other than crude oil, ATF, MS, HSD, FO and Bitumen have been decanalised. The private entrepreneurs have been allowed to undertake import of these commodities and sell them in the domestic market through their own network at market determined prices. Under the Kerosene (Restriction on use and Fixation of Selling Price), Order 1993 and the LPG (Regulation of Supply and Distribution) Order 1993, the parallel marketeers are required to intimate their intention and capabilities to import, bottle, market, distribute or sale of such products before commencement of their activities. The Government. does not play any role in the matter of fixing of prices on the petroleum products marketed by these companies. Explaining the objective behind decanalising only selected petroleum items, the Petroleum Secretary informed the Committee that subsidy element on products like (LPG and Kerosene) was continuously increasing and as such was straining the pool account. In order to fill the searing deficit, selected products of mass consumption were decontrolled so that the section of people who could pay for these products should bear the market prices. However, it came out during examination that parallel marketeers were facing certain problems due to non-availability of sufficient port facilities to import the petroleum products. In this context the Committee were informed that large investment was coming up for development of major ports as well as minor ports. After materialisation of these schemes, the facilities would be available to the public sector as well as to parallel marketeers. The Committee would like the Government to expedite the completion of such projects so that objectives of introducing parallel marketing are achieved fully.

Reply of the Government

To meet the increasing LPG import, the public sector oil companies namely IOC and HPCL are developing LPG import facilities at Kandla and Mangalore respectively. These facilities with a capacity each of 600 TMTA are likely to be commissioned by September, 1996. Augmentation of the capacity of the existing facilities at Vizag from 350 TMTA to 500 TMTA is expected by December, 1996.

In line with the liberalised policy of the Government, parallel marketeers under the Parallel Marketing Scheme have made considerable

progress in importing Kerosene at various ports like Kandla, Bombay, Madras, Haldia, Cochin either by their own arrangements or through facilitation by the Public Sector Oil Companies. The details of imports made upto 15.06.95 are as under:—

| | 1993-94 | 1994-95 | 1995-96 |
|-----|-----------|-----------|-----------|
| SKO | 102.6 TMT | 521.6 TMT | 120.9 TMT |

While the private parties are still in the process of developing necessary facilities for importing LPG, the PSU Oil Companies have come forward to assist them by extending the use of the PSUs existing facilities to the extent possible without affecting their own imports. The details of LPG imports under PMS so far year-wise (upto 15.06.95) are as under:—

| | 1993-94 | 1994-95 | 1995-96 |
|-----|---------|---------------------------------|---------|
| LPG | 7100 MT | 41772 MT +190 MT (packed) | 8049 MT |

As per information available, private parties are in the process of developing LPG import facilities, which are as under:

| NAME OF PRIVATE COS. | PORTS |
|--|------------------------------------|
| 1. M/s Reliance Petroleum | Hazira (commissioned in April' 95) |
| 2. M/s SPIC | Tuticorin |
| 3. M/s ESSAR World Trade | Hazira |
| 4. M/s Shri Shakti LPC | Kakinada |
| 5. M/s Gujarat State Fertilizer Corpn. | Sikka |
| 6. M/s Gujarat Gas Co.Ltd.+ BPCL (Joint Venture) | Okha |
| 7. M/s Aegis Chemicals | Bombay |
| 8. M/s Dharamsi Morarji | Navlakhi |
| 9. M/s Peevees | Calicut |
| 10. M/s Pal Refineries (I) Ltd. | Paradip |
| 11. M/s Western India (Petroleum) | Pipavav |

[Ministry of Petroleum & Natural Gas O.M. No. P-38011/1/95-PP
Dated 31.7.1995]

CHAPTER IJ

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT REPLIES

Recommendation (Sl. No. 13, Para No. 14)

The Committee regret to note that the revision of prices of petroleum products takes place too often. The Petroleum Secretary informed the Committee during evidence that the revision depends upon position of pool account. In case pool accounts were likely to become deficit, some balancing act has to be initiated. The Committee feel that proper estimation should be done well in advance so that there is no need to revise the prices of petroleum products too frequently. The Committee accordingly recommend that any revision of prices should be done normally as part of the Budget.

Reply of the Government

The price changes for petroleum products depend on number of factors like international price for crude/products, the exchange rates, trends in domestic production, its cost and imports, the growth in demand etc., and other socio-economic factors, which are not predictable precisely. Hence, price increase alongwith Budgets may not always be practical.

[Ministry of Petroleum & Natural Gas O.M. No. P—38011/1/95—PP
Dated 31.7.1995]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 2, Para No. 3)

The Committee note that in addition to average cost of production of ONGC and OIL of Rs. 1741 per tonne cess is added @Rs. 900 per tonne. The cess is collected under the provisions of the Oil Industry Development Act, 1974 which provides for collection of cess on production of crude oil and natural gas at a rate fixed by the Govt. from time to time. The proceeds of the cess levied under the Act are first credited to the Consolidated Fund of India and thereafter the Govt. provides funds to Oil Industry Development Board (OIDB) for the development of oil industry after deducting the collection charges. The Committee are constrained to observe that as against the huge amount to the extent of about Rs. 20,000 crores collected as cess since the enactment of OIDB Act, an amount of only Rs. 902 crores i.e. even less than 5% of the total collection has been released to the OIDB so far for giving loans/financial assistance to oil companies for the programmes connected with the exploration, production, refining and marketing of oil/petroleum products. The Committee are further distressed to note that no funds have been released to OIDB after 1991-92. It is regrettable that the large funds collected for a specified purpose have been utilised by Govt. to control their budget deficit considering the meagre allocation of funds to the OIDB. The Committee are constrained to observe that the objective of enactment of the OIDB Act for collecting the funds for development of oil industry has not been adhered to.

Reply of the Government

In the course of its examination of the working of the OIDB in Nov. 94, the members of the Standing Committee of Parliament on Petroleum and Chemicals expressed the view that, since the cess has been levied for the purposes of development of oil industry, as is clear from the preface to the Act, the entire amount of the collected cess should be utilised exclusively for the development of the oil industry. On the directions of the Standing Committee, Ministry of Finance who was consulted have forwarded their views as follows:

"The proceeds from the cess are to be utilised for the development of oil industry, which includes not only Petroleum and Petrochemicals but also fertilizer industry".

As regards utilisation of funds to control the budget deficit, Ministry of Finance have indicated that "Proceeds from the cess form part of the general cash balance of the Govt., out of which Govt. has been financing, *inter-alia*, development of oil industry which includes besides Petroleum and Petrochemicals, fertilizers industry also.

The Attorney General of India who also was consulted at the directions of the Parliamentary Committee regarding interpretation of Section 16 of the Oil Industry Development Act, 1974, has given the following opinion:

"There is clearly a commitment in the statement of Objectives and Reasons and in the Preamble as well as in Section 15 (1) that money is being raised for the purposes of the Act, which broadly speaking is for development of oil industry. However in view of the specific language of Section 16 that the matter of disbursement is left for Parliament to make a law for appropriation, the future disbursement will therefore be dependent on Parliamentary legislation. Legally speaking, one cannot anticipate Parliamentary legislation or policy which will be enforced by it. However, if Parliamentary legislation leaves the matter of disbursement to the Central Government, then the Central Government could exercise its discretion for making over the funds for being utilised exclusively for the purpose of the Act, the discretion being in what stages and instalments the fund is to be released and the discretion being exercised in a reasonable manner."

[Ministry of Petroleum & Natural Gas O.M. No.P-38011/L/95-PP
Dated 31.7.1995]

Comments of the Committee

Please see para 12 of Chapter I of the Report.

Recommendation (Sl. No. 3, Para 4)

The Committee also find that even though the Oil industry has been facing resource constraints, the finance Ministry did not increase the allocation of funds to OIBD. In this context the Petroleum Secretary pleaded before the Committee that in view of the financial constraints in oil sector there was imperative need to enhance OIBD allocations to plan and execute new projects relating to oil production/refining. He added that the entire amount of cess after deducting the collection and other charges should be given for investment in petroleum sector. The Committee do agree to the fact that for enhancing the crude oil production and taking up new projects relating thereto, substantial funds/additional resources are required. Considering the present trend of consumption of petroleum products and

to curtail huge foreign exchange out-go on imports, it is essential that concrete steps are taken to increase both production of crude oil and refining capacity to reduce the import bill on account of petroleum products, which was to the tune of Rs. 17000 crores per annum. This all the more make the case for higher allocations the OIIB out of the proceeds of the cess levied/collected under the Oil Industry Development Act, 1974 on production of the crude oil/gas. The Committee, therefore, recommend that as per the provisions of the Act, after deducting the collection charges etc. the cess collected should be made available in full to the designated authority i.e. OIIB for making these funds available to the oil companies for projects in the field of exploration, production, refining and marketing of oil and gas.

Reply of the Government

An amount of Rs. 902.40 crores only has been made available to the OIIB out of the total cess collection of Rs. 20941.10 crores i.e. 4.31% of the total cess collection. During the meeting of the Standing Committee on Petroleum and Chemicals on 10.11.94, some members also expressed that since the collection of cess was specific to the oil industry, the entire amount of the cess so collected has to be utilised exclusively for the development of the oil industry and that over-rides the provision of Section 16 of the Act. Since the issue involves interpretations of the Preface of the Act as also of Section 16 of the Act, the matter was referred to the Ministry of Finance and Attorney General of India. Ministry of Finance have forwarded their views as follows:

“The proceeds from the cess are to be utilised for the development of oil industry, which includes not only Petroleum and Petrochemicals but also fertilizer industry.”

The Attorney General of India who also was consulted at the directions of the Parliamentary Committee regarding interpretation of Section 16 of the Oil Industry Development Act, 1974, has given the following opinion:

“There is clearly a commitment in the statement of Objectives and Reasons and in the preamble as well as in section 15 (1) that money is being raised for the purposes of the Act, which broadly speaking is for development of oil industry. However, in view of the specific language of Section 16 that the matter of disbursement is left for Parliament to make a law for appropriation, the future disbursement will therefore be dependent on parliamentary legislation: Legally speaking, one cannot anticipate Parliamentary legislation or policy which will be enforced by it. However, if Parliamentary legislation leaves the matter of disbursement to the Central Government, then the Central Government could exercise its discretion for making over the funds for being utilised exclusively for the purpose of the Act, the discretion being in what stages and instalments the fund is to

be released and the discretion being exercised in a reasonable manner.”

[Ministry of Petroleum & Natural Gas O.M. No.P—38011/1/
95—PP Dated 31.7.1995]

Comments of the Committee

Please see para 13 of Chapter I of the Report.

CHAPTER V

RECOMMENDATION IN RESPECT OF WHICH FINAL REPLY OF GOVERNMENT IS STILL AWAITED

Recommendation (Sl. No. 12, Para No. 13)

All the petroleum products are divided into two broad categories viz. the price administered products and free trade products. The major products like MS, HSD, Kerosene, LPG, furnace Oil, LSHS, Naptha, Bitumen, ATF etc. are under the price administered category for which the ex-storage point prices are fixed by the Govt. other products like lube oil and lubricants, Benzene, Toulene, Raw petroleum coke etc. are in the free trade category for which oil companies are free to fix the selling price on market consideration. About 90% of total volume of the petroleum products fall under price administered category. The pricing of petroleum products is based on the retention price concept whereunder the oil producing companies, refineries marketing and pipelines are compensated for their operating costs based on certain pre-determined norms. Under this concept a fixed level of profitability for oil companies is ensured subject to their achieving laid down capacity. During the evidence the Petroleum secretary apprised the Committee that the present pricing mechanism has been adopted to ensure that after allowing the reasonable returns to oil companies, the products used by the vulnerable section are subsidised while products like petrol whose consumption is to be reduced are priced higher. The Committee find that the subsidy element in some of the petroleum products like Kerosene, LPG, Naptha, HSD etc. has a significant bearing on pricing of petroleum products. Out of total subsidy of Rs. 6596 crores given during the year 1992-93 on such products, the kerosene alone accounted for Rs. 3773 crores. In this context the Committee would like to reiterate the recommendation made in their 4th Report that the supply of kerosene oil through PDS system should be reviewed expeditiously and people having higher income should be excluded. In Committee's view this step will help the Govt. in providing help to needy people and may also result in curtailing subsidy on kerosene.

Reply of the Government

All the chief secretaries of the State Govt./UTs have been advised in May 1995 to consider the question of discontinuing the supply of kerosene to LPG consumers; especially those with DBC.

[Ministry of Petroleum & Natural Gas O.M. No.P—38011/1/95—PP
Dated 31.7.1995]

Comments of the Committee

Please *see* para 25 of Chapter I of the Report.

NEW DELHI;
October 28, 1995

Kartika 6, 1917 (Saka)

SRIBALLAV PANIGRAHI,
Chairman,
Standing Committee on Petroleum & Chemicals.

APPENDIX I

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1995-96)

Fourteenth Sitting
13.10.1995

The Committee sat from 1500 hrs. to 1715 hrs.

PRESENT

Shri Sriballav Panigrahi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Surinder Singh Kairon
3. Shri A.G.S. Rambabu
4. Shri V.S. Vijayaraghavan
5. Shri Arvind Tulshiram Kamble
6. Smt. Suryakanta Patil
7. Shri M. Krishnaswamy
8. Shri K. Ramamurthee Tindivanam
9. Dr. Laxminarain Pandey
10. Shri Kashiram Rana
11. Shri Ratilal Kalidas Varma
12. Shri Ramnihore Rai
13. Shri Surya Narayan Singh
14. Shri Pius Tirkey
15. Dr. Jayanta Rongpi

Rajya Sabha

16. Shri Mohd. Masud Khan
17. Shri Pasumpon Tha. Kiruttinan
18. Shri Bhagaban Majhi
19. Shri Jagdish Prasad Mathur
20. Shri V. Narayanasamy
21. Shri Yerra Narayanaswamy
22. Shri S.S. Surjewala
23. Shri Dineshbhai Trivedi

SECRETARIAT

- | | |
|---------------------|--------------------|
| 1. Shri G.R. Juneja | — Deputy Secretary |
| 2. Shri Brahm Dutt | — Under Secretary |
| 3. Shri S.N. Dargan | — Asstt. Director |

** ** ** ** ** ** ** ** ** **

Thereafter the Committee considered the draft report on action taken by the Government on the recommendations contained in the 9th Report of the Committee on "Pricing of Petroleum Products". After some discussion the Committee adopted the report.

2. The Committee also authorised the Chairman to finalise the report after factual verification by the Ministry of Petroleum & Natural Gas and present the same to Parliament.

The Committee then adjourned.

** The Secretary, Deptt. of Fertilisers briefed the Committee about the demand for supply of Fertilisers in the country. Verbatim proceedings of the same have been kept separately.

APPENDIX II

(Vide Para 4 of the Introduction)

Analysis of the Action Taken by Government on the Recommendations Contained in the 9th Report of the Standing Committee on Petroleum & Chemicals (Tenth Lok Sabha) on "Pricing of Petroleum Products".

| | | |
|-----|--|-------|
| I | Total Number of Recommendations | 14 |
| II | Recommendations that have been accepted by the Government (Vide recommendations at Sl. No. 1, 4 to 11 and 14) | 10 |
| | Percentage to total | 71.42 |
| III | Recommendation which the Committee do not desire to pursue in view of Government's reply (Vide recommendation Sl. No. 13) | 1 |
| | Percentage to total | 7.14 |
| IV | Recommendations in respect of which reply of Government has not been accepted by the Committee (Vide recommendations at Sl. No. 2 and 3) | 2 |
| | Percentage to total | 14.30 |
| V | Recommendation in respect of which final reply of Government is still awaited (Vide recommendation at Sl. No. 12) | 1 |
| | Percentage to total | 7.14 |