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**STANDING COMMITTEE ON
PETROLEUM & CHEMICALS
(1996-97)**

ELEVENTH LOK SABHA

MINISTRY OF PETROLEUM & NATURAL GAS

DEMANDS FOR GRANTS (1997-98)

NINTH REPORT



सत्यमेव जयते

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**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1997/Vaisakha, 1919 (Saka)

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& CHEMICALS (1996-97)

(ELEVENTH LOK SABHA)

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DEMANDS FOR GRANTS (1997-98)

30 APR 1997

Presented to Lok Sabha on.....

Laid in Rajya Sabha on.....



LOK SABHA SECRETARIAT
NEW DELHI

April, 1997/Vaisakha, 1919 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON
PETROLEUM AND CHEMICALS (1996-97)

Shri A.R. Antulay — *Chairman*

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SECRETARIAT

1. Dr. A.K. Pandey — *Additional Secretary*
2. Shri J.P. Ratnesh — *Joint Secretary*
3. Shri G.R. Juneja — *Deputy Secretary*
4. Shri Surinder N. Dargan — *Under Secretary*

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (1996-97) having been authorised to submit the Report on their behalf, present this Ninth Report on Demands for Grants of the Ministry of Petroleum & Natural Gas for the year 1997-98.

2. The Committee examined/scrutinised the Demands for Grants pertaining to the Ministry of Petroleum & Natural Gas for the year 1997-98 which were laid on the Table of the House on 19th March, 1997.

3. The Committee took evidence of the representatives of the Ministry of Petroleum & Natural Gas at their sitting held on 7th April, 1997.

4. The Committee considered and adopted the Report at their sitting held on 21st April, 1997.

5. The Committee wish to express their thanks to the Officers of the Ministry of Petroleum & Natural Gas for furnishing the material and information which they desired in connection with the examination of Demands for Grants of the Ministry for the year 1997-98 and for giving evidence before the Committee.

6. The Committee would like to place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

NEW DELHI;
April 24, 1997
Vaisakha 4, 1919 (Saka)

A.R. ANTULAY,
Chairman,
Standing Committee on
Petroleum and Chemicals.

REPORT

A. Introductory

The Ministry of Petroleum and Natural Gas is entrusted with the responsibility of exploration and production of oil and natural gas, its refining, distribution and marketing. Import and export as well as, conservation of petroleum products also fall within the purview of this Ministry. The activities of the Ministry are carried through the following 14 Public Sector Undertakings, 4 subsidiary Public Sector Undertakings and 7 other organisations :

Public Sector Undertakings

1. Oil & Natural Gas Corporation Ltd.
2. Oil India Ltd.
3. Indian Oil Corporation Ltd.
4. Bharat Petroleum Corporation Ltd.
5. Hindustan Petroleum Corporation Ltd.
6. Cochin Refineries Ltd.
7. Madras Refineries Ltd.
8. IBP Co. Ltd.
9. Engineers India Ltd.
10. Lubrizol India Ltd.
11. Bongaigaon Refinery and Petro-Chemicals Ltd.
12. Biecco Lawrie Co. Ltd.
13. Gas Authority of India Ltd.
14. Numaligarh Refinery Ltd.

Subsidiaries

15. Oil and Natural Gas Corporation Videsh Ltd.
16. Indian Oil Blending Ltd. (Subsidiary of IOC).

17. Balmer Lawrie & Co. Ltd. (Subsidiary of IBP Co. Ltd.)
18. Indian Additives Ltd. (Subsidiary of MRL).

Other Organisations

19. Oil Industry Development Board.
20. Oil Co-ordination Committee.
21. Petroleum Conservation Research Association.
22. Oil Industry Safety Directorate.
23. Centre for High Technology.
24. Petroleum India International.
25. Directorate General of Hydro-carbons.

2. As the oil sector Public Sector Undertakings are self-sustained, no budgetary support is being made available to them. Thus Ministry's Demands provide salary of the officials of the Ministry and makes provision for other expenses.

**B. Analysis of Demands for Grants 1997-98 of the
Ministry of Petroleum & Natural Gas.**

3. The Demand for Grants of the Ministry of Petroleum & Natural Gas, were laid on the Table of Lok Sabha on 19th March, 1997, as Demand No. 66. The Demand of the Ministry contains the following figures of Revenue as well as Capital expenditure for the year 1997-98 :

(Rs. in crores)			
	Plan	Non-Plan	Total
Revenue Section	—	3.86	3.86
Capital Section	—	—	—

4. The total Demand of the Ministry for the year 1997-98 is Rs. 3.86 crores under Revenue Section. No provision has been made under Capital Section.

The item-wise Revenue/Capital expenditure for the year 1995-96, Budget Estimates and Revised Estimates for 1996-97 and Budget Estimates for 1997-98 are given at (Appendix-I).

5. Head-wise Demands are discussed in the subsequent paragraphs.

Revenue Section

Major Head 3451

6. This head is mainly for salaries of the Ministry's officials and various expenses like Travelling, OTA, professional Services and Publication as given below :—

(Rs. in lakhs)				
Items of Expenditure	Actual 1995-96	BE 1996-97	RE 1996-97	BE 1997-98
Salary	180.00	200.00	217.36	223.88
OTA	10.00	10.00	10.00	10.00
Domestic Travel	5.04	10.00	10.00	10.00
Foreign Travel	13.00	16.00	16.00	16.00
Office Exp.	102.13	112.80	111.62	112.80
Professional Services	1.21	1.50	2.00	1.50
Publications	5.52	5.10	5.10	5.10
Other Administrative Expenses	6.00	6.60	7.28	6.60
Total	322.90	362.00	379.36	385.88

7. As against the Budget provisions of Rs. 3.62 crores and revised estimates of Rs. 3.79 crores in 1996-97, a provision of Rs. 3.86 crores has been made for "Secretariat Economic Services" for the current financial year i.e. 1997-98. The actual expenditure under the head during 1995-96 is Rs. 3.23 crores.

8. The increase in expenditure under the head from Rs. 3.23 crores in 1995-96 to Rs. 3.79 crores in 1996-97 and further to Rs. 3.86 crores in 1997-98 has been attributed by the Ministry as increases due to general inflation.

*Capital Section**Major Head 4802***Issue of Bonus Shares (Rs. 74.40 crores)**

9. A provision of Rs. 74.40 crores has been made in the Revised Estimates for 1996-97 under the Non-Plan Investment. The Ministry in its written note informed the Committee that the investment of Rs. 74.40 crores has been shown in Revised Estimates 1996-97 to make necessary book adjustment for bonus shares issued by OIL & IBP Co.

*Major Head 6802***Investment in Public Enterprises (Rs. 100 crores)**

10. Budgetary support of Rs. 100.00 crores has been provided by the Government as budgetary loan in the Revised Estimates for 1996-97 under the Plan Investment for 3 MMTPA Numaligarh Refinery (NRL). It is a new joint venture company amongst IBP Co. Ltd., Bharat Petroleum Corporation Ltd. and the Govt. of Assam.

11. The Project was earlier approved at the cost of Rs. 1830 crores based on January 1992 prices with the schedule of completion in July 1997. The cost of the project was revised to Rs. 2497.40 crores based on December 1996 prices. The increase in the project cost has been attributed to domestic and global inflation, foreign exchange variation, statutory increase in minimum wages, change of scope of work, increase in financing cost, etc.

12. Explaining the funding position of NRL, the Ministry in their note stated that Numaligarh Refinery Limited (NRL) is implementing the Numaligarh Refinery Project and the adjacent Marketing Terminal at a total cost of Rs. 2715 crores and the phased funding of the above project is planned as follows :—

	Actual upto	Estimates			
	31/3/96	(Rs. in Crores)			
	1996-97	1997-98	1998-99	Total	
Equity					
(BPCL + IBP	86	226	239	—	551
+ Govt. of Assam)					

	Actual upto	Estimates			
	31/3/96	(Rs. in Crores)			
	1996-97	1997-98	1998-99	Total	
Public	—	—	88	266	354
Sub Total	86	226	327	266	905
DEBT					
OIDB/Govt.	248	377	436	373	1434
Public	—	—	88	265	353
Others (HUDCO)	—	—	—	23	23
Sub Total	248	377	524	661	1810
Grand Total	334	603	851	927	2715

13. Asked further about funding pattern of the Annual Plan outlay for NRL for 1997-98 the Ministry informed that the annual plan outlay for NRL for 1997-98 was Rs. 905 crores and it would be met from the following sources :—

	(Rs. crores)
Opening balance	54
Promoters equity contribution	239
Equity-Public Issue	88
Sub Total	<u>381</u>
Debt	
OIDB/FIs	436
Debenture	88
Sub Total	<u>524</u>
Grand Total	905

The Ministry added :—

“While promoters contribution shall be made as required, NRL is taking necessary steps to float a public issue of Rs. 707 crores

(Rs. 354 crores through equity and Rs. 353 crores through debt) starting from last quarter of 1997-98. The money from the capital market is proposed to be raised in four calls of which the first call amounting to Rs. 176 crores (Rs. 88 crores equity and Rs. 88 crores debenture) is to be realized in the last quarter of 1997-98. Loan from OIBD & FIs are being finalised in consultation with these agencies”.

14. In regard to problems being faced by NRL in securing OIBD funds, the Ministry informed :—

“NRL has already approached OIBD for granting the above loan at a concessional rate of interest (5% applicable for high risk areas) and MOP & NG have fully supported the case. As OIBD do not have required resources of funds, Ministry of Finance would be required to release additional funds from the ‘Oil Cess’ account to OIBD to enable them to finance the project. The issue was taken up with the Ministry of Finance. Finance Ministry has been requested to release the funds out of the Oil Cess account to OIBD so that OIBD in turn can provide necessary financial assistance of NRL as per time schedule indicated by NRL to enable implementation of the refinery project”.

15. The Committee asked the Secretary Petroleum to provide more funds from OIBD instead of raising loan from financial institutions. Secretary Petroleum reacted :

“That we would give provided we get them”.

16. The demand of the Ministry for the year 1997-98 are placed at Rs. 3.86 crores under Revenue Section. No provision has been sought under the Capital Section. Under the Revenue Section, provision has been made for the salaries of Ministerial staff and other various expenses like overtime allowance, travel expenses, office expenses, etc. The Budget Estimates of Rs. 3.62 crores for the financial year 1996-97 were revised to Rs. 3.79 crores. The actual expenditure under this Head during 1995-96 has been Rs. 3.23 crores. The increase in the Budget Estimates for 1997-98 is about 6.6% over the Budget Estimates of 1996-97 and about 1.85% over Revised Estimates of 1996-97. The escalation has been attributed by the Ministry to general inflation. Since the demands of the Ministry show a marginal increase in 1997-98 over the earlier year, the Committee accept the same.

17. The Committee note that as against the Revised Annual Plan Outlay of Rs. 11302.94 crores during 1996-97, the Plan Outlay of the Ministry of Petroleum & Natural Gas for the Public Sector Undertakings (PSUs) under its administrative control has been placed at Rs. 13285.71 for the current year (1997-98). The Plan does not envisage any budgetary support from the Government and Major portion of the Plan Outlay i.e. Rs. 7654.85 crores will be met through internal resources of the PSUs. The balance requirement will be met through Oil Industry Development Board (OIDB) assistance (Rs. 1035.79 crores), Commercial Borrowings (Rs. 429.76 crores) and Debentures and Right Issue Bonds (Rs. 4165.31 crores). Since concerned PSUs will need assistance of the Ministry in getting projected funds from OIDB resources, the Committee would like the Ministry to initiate action on war footing and approach the Ministry of Finance and get the funds released to OIDB.

18. Budgetary Support of Rs. 100.00 crores has been provided by the Govt. as budgetary loan in the Revised Estimates for 1996-97 under the plan investment for 3 MMTPA Numaligarh Refinery (NRL). It is a new joint venture company of IBP Co. Lt., Bharat Petroleum Corpn. Ltd. and the Govt. of Assam. This project costing Rs. 2715 crores is proposed to be financed through equity of Rs. 905 crores and loan of Rs. 1810 crores. OIDB has disbursed Rs. 248 crores upto 31.3.1996 and another Rs. 377 crores including Rs. 100 crores of Budgetary loan have been released in 1996-97 for the purpose. The balance loan would now be required from OIDB/Government for timely completion of the project by December, 1988. The Ministry in their written note have stated that as OIDB do not have the required funds, the Ministry of Finance would be required to release Additional Funds through the Budget to OIDB to enable them to finance the project. The issue is stated to have been taken up with the Ministry of Finance for release of Budgetary grant out of the Oil Cess Funds to OIDB so that OIDB in turn can provide necessary financial assistance to NRL for completion of the refinery project and its Marketing Terminal by the target date. Since this project was a part of Assam Accord, its early implementation would certainly help the development of the industrially backward region in the North-East. The Committee would urge upon the Government to make the necessary Budgetary provisions in the Revised Estimates for 1997-98 for providing necessary funds to the Numaligarh Refinery (NRL).

19. In the context of growing financial needs of the petroleum sector the Committee (1995-96) in their 20th Report presented to

Parliament in December, 1995 had strongly recommended that the whole issue relating to the release of Cess funds to OIBD in full be re-examined and if the wordings of Section 16 of the OIBD Act, 1974 was an impediment in the spirit of the OIBD Act, 1974 the Ministry should initiate the process for carrying out necessary amendments in the OIBD Act. The Committee in their Third Report (Eleventh Lok Sabha) had again emphasised the need to expedite the matter so as to make available more funds to petroleum sector. The Committee in their 6th Report (Eleventh Lok Sabha) expressed their displeasure over the flippant reply of the Ministry stating that the issue of rewording of OIBD Act, 1974 had been taken up with the Ministry of Finance and Legal Affairs. In Committee's view the Ministry of Petroleum & Natural Gas should have been in a position to get the funds for OIBD from the Ministry of Finance particularly when the Prime Minister had been looking after the Ministry of Petroleum & Natural Gas directly as its Cabinet Minister. Finding laxity on the part of the Ministry, Committee once again urge upon the Government to take immediate concrete and conclusive action in the matter for getting the funds released to OIBD. Meanwhile, the Ministry of Petroleum & Natural Gas should pursue vigorously the amendment of the OIB Act, 1974 as per the advise of Attorney General (Appendix II) or on the lines of the Central Road Fund (Appendix III & IV). The Committee would like to be apprised about the progress made in this regard so that the development of the petroleum sector projects is not impeded due to financial constraints.

C. Cost and time over-runs in the Projects Under Implementation

20. In the detailed Demands for Grants of the Ministry, it is noticed that there has been huge cost escalations in respect of the following Oil Sector Projects :

Rs. in Crores			
PSU	Project	Sanctioned Cost	Revised Cost
Mangalore Refinery & Petrochemicals Limited	3 MMTPA Joint Venture Grass Root Refinery Project	1160.00 (1991)	2696.79 (1996)

21. Asked whether the Ministry has analysed the reasons for huge cost escalations (over 130%) in respect of the above project, the Ministry in its written note stated that:—

“Mangalore Refinery and Petro-chemicals Limited (MRPL), a 3 MMTPA Joint Venture project of HPCL and M/s Indian Rayon Industries Limited (26% equity of each) was approved by Government of India in April, 1991 at a cost of Rs. 1160 crores (at June 1990 prices) including a foreign exchange component of Rs. 300 crores with HPCL's outlay to the extent of equity of Rs. 60.5 crores. The project has been completed in March, 1996. But there was cost over-run. As per HPCL, the project cost estimates were revised to Rs. 2696.79 crores (Dec'95 prices) including Foreign Exchange component of Rs. 1027.66 crores. The cost over-run of 132.5% in this revised cost estimate has been largely due to cost escalation and exchange rate fluctuations.

Government has constituted a committee to analyse the reasons for both time and cost over-run.”

22. During the course of evidence while analysing the reason for steep increase in foreign exchange component, the Secretary petroleum attributed this increase to devaluation. Elaborating his contention further, a representative of the Ministry added:—

“When we took up the project it was June 1990 then the US\$ was Rs. 17.5, when we finally completed the project the exchange rate was Rs. 35 and then the Japanese Yen was a major component.”

23. Replying to a specific query he further added :—

“For the commencement there was a direction from Public Investment Board (PIB) that we can go in only after some time. We could not go to the bank or to the financial institutions. You had to buy them only in 1992.”

24. From the details given in the Demands for Grants 1997-98 about the Project *viz.* Mangalore Refinery and Petro-chemicals Ltd. (MRPL), the Committee find that there is huge cost and time over-runs in this project. The Committee regret to note that the original cost of MRPL Project was revised from Rs. 1160.00 crores in 1991 to Rs. 2696.79 crores in 1996. The Ministry have now informed the Committee that this cost over-run has been largely due to cost escalation and exchange rate fluctuations. They have, however, constituted a Committee to analyse the reasons for both time and cost over-runs. The Committee desire that the Government should immediately get the report of the Committee appointed for going into the cost and the time over-runs in Mangalore Refinery and

Petro-chemicals Ltd. expedited and inform the Committee about its outcome before 30.6.1997. Needless to point out that necessary action should be taken against the concerned officers, if found responsible for delay in the implementation of this project.

25. The Committee note that a 3 MMTPA Joint Venture Grass Root Refinery Project, namely MRPL which was mooted in 1990 saw the light of the day in 1992. On a specific query from the Committee about the reason for delay to implement the project in 1992, the Secretary, Petroleum informed the Committee that it was on the directive from PIB.

26. During the examination of the Demands for Grants for the year 1995-96, it came to the notice of the Committee that there had been huge cost and time over-runs in the projects being implemented by MRL & HPCL. The original cost estimates of MRL's Lube Expansion Project was revised from Rs. 163.75 crores to Rs. 238.71 crores and in the case of HPCL Lube Oil Base Stock Augmentation Project the cost estimates were revised from Rs. 181.23 crores to Rs. 246.74 crores. To seek further clarification/latest position in regard to the action taken replies to recommendations relating to cost and time over-runs in major oil sector projects made by the Committee in their 17th Report (Tenth Lok Sabha), the Committee took evidence of the representatives of the Ministry of Petroleum & Natural Gas on December 7, 1995. In this context, the Committee would like to be apprised whether as per its directions (a) the Ministry and PSUs are constantly reviewing the progress of all ongoing projects; (b) whether the system of reward and punishment for the project teams has been worked out; (c) whether the role and effectiveness of Government nominee Directors on the Board of PSUs is being reviewed; and (d) whether regular and meaningful review of projects is being done in Quarterly Performance Reviews (QPRs).

27. During the evidence taken on 7th December, 1995, the petroleum Secretary had also informed the Committee that a minimum of 12-18 months was required to clear the project whereas the Ministry had taken 18-24 months in some cases. He also stated that the present system of 3 stage clearance (1st stage : Pre-PIB clearance, 2nd stage : PIB clearance and 3rd stage : CCEA clearance) was cumbersome and time consuming. To overcome the problems, the Ministry had initiated some suggestions like enhancing financial powers of the company's Board. The matter had also reportedly been taken to Cabinet in the form of a paper. The Committee in their 25th Report (Tenth Lok Sabha) had urged upon the Government to expedite the examination of this proposal for taking a concrete decision in the matter so as to simplify and streamline the

Government's approval procedure for slashing down the approval time considerably.

28. In Committee's view, there could be cost escalation due to delay in giving timely clearance by Public Investment Board (PIB) to the PSUs and Joint Sector Companies eg. in the case of Mangalore Refinery & Petro-chemicals Ltd. (MRPL). The Committee feel that there should be a time bound clearance to all projects by the concerned authorities including PIB/Cabinet. As proposed by the Ministry the existing system in vogue for according approval by PIB etc. to projects costing Rs. 50 crores and more should also be reviewed and as proposed by the Ministry. Projects upto Rs. 500 crores can be cleared without the interference of PIB for oil PSUs and upto Rs. 1000 crores for the Navratna PSUs. The Committee would like to be apprised about the decision taken by the Government in this regard.

D. Review of Eighth Five Year Plan

29. The Eighth Plan envisaged the following major objectives :—

- (i) To restrict oil imports
- (ii) To eliminate the flaring of Natural Gas at the earliest in any case not later than 1996-97.
- (iii) To accelerate the pace of indigenisation of exploration and development.

30. Asked about the targets *vis-a-vis* achievements of the crude oil production and gas during the Eighth Plan, the Ministry stated in a note :

“Mid-term appraisal of the 8th Five Year Plan has revealed that consumption of petroleum products grew at around 5.5% during the last few years against the anticipated rate of 6.9% during the Eighth Plan period, production of Crude Oil and Natural Gas during 1996-97 are expected to be about 38.5 MMT and 25 Billion Cubic Meters against the targets of 50 MMT and 30.18 BCM respectively. Crude Oil production during 1992—97 is now estimated to be 167 MMT against the target of 193.3 MMT.”

31. Similarly as against the plan estimates of imports of Rs. 74600 crores, the actual import bill on account of petroleum products during the Eighth Five Year Plan was likely to cross Rs. One Lakh Crores.

32. During the course of examination of the Ministry, the Committee also pointed out that on the one hand, the plan expenditure rose from Rs. 26552 crores to Rs. 47172 crores on the other hand, the targets of production of crude oil and gas were not achieved.

33. The Committee further pointed out that from the yearwise production details of Oil & Natural Gas Commission & Oil India Ltd., it was observed that the targets were being revised downwards and even the reduced targets were not achieved. This led to a situation where the crude oil production which was to be around 38 million tonnes at the end of 8th Plan, will now be achieved by the end of 9th Plan. Explaining the reasons for the shortfall in oil and gas production during the 8th plan, the Ministry submitted in a detailed note as under :

“The target of accretion of in-place hydrocarbon during the VIIIth Plan was 1325 MMT (1200 MMT for ONGC and 125 MMT for OIL). The reserve accretion in the first four years of the VIIIth Plan period was 517 MMT, with ONGC adding 457.4 MMT of O+OLG and OIL adding 60 MMT of O+OEG. The total achievement during the Plan period is expected to be around 700 MMT (53%) for both the NOCs (ONGC-620 MMT, OIL-80 MMT). In view of the low reserve accretion during the first two years of the VIIIth Plan, the Accelerated Programme for Exploration (APEX) was taken up in 1994 and the reserve accretion picked up considerably. In spite of this acceleration in efforts, the reserve accretion during the VIIIth Plan as a whole will be falling short of the originally planned estimate. This is due to the fact that the producing basins have reached a higher level of maturity than assumed while formulating the Plan and also because no other basin could be provided petroliferous.

The original (PCR) crude production target for the VIIIth Plan was 197.3 MMT (ONGC-180.73 MMT and OIL 16.59 MMT), out of which 81.75 (161.31 MMT) is likely to be achieved with ONGC's contribution as 144.10 MMT and OIL's 14.12 MMT. An additional production of 3.09 MMT is expected to come from JVC and private operators.

As against the gas production target of 125.43 Billion Cubic Meters (ONGC-115.98 and OIL-9.44) the achievement is expected to be 100.37 Billion Cubic Meters.

The reason for the shortfall in oil and gas production with reference to the original PCR targets can be mainly attributed to Bombay High and Neelam field in Western Offshore and fields of ONGC in upper Assam and North Gujarat. The recommendation made by Bombay High Review Committee to close high GOR wells in Bombay High field led to low production rates.

The production from Neelam field also could not pick up to the extent recommended due to delay in project implementation and

unanticipated reservoir performance. The lower base potential in Upper Assam fields of ONGC compounded with environmental problems, led to a decline in production. The regulation of production from the Gujarat fields also resulted in marginal shortfalls."

34. When asked about the reasons for low performance, the Secretary, Petroleum submitted :—

"In fact, last, we had a set-back on domestic production of oil in three years. We had a problem in Bombay High because of the sudden increase of gas-oil ratio. We had to shut down some of the wells. Second set-back was the Neelam Fields which earlier we thought that we will produce 4 million tonnes per annum but it had turned out to be much smaller than our earlier thinking. Here, I may add that things may go wrong in discovery of oilfields."

Annual Plan Outlay 1997-98

35. The Demands of the Ministry do not provide any budgetary support to the Annual Plan Outlay of various PSUs under the Administrative Control of the Ministry.

36. The following Table shows the plan outlay for 1995-96 (actuals), 1996-97 (BE), 1996-97 (RE) and 1997-98 (BE):—

Item	(Rs. in Crores)			
	1995-96 (Actuals)	1996-97 (BE)	1996-97 (RE)	1997-98 (BE)
Exploration	5386.36	7829.00	6258.40	6476.87
Refinery and Marketing	2732.11	4792.68	4169.86	5906.37
Petrochemicals	605.69	834.70	832.83	759.07
Engineering Unit	25.71	69.90	41.85	143.40
Grand Total	8749.87	13526.28	11302.94	13285.71

37. From the above statement it may be observed that the Annual Plan Outlay particularly on Exploration has been reduced from Rs. 7829.00 (BE 1996-97) to Rs. 6476.87 (BE 1997-98). On being pointed out by the Committee that the lower trend of expenditure could adversely affect the exploration/production programmes of the National oil Companies *viz.* ONGC & OIL, the Ministry of Petroleum & Natural Gas in its written note stated that:

"This allocation of funds is as per the requirement of ONGC and is in line with the plan physical activities and implementation of projects."

38 The Committee are anguished to find that even though the plan expenditure during 8th Plan increased from Rs. 26552 crores to as high as Rs. 47172 crores yet the production of crude oil and gas could not be achieved. As against the estimated crude oil production of 197.3 MMT during the 8th Plan, the actual production is likely to be 167 MMT only. Similarly the accretion to new reserves will significantly fall short of the targets of 1325 MMT of oil and equivalent gas during 8th Five Year Plan. The Committee are unable to reconcile to the fact that while the expenditure has been incurred about 180% of the estimated expenditure, the results have been dismally low. The crude oil production level of 37-38 MMT which was to be achieved by the 8th Plan will now be available by the end of 9th Plan. The facts narrated above present a very bleak picture of the hydrocarbon resources planning in the country. The Committee, therefore, strongly recommend that the overall policy planning of the Govt. in regard to exploration/production strategy should be reviewed with a view to take remedial measures for accelerating the production of indigenous crude oil/gas in the country. The Committee trust that Government will initiate urgent measures so that unhappy experience of 8th Plan is not repeated in the current plan namely 9th Five Year Plan.

39. The Committee note that several public sector undertakings (PSUs) under Ministry of Petroleum & Natural Gas are funding their projects through internal resources and external borrowing without any budgetary support from the Government which is a healthy trend. The Committee also find that four out of the nine PSUs in petroleum sector in the country have been identified by Ministry of Industry, who need to be encouraged and enabled to position them Globally. They have been referred to as "Navratanas". Among them, IOC is the only company enlisted in 'Global Fortune 500'. For the efficient functioning and for accelerated growth of petroleum sector in the country, the Committee recommend the following:—

- (i) In order to enable the nominated navratans too strengthen their presence within the country as well as to nable them to Globalise, the procedure for project approval needs to be changed MOP & NG has already proposed dispensation of stage-I approval for its projects, acceptance of which the Committee strongly recommends. After obtaining the approval of individual Board wherein Government Directors are also members of the Board, the projects (refining as well as diversification w.r.t. petrochemicals, power and exploration/production) can be taken up for preparation of detailed feasibility reports.

- (ii) Presently, the procedure allows a provision of Rs. 20 crores for preparation of DFR, approval for which is given by a Committee of PIB and for more than Rs. 20 crores clearance of CCEA is required. Instead, the Committee recommend that the Boards of these PSUs may be empowered to incur upto 1% of the estimated project cost towards preparation of Detailed Feasibility Report including land acquisition etc. to avoid delays.
- (iii) South East Asia/Asia Pacific region is projected to have heavy deficit in availability of petroleum products. This offers opportunity for Public Sector oil companies to set up Export Oriented Refineries in Joint Venture, which will be helpful in PSU's entry in global market. The Government should encourage the PSUs to work in these lines.
- (iv) In the budget presented to the Parliament for 1997-98, it is proposed to increase the PSU Board's power from existing Rs. 50 crores to Rs. 100 crores. However, in view of the large investment projects in Hydrocarbon sectors, the nominated Navratanas should be enabled by further enhancement of the limit of the Board's power to Rs. 1000 crores.
- (v) In order to enable the Board of the nominated PSU Navratanas to function commercially competing with the global market, there is an urgent need to review the composition of the Boards. Government should see the overall policy and for efficient running of the organisation, the selected PSU Navratanas be allowed to increase the strength of professionals among their Board of Directors. This fits in the proposed deregulation programme of the Government.
- (vi) The oil companies may be encouraged for significant higher allocation of resources during the IXth Plan in infrastructural sector to enable them create facilities for meeting the growing demand of oil in the country. The infrastructure includes pipelines and depots etc. for efficient transportation of petroleum products.
- (vii) Nominated Navratanas should be given freedom to fix remuneration package to motivate its employees.

E. Import of Crude Oil/Petroleum products

40. The following table shows the demand, availability, import of crude oil/petroleum products and its value in rupees:—

	Indigenous Crude Oil (in MMT)	Imported Crude Oil (in MMT)	Value of imports (Rs. in crores)
Crude Oil			
1992-93	26.950	29.247	10686
1993-94	27.026	30.822	10689
1994-95	32.239	27.349	10316
1995-96	35.145	27.342	11517
1996-97 (upto Dec. 96)	23.917	25.646	13940
Total :	145.277	140.406	57148
Petroleum Products			
1992-93	50.359	11.283	6360
1993-94	51.084	12.076	7041
1994-95	52.927	13.951	7522
1995-96	55.081	20.335	12578
1996-97 (upto Dec. 96)	43.937	14.460	10970
Total:	253.388	72.105	44471
Grand Total	398.665	212.511	101619

41. To meet the gap between demand and supply of crude oil and petroleum products are imported by designated analysing agency viz. Indian Oil Corporation (IOC). As regards the procedure being adopted for the purpose, the Ministry in a note informed about the various aspects of import business as under:—

1. Oil Economy Budget

The Oil Economy Budget (OEB) is prepared by OCC before the commencement of the year basically for estimating quantities and

Foreign Exchange requirement for imports of crude oil and petroleum products which are in deficit in the country and to identify the products in surplus for exports.

It takes into consideration indigenous crude oil production and refining capacity of indigenous refineries.

II. System of Purchase of Crude Oil

(a) Crude oil is purchased through—

Annual term contracts with the National Oil Companies of the producer countries.

(b) Contracts through monthly tenders—

Purchase of crude oil either through term contracts or through monthly tenders are done at market related prices.

The contracts for import of crude oil on term basis or through monthly tenders are entered into directly with the companies on a principal to principal basis.

III. Petroleum Products' Imports

Petroleum products are imported through—

- Term contracts with National Oil Companies.
- Term Contract through tenders with registered parties.
- Monthly tenders with registered parties.

All contracts for import requirements of crude oil/petroleum products are finalised with the approval of the Empowered Standing Committee (ESC), consisting of representatives from Ministry of Finance, Ministry of Commerce, Ministry of Petroleum and Natural Gas and IOC.”

42. During the course of evidence the Committee wanted to know the systems/techniques being followed in the international market for purchasing the crude oil/petroleum products at cheaper rates. The Petroleum Secretary stated as follows:—

“My own judgement is all major trading companies deploy this risk management techniques.....Hedging is an instrument for reducing the risk of imports.”

43. It came out during evidence that in the import business presently IOC was not following the procedure being followed by international companies *viz.* application of risk management, techniques like 'Hedging'. Asked about the reasons for not using risk management techniques/heading when country's import bill was over Rs. 35000 crores, a representative of the Ministry replied during evidence:—

"The first step towards implementation is that we have appointed consultants who are experts in that field. It is on their recommendation that we would certainly put the feasibility of adopting this practice."

44. When enquired about the number of experts/consultants who made presentations before ESC/IOC, the Secretary, petroleum stated:

"There were three companies. One was Arther Anderson which made its presentation in December, 1996. The other one was Arthur Little and the third company was Petroleum Economics Limited based in London. All the three made the presentation at the same time."

45. In the context of Memorandum received by the Committee from M/s Keyser Inc. on the subject who even offered free consultation to ESC/IOC (Reference Appendix V and VI), the Committee enquired whether M/s Keyser Inc. made any presentation before ESC/IOC. A representatives of the Ministry informed that this firm also had presentation before ESC.

46. On being further pointed out by the Committee that there were incoherent replies in regard to presentations made by experts/consultants before ESC/IOC on the subject, the Ministry in a note furnished after the evidence stated:—

"Various companies active in risk management activities keep on approaching IOC seeking opportunities for making presentations on risk management techniques and related services offered by them. In the past, following companies have made presentations to ESC/IOC on the subject:

1. J. Aron, USA
2. J.P. Morgan, USA

3. Gerrard & National Inter Commodities, London
4. Morgan Stanley
5. New York Mercantile Exchange (NYMEX), USA.

Besides above, M/s Goldman, Sachs & Co., USA conducted one day seminar in Mumbai for the benefit of senior officials of oil industry MOP & NG and ESC members.

All these companies are sellers of risk management instruments and the purpose of their presentation is basically to expand their business activities and develop client base. These companies, therefore, do not come under the category of consultants for the oil industry. Similarly NYMEX, IPE and SIMEX, the recognised oil exchange make presentations to the oil companies to promote volume of business activities in their respective exchanges.

Recently, on 25.1.97 like the above listed companies, M/s Keyser Inc. had also made a presentation on risk management techniques to ESC/IOC. M/s Keyser Inc. had suggested to IOC to use risk management tools and also to open an office in London, the main oil trading centre M/s Keyser have offered their services in achieving these objectives including training, communication etc."

47. In regard to appointment of M/s Arthur Anderson as Consultants Secretary Petroleum stated:

"After the presentation, we had chosen Arthur Anderson to study the entire procedures and we had changed the entire procedures. There are certain instruments and hedging is one of them. The second important issue was of internal financial control systems. This is also essential. We need to go to the Cabinet after the report is prepared. It was a Cabinet decision and we cannot change anything unless we get the approval of the Cabinet. We have to inform the Cabinet of all the relevant issues as by hedging, sometimes we can lose money."

48. However, in a post evidence note, in regard to selection process for appointment of Arthur Anderson as Consultant, the Ministry stated:

“In view of the complexities and changing pattern of oil trends and markets, it was considered prudent to have the activities of I.T. Department reviewed through some reputed international consultants, so as to ensure that the best purchase practices followed in the world market are adopted by IT Department of IOC.

The terms of reference for the consultants are mainly to review the existing systems of International Trade Department and make recommendations generally followed in the Industry so as to upgrade the system, knowledge and skills of the Department to international Standards, including recommendations on risk management/hedging activities.

On receipt of the report of the consultants, it will be examined for appropriate action.”

49. In reply to a further query of the Committee about adopting ‘hedging system’, Petroleum Secretary informed:

“Most of our systems have not changed from Warren Hastings time. We have to change the entire procedure.”

50. In reply to an another question about not using the Risk Management Techniques including Hedging Oil Prices, the Ministry stated in the note:

“Reasons for risk management techniques not being used for hedging of oil prices by IOC;

Despite the presentations made by various companies active in risk management business, the risk management techniques have not been used so far, *inter-alia* on account of following reasons:

1. The existing policies of Govt. of India do not permit participation in forward, futures and OTC markets, the key instruments of risk management.
2. The ESC/IOC Management does not have specific “Delegation of Authority” by the Government to enter into risk management activities.

3. Entering into risk management activities would require :
- a. Imparting proper training and developing skills.
 - b. Development of dedicated team of the officers to deal with sophisticated risk management activities.
 - c. Internal financial controls to be developed.
 - d. Opening of representatives offices in main trading centres such as New York, London and Singapore.
 - e. Delegation of authority to the working level officials for timely decisions.
 - f. Investment in procuring requisite computer hardware, software and advanced communication facilities including satellite.

51. The Committee are shocked to find that IOC which is a Fortune 500 company—albeit at the tail end—has not yet taken these preliminary/documentary/rudimentary/basic steps which are obviously so necessary, for running any such organisations efficiently, more so in order to manage the most vital and core area of the Risk Management in the import of crude oil and petroleum products in the highly volatile World Oil Market for safeguarding the interests of National Economy.

No wonder that Secretary Petroleum had to comment and recall the period of Warren Hastings in this connection.

52. The Committee note that several risks management techniques including hedging are being followed in the international markets for purchasing the crude oil/petroleum products at cheaper rates whereas the Indian Oil Corporation Ltd. (IOC) which is a sole canalising agency for crude oil and petroleum products is not using these techniques while making their purchases through annual term contracts, tenders etc. The Secretary petroleum admitted that various large trading Companies in the world have adopted hedging technique while importing crude oil. In this connection, the Committee were also informed that IOC had appointed Arthur

Anderson as Consultants for review and guidance on international trading activities and further action will be taken after receipt of the Consultants Report.

53. From the evidence of the officials of Ministry, written note furnished by the Ministry and written submissions made to the Committee by one of the experts [who had made presentation before the Empowered Standing Committee (ESC/IOC)] the Committee have reasons to believe that the selection of M/s Arthur Anderson was done in an 'ad hoc' manner without following proper procedure and therefore it lacked transparency. They doubt whether the Ministry of Petroleum & Natural Gas/ IOC had properly analysed/scrutinised/considered the offers of seven experts/consultants who had made presentations before the ESC/IOC including one agency who had offered free consultancy on the subject—This is the one which made written submission to the Committee. In view of the importance of the subject which relates to containing the import bill and the pool deficit as also to bring Indian PSUs at par with international companies in the matter of risk management, hedging etc., the Committee recommend that the appointment of M/s Arthur Anderson (made without considering all aspects & all offers) may be kept in abeyance and the whole matter relating to the selection process of consultant(s) including the evaluation of offer(s) made by any and/or all the seven experts/consultants should be examined afresh. The Committee would like to be apprised about the specific action taken by Government in this regard within a month's time.

54. The Committee urge that the Ministry of Petroleum and Natural Gas should take immediate action for modification of the existing Government policies to enable the ESC/IOC Management to enter into Risk Management Activities (Reference Para Nos. 1 & 2 of the reasons for Risk Management Techniques not being used for hedging of oil prices by IOC at page No. 21 of the Report). Simultaneously, immediate action needs to be initiated on the war-footing for removing the deficiencies on the part of the Ministry/IOC International Trade Division (Para 3 at page 21 of the Report) which has been adduced reasons for non-implementation of Risk Management Techniques. For these, as

also for selection (through transparent procedure) of a really competent consultant for implementing Risk Management Techniques, a (small and) compact Committee under Finance Advisor (whom the Secretary during the evidence described as the most important figure in this behalf) may be appointed forthwith. The Committee may be apprised of the action taken on these points within four weeks.

NEW DELHI;
April 24, 1997
Vaisakha 4, 1919 (Saka)

A.R. ANTULAY,
Chairman,
Standing Committee on
Petroleum & Chemicals.

ITEMS-WISE DETAILS OF THE DEMANDS

(Vide Para 2 of the Report)

Revenue Section			(In thousands of Rupees)			
Major Head	Items	Plan/ Non-Plan	1995-96 Actuals	1996-97 BE	1996-97 RE	1997-98 BE
3451	Sectt. Eco.	Plan	—	—	—	—
	Services	Non-Plan	3,22,90	3,62,00	3,79,36	3,86,00
Total Revenue Section			3,22,90	3,62,00	3,79,36	3,86,00
Capital Section						
Major Head	Items	Plan/ Non-Plan	1995-96 Actuals	1996-97 BE	1996-97 RE	1997-98 BE
4802	Capital outlay on Petroleum Investment in Public Sector and other undertakings					
	IBP Co. Ltd.	Plan	—	—	—	—
		Non-Plan	—	—	4,40,00	—
	Oil India Ltd.	Plan	—	—	—	—
		Non-Plan	—	—	70,00,00	—
	ONGCL	Plan	—	—	—	—
		Non-Plan	1034,86,99	—	—	—
6802	Loans for Pet. Sector	Plan	—	—	100,00,00	—
	Numaligarh Refinery	Non-Plan	—	—	—	—
Total Capital			1034,86,99	—	74,40,00	—
Section			—	—	100,00,00	—
Grand Total			1038,09,89	3,62,00	178,19,36	3,86,00

LEGAL OPINION OF THE ATTORNEY GENERAL OF INDIA ON
PROVISIONS OF OIL INDUSTRY (DEVELOPMENT) ACT, 1974.

OPINION

I have perused the Statement of Case prepared by Shri A. Sinha, Additional Legal Adviser, Government of India, and the two documents enclosed therewith, viz. the Oil Industry (Development) Act, 1974 and the letter of Shri K. Venkatesan, Secretary, Expenditure, dated 14th December, 1994, to Shri V.L. Kelkar, the Petroleum Secretary.

The answer to the query posed would depend upon the contextual construction of Section 16 of the Oil Industry (development) Act, 1974 (for short, 'the Act') in the light of the policy of the Act. Section 16 provides :

"16. The proceeds of the duties of excise levied under section 15 shall first be credited to Consolidated Fund of India and the Central Government may, if Parliament by appropriation made by law in this behalf, so provides, pay to the Board from time to time, from out of such proceeds, after deducting the expenses of collection, such sums of money as it may think fit for being utilised exclusively for the purposes of this Act."

The provisions of Section 16 determine the fate of proceeds of duty collected under the provisions of and in the manner prescribed in Section 15. Under Section 16, the proceeds of the duties collected shall first be credited to Consolidated Fund of India. Thereafter, the Central Government may, if so provided by Parliament by appropriation made by law in this behalf, pay to the Oil Industry Development Board, from time to time, from out of such proceeds, such sums of money as it may think fit for being utilised exclusively for the purposes of the Act.

The most important words in Section 16 are, "may, if Parliament by appropriation made by law in this behalf so provides" The words are clear that whatever disbursement, if any, can only be made by a law for appropriation passed by Parliament. In view of the language of the Section, it will be idle to speculate how the money, which has

been credited to the Consolidated Fund of India, is to be spent. Parliament, by law, can clearly provide for the details of the disbursement out of the proceeds. The discretion which is sought to be vested in the Central Government of paying to the Board from time to time such sums of money as it may think fit, is clearly subject to any law that may be passed by Parliament. The wording of the Section is somewhat peculiar as the utility of the later portion of Section 16 is not clear if everything is left in the hands of Parliament to provide by law.

On the assumption that Parliament passes a law providing for disbursement in the language used in the later part of Section 16 which, as far as I am aware, would be a hypothetical basis, one may examine the parameters for exercise of the discretion by the Central Government which has been adverted to in the Statement of Case.

Discretion has been given to the Central Government to transfer such sums of money as it thinks fit for being utilised exclusively for the purposes of the Act. To put it differently, only such sums of money out of the proceeds of the duty have to be transferred to the Board which are to be utilised for the purposes of the Act. The phrase "as it may think fit" gives a discretionary power to the Central Government which has to be exercised judiciously. It is for the Central Government to determine whether the occasion has arisen for the exercise of the said power, vide *EX p. Ramshay*, 21 L.J. Q.B. 240, quoted in *Stroud's Judicial Dictionary*, 5th Edition, Vol. 3, page 1204. The words "think fit" have been explained in *Stroud's Judicial Dictionary*, Vol. 5, page 2631, as follows :

"A power to trustees to invest in such securities as they 'think fit' means such as they 'honestly, though imprudently, think fit' (*Re Smith* [1896] 1 Ch. 71. *Re Brown* 29 Ch. D. 889; *Lewis vs. Nobbs* 8 Ch. D. 591)";

"A power to a railway company to charge 'such reasonable sum as the company think fit in each case' for exceptional services, does not give the company the absolute power to fix the sum; the reasonableness of the charges is a question of fact for the jury; see *Midland Railway vs. Myers* (1908) 2 K.B. 356, (1909) A.C. 13."

The underlying purpose and object of the Act would throw some light on the question posed. It would be useful here to refer to the Statement of Objects and Reasons as well as the Preamble to the Act.

“It is essential that the programme for securing such self-reliance should be rapidly stepped up, and also that the necessary resources for the execution of such programmes must be assured. It is, therefore, proposed to levy by way of a cess duties of excise on crude oil and natural gas so as to create an Oil Industry Development Fund. This Fund would be used exclusively to provide financial assistance to the organisations engaged in development programmes of the oil industry in all its aspects from the exploration for, and the production of, crude oil to its refining, further down-stream processing, distribution, marketing, etc., and the research and development. To begin with, it is proposed to recover by way of a cess in the form of a duty of excise of Rs. 60 per tonne on crude oil produced in the country and delivered to the refineries. This cess will be utilised for approved schemes in the fields of oil exploration and production, and the refining, marketing and distribution of petroleum products.”

The Preamble to the Act reads :

“An Act to provide for the establishment of a Board for the development of oil industry and for that purpose to levy a duty of excise on crude oil and natural gas and for matters connected therewith.”

Section 15 is the enabling Section and the crucial words therein are, “There shall be levied and collected, as a cess for the purposes of this Act, a duty of excise...”. The purpose of the Act, as is clear from the Preamble of the Act, are :

- (i) establishment of a Board for the development of oil industry;
- (ii) to levy a duty of excise on crude oil and natural gas (for the purpose of establishment of a Board for the development of oil industry); and
- (iii) matters connected therewith.

To what extent, then, is it permissible, if at all, to refer to the Preamble as well as to the Statement of Objects and Reasons and the effect, if any, of such a reference. If full effect has to be given to the Statement of Objects and Reasons and the Preamble, then the money has to be used exclusively to provide financial assistance to the organisations engaged in development programmes.

A Preamble being a part of the statute, can be read alongwith other portions of the Act to find out the meaning of the words in the enacted provisions and also to know whether they are ambiguous or clear, vide the leading case of *A.G. vs. HRH Prince Ernest Augustus of Hanover* (1957) 1 All E.R. 49, summarised in *G.P. Singh Interpretation of Statutes*, 5th Ed. page 104. The Supreme Court, in the case of *Sardar Inder Singh vs. State of Rajasthan* reported in AIR 1957 SC 510 at 516, has held with regard to Section 10 of the Rajasthan (Protection of Tenants) Ordinance, 1949, by which power was conferred upon the Government to exempt any person or class of persons from the operation of the Ordinance that,

“It is true that Section does not itself indicate the grounds on which exemption can be granted, but the Preamble to the ordinance sets out with sufficient clearness the policy of the Legislature; and as that governs Section 15 of the Ordinance, the decision of the Government thereunder cannot be said to be unguided.”

On a parity of reasoning, therefore, if the Preamble to the Oil Industry (Development) Act, 1974, speaks of the purpose of the levy for the development of oil industry, then, obviously, this Preamble will be the guideline for the discretion to be exercised by the Central Government under section 16 where it uses the words “such sums of money as it thinks fit for being utilised exclusively for the purpose of the Act.”

The question is whether the said Section 16 subserve the purpose and object of the Act or not. Das CJ in *re The Kerala Education Bill, 1957*, reported in 1959 SCR 995 at 1023, examined the substantive provision of the Bill in the light and policy of the Bill. After having referred to the Preamble of the Bill, the Court said :

“We must, therefore, approach the substantive provisions of the said Bill in the light of the policy and purpose deducible from the terms of the aforesaid long title and the preamble and so construe the clauses of the said Bill as will subserve the said policy and purpose.”

With regard to the Statement of Objects and Reasons, although it is well settled that it cannot be directly used for interpretation of the Act, the Supreme Court, in the case of *Utkal Contractors and Jewellery Pvt. Ltd. vs. State of Orissa*, (1987) 3 SCC 279 at 290, has held that “the Statement of Objects and Reasons is explicit that the Act was

proposed to be enacted to prevent smuggling of forest produce grown in Government land under the guise of produce grown on private lands". The case has been so summarised in Justice.G.P. Singh's Principles of Statutory Interpretation, 5th Ed. (1992) at page 165 :

"More recently, the Statement of Objects and Reasons was used for holding that the Orissa produce (Control of Trade) Act, 1981, did not apply to forest produce grown in Government forests and the Act was restricted in its application to forest produce grown on private lands."

In this view of law, it would not be correct to say that the Statement of Objects and Reasons is entirely irrelevant when we are faced with a situation as to what are the guidelines and the policy for the exercise of discretion by the Central Government under Section 16 of the said Act which uses the words "such sums of money as it things fit".

The questions involved here are purely legal as well as other questions. There is clearly a commitment in the Statement of Objects and Reasons and in the Preamble as well as in Section 15 (1) that the 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.

January 12, 1995

Sd/-
Attorney General for India

Ministry of shipping & Transport

**RESOLUTION GOVERNING THE CENTRAL ROAD FUND AS
PASSED BY THE RAJYA SABHA ON THE 1ST APRIL,
1976 AND ADOPTED BY THE LOK SABHA ON THE
18TH JUNE, 1977.**

"In supersession of the Resolution on Road Development adopted by the Constituent Assembly of India (Legislative) on the 19th November, 1947 and as subsequently amended by that Assembly on the 8th December, 1949 and by the Parliament of India on the 14th April, 1950, this House hereby resolves that :

1. There shall continue to be set apart an amount not less than 3.5 paise per litre out of the duty of customs and of excise levied on motor spirit and the proceeds thereof shall be applied for the purposes of road development.
2. (1) The proceeds of such an amount so set apart in any financial year, reduced by duty attributable to taxed motor spirit used in aviation during the same period, shall be credited as a block grant to a separate Road Fund to be maintained in the Public Account of India.
(2) For the purpose of this Resolution taxed motor spirit shall mean motor spirit upon which the duty of customs or excise duty shall have been paid and in respect of which no rebate of such duty shall have been given.
3. (a) The Road Fund shall be allocated as follows:
 - (a) A portion equal to twenty percent shall be retained by the Central Government as a Central Reserve, this percentage being applicable with effect from the allocation due for the financial year 1948-49.
 - (b) Out of the remainder there shall be allocated by the Central Government a portion for expenditure in each State and Union Territory specified in the First Schedule to the Constitution as near as may be in the ratio which the consumption of taxed motor spirit other than motor spirit

used in aviation, in each area for which an allocation is to be made shall bear to the total consumption in the territory of India of taxed motor spirit, other than motor spirit used in aviation during the financial year concerned.

- (2) The portions allocated for expenditure in the various States and Union Territories shall be retained by the Central Government until they are actually required for expenditure in the manner hereinafter specified.
- (3) If in the opinion of the Central Government, the Government/Administration of any State/Union Territory has at any time.
 - (a) Failed to take such steps as the Central Government may recommend for the regulation and control of motor vehicles within the State or Union Territory; or
 - (b) Delayed without reasonable cause the application of any portion of the Road Fund allocated or reallocated, as the case may be, for expenditure within the State or Union Territory the Central Government may resume the whole or part of any sums which it may at that time held for expenditure in that State or Union Territory.
- (4) All sums resumed by the Central Government from the account of any State Government/Union Territory administration as aforesaid shall be reallocated between the credit accounts of State Government/Union Territory Administration and the reserve with the Central Government in the ratio of the main allocation for the financial year preceeding the year in which the re-allocation is made.

Provided that the sums so calculated as the share of the State/Union Territory from whose account the resumption has been made shall be credited to the reserve with the Central Government.

- (5) Special additions to Road Fund for financing particular projects may be accepted from source other than mentioned in para 2 (1) which shall be kept in a Special Reserve and utilised for such projects.

4. The balance to the credit of the Road Fund or of any allocation thereof shall not lapse at the end of the financial year.
5. No expenditure shall be incurred from any portion of the Road Fund save as hereinafter provided.
6. The Central Reserve with the Central Government shall be applied first to defraying the cost of the the administering the Road Fund and thereafter the balance of Central Reserve and Central Road Fund (Allocation) shall be utilised for financing such of the schemes connected with roads as the Central Government may approve and the sums allocated for expenditure in the States/Union Territories from these sources may, subject to the preevious approval of the Government of India to each proposal made, be expended upon any of the following objects, namely :—
 - (a) Road Research and Intelligence schemes;
 - (b) Traffic Studies and Economic Surveys;
 - (c) Training arrangements for young Engineers; and
 - (d) Schemes of all-India importance such as those leading to the removal of regional imbalance such as helping in the development of tribal areas, backward regions, promoting inter-State communication facilities, helping in combating anti-social and criminal elements etc., promotion of tourism, agricultural marketing areas links etc., part contribution to programme for setting up drivers, 'conductor's and cleaners' road side resting places and passengers wayside facilities on State roads etc., road/bridge works required for National Projects like Atomic Power Stations, Industrial Undertakings etc. likely to be lost sight of by the road authorities concerneed in the midst of other activities.

Provided that the amounts in the Special Reserve shall be applied only to the purposes for which they are earmarked.

7. No expenditure shall be approved by the Government of India to be incurred from the Central Road Fund without the prior approval of the Union Minister of Shipping and Transport.

Ministry of Surface Transport

(Road Wing)

**RESOLUTION GOVERNING THE GENERAL ROAD FUND AS
PASSED BY THE LOK SABHA/RAJYA SABHA ON THE
13TH MAY, 1986**

RESOLUTION

“In supersession of the Resolution on Road Development adopted by the Parliament (Rajya Sabha on the 1st April, 1976 and Lok Sabha on the 18th June, 1977), this House hereby resolves that:—

1. There shall continue to be set apart an amount not less than 5 per cent of the basic price out of the duty of customs and of excise levied on motor spirit and diesel and the proceeds thereof shall be applied for the purposes of development and maintenance of roads.
2. (1) The proceeds of such an amount so set apart in any financial year, reduced by duty attributable to taxed motor spirit and diesel used in aviation during the same period, shall be credited as a block grant to a separate Road Fund to be maintained in the Public Account of India.

(2) For the purpose of this Resolution taxed motor spirit and diesel shall mean motor spirit and diesel upon which the duty of customs or excise duty have been paid and in respect of which no rebate of such duty shall have been given.
3. (1) The accruals to the Road Fund shall be allocated by the Central Government in the following manner :—
 - (a) 1/2 per cent of the accruals from the Fund be utilised for defraying the cost of administering the fund.
 - (b) 35-1/2 per cent of the accruals from the Fund be utilised by the Central Government for development and maintenance of National Highways.

- (c) Balance 64 per cent of the accruals from the fund be utilised by the State/Union Territories for development and maintenance of the State Roads on the basis of petrol and diesel consumption in each State/Union Territory.
 - (2) The balance of accruals to the Road Fund till the date of the adoption of the revised resolution by the Parliament will be allocated by the Central Government in the manner as provided in para 3 (1) above.
 - (3) The portions allocated for expenditure in the various States and Union Territories shall be retained by the Central Government until they are actually required for expenditure in the manner hereinafter specified.
 - (4) If in the opinion of the Central Government, the Government/Administration of any State/Union Territory has at any time :—
 - (a) delayed without reasonable cause the application of any portion of the Road Fund allocated or re-allocated, as the case may be, for expenditure within the State or Union Territory the Central Government may resume the whole or part of any sums which it may at that time have held for expenditure in that State or Union Territory.
 - (5) All sums resumed by the Central Government from the account of any State/Union Territory Government as aforesaid shall be reallocated between the credit accounts of State/Union Territory Government including the defaulting State in the ratio of the main allocation for the financial year preceding the year in which the reallocation is made.
4. The balance to the credit of the Road Fund of any allocation thereof shall not lapse at the end of the financial year.
5. The Central Road Fund shall be utilised for financing such of the schemes connected with roads as the Central Government may approve.”

LETTER DATED 9TH APRIL, 1997 FROM KEYSER INC.
ADDRESSED TO THE STANDING COMMITTEE ON
PETROLEUM & CHEMICALS

His Excellency Mr. A.R. Antulay, B.A., M.P.
Chairman
Standing Committee on Petroleum & Chemicals
113 Parliament House Annexe
New Delhi 110001

9 April, 1997

Your Excellency,

Since our last meeting we have been examining the extensive documentation that was made available to us and would like to apologise for recurring at this late date.

It must be stated that as far as the budgetary policy of the various Ministries is concerned, according to these papers it is largely a matter of political decision, *though having read the documents we shall certainly be in a good position to evaluate future specific issues as they may arise.*

Over the last few months we were given to understand that the main objective must be to *improve the purchasing policy* of crude oil and products, and particularly LPG, by the various G.O.I. agencies, I believe this is a *matter of overriding concern of the P.M. under your Excellency's guidance.* As I informed you during our meeting, major suppliers in the industry point to the continually high prices paid by India due to outdated purchasing methods.

We were requested by the Ministry of Petroleum & Natural Gas to prepare for a further presentation on more specific data concerning the above and this was agreed in principle and we are ready to make this presentation with slides and proper statistics, *provided we are supplied with historical purchasing data* for crude, products and LPG, over a period of, say, twelve months, to enable us to prepare the correct statistics.

Meanwhile, the contents of our previous advice on improved purchasing methods do rely remain unchanged from our documentation dated 24th January 1997 and a more general view of oil trading dated March 1997, of which I left further copies with you during our meeting, together with a World Crude Forecast dated 25 February 1997, which information was requested by the P.M.O. through the London H.C. This forecast incidentally has already been borne out by subsequent events.

Consequently, we would suggest that copies of these three documents are given to the Parliamentary Standing Committee and as mentioned by you on a previous occasion we would be happy to explain these points in more detail *to your Committee*. It occurs to us that your Committee may not be ill-advised to incorporate as a recommendation the first four pages of our memorandum of 24 January, 1997.

The setting up of a *London office* is strongly advised and quite frankly mandatory for the World's second largest buyer of the commodity and we would repeat our proposal that we can materially assist you in this task. I refer to my personal record in my relationship with G.O.I. over three decades, of which Your Excellency is aware.

As you know Keyser Inc. certainly possess the managerial capabilities and market knowledge to assist you in obtaining supplies under the most advantageous conditions. As to risk management and futures trading was are aware that the Department have been approached by several commodity brokers who are *on the outer fringe* of the physical energy market without any known participation in the physical market. These companies are quite frankly purely chasing for retainers and commissions, e.g. Arthur Anderson, Merrill Lynch.

I intend to be in Delhi next week and will advise Your Excellency further in a day or two, but after many hours of study and discussion these are our serious considered points which we strongly believe should be acted upon by Your Excellency and your Committee without delay.

Yours sincerely

Sd/-

Chairman

LETTER DATED 11TH APRIL, 1997 FROM KEYSER INC.
ADDRESSED TO THE STANDING COMMITTEE ON
PETROLEUM & CHEMICALS

His Excellency
Mr. A.R. Antulay, B.A., M.P.,
Chairman,
Standing Committee on Petroleum & Natural Gas,
135 Parliament House Annexe,
New Delhi 110001.
By Courier

London, April 11, 1997

Your Excellency,

Under reference to the last paragraph of my fax of April 9, 1997 I have been delayed in my advised visit to Delhi and I am, therefore, sending you, hereby, by courier firstly, a copy of our Presentation made at the invitation of the Ministry of Petroleum & Natural Gas, and also attended by the Ministries of Finance & Economy, on 25th January 1997 (postponed from 24th) and dealing with our observation that GOI may be using purchasing practices for Oil & Products that are in our opinion outdated and unscientific.

As I am unable to be in Delhi, I also enclose a further Memorandum of today's date which contains some further observations and expands on our thoughts as expressed in the above meeting, for Your Excellency's information.

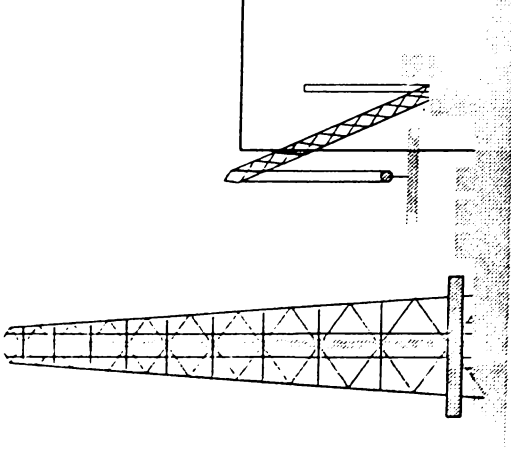
We are extremely thankful to the Ministry of Petroleum & Natural Gas for the opportunity of the January 25th meeting which we much appreciated, particularly as it was on a Saturday. We shall be only too happy to continue our exchange. We were invited to expand our views by a further presentation with full statistics and graphs which we are now ready to undertake at any time.

I shall be at Your Excellency's disposal for this subject at all times and remain.

Sincerely yours,

Sd/-

Chairman



Keyser Inc.

Presentation Delhi 1997

MEMORANDUM

FOR

THE MINISTRY OF PETROLEUM &
NATURAL GAS

AND

THE INDIAN OIL CORPORATION LTD.

DELHI

24 JANUARY 1997

BRIEF ON PURCHASING METHODS

In a recent issue of "Business-world" it was stated that "India is the only country in the world that still employs the time-consuming tendering process. It is said that the country's import bill could be much lower if it were to pick up half the requirements on the spot market, and tie up the remainder in long-term contracts."

As a result, India has enormous exposure to the vagaries and fluctuations of the Oil Market due to the huge volumes of oil which have to be purchased and imported.

This exposure may be significantly reduced by having a continuous presence in the market place thus allowing IOC to take advantage of favourable market conditions as and when they occur which would require a distinct view of market direction.

The world crude market can be divided into two main parts. The first, the physical market for crude exports from OPEC and many other producing countries accounts for most physical oil movements in international trade the buyers, refiners or commodity traders, and the sellers, crude exporting countries or other producers, transact business on a private bilateral basis. The second part comprises a set of forward and futures markets of greater accessibility and transparency, which can be used to trade physical oil or as a means of managing risk.

Oil trading is a highly competitive business where the sums of money involved are large and the margins typically narrow. Companies using trading techniques will normally develop a well-defined set of exposure management objectives with system of authorities, controls and management information to ensure these objectives are met. Supply and demand, world events, market sentiment and perception are the main driving forces behind the price of oil. Also, internationally traded oil is priced in US Dollars so that changes in rates can have a marked effect on prices in local currency.

To be successful in this activity requires continuous awareness of market situations world-wide *at all times*. North Sea production together with a long tradition of trading, have brought London to prominence as a centre for oil trade. Trading relations between companies are easily established face to face, allowing spot dealing by telephone with confidence. Thus, it is strongly recommended that IOC establishes an office in London which would create significant added value to the operations of IOC and gain competitive advantages. With few exception most oil companies, producers, refiners and related Government agencies

have an important presence in London, allowing them to keep a pulse on the market and interact with each other, as well as their respective Head Offices.

For example, Ashland Oil of the USA claim that simply by having an office in London with market presence saves Ashland an estimated US \$ 12 million per year on a very small volume of trade but mainly due to access to informal market information.

Furthermore, from a *Risk Management* point of view, the vastly important International Petroleum Exchange is also based in London which emphasises the need for a London office.

The question is, have IOC considered having a Representative Office in London. Also how do IOC Trading/Purchasing personnel interact with the world's international oil trading community, bearing in mind the various time zones, differing weekends, face-to-face contacts etc.? Due to its geographical position in the middle of East and West with its varying time zones, London has developed into the centre of Commodity Trading and particularly so in Oil. Arbitrage dealings could hardly be done without the facilities of London. For these reasons, as stated virtually the whole oil world, both Government Agencies and oil Companies are represented there by their own offices and this equally applies to buyers and sellers. *They include Saudi Arabia, Kuwait, Iran, Russia, Angola, Nigeria, Algeria, Romania, Venezuela, Brazil and many others.*

Apart from routine operations, there are strong personal contacts between principals with the consequent access to tap into informal information on trading activities. Also, as stated, *London is the HQ of the International Petroleum Exchange and has for time-zone reasons prompt access to the New York Mercantile Exchange with both trading simultaneously between 14.15 hrs. and 20.15 hrs. London time.*

The Common practice for producers, refiners and the like is to endeavour to lock in forward prices and refining margins by using Risk Management tools in order to guarantee profit margins and return on investment depending on the market price levels at the time. It also allows them to take advantage of the *Arbitrage* opportunities between various price levels in different markets, e.g. East/West.

Over the past 30 years, the structure of international oil trade has altered enormously. Stability in the 50s and 60s gave way to great volatility and price exposure. These changes have transformed the methods of oil trading and how oil prices are being determined and has as a result produced greater transparency of the market place. Furthermore, commencing in the 1980s, *the number of companies operating in the oil markets has increased greatly as oil started to be traded as a commodity on spot markets and at the same time forward and futures markets expanded rapidly. The*

requirements of Risk Management thus led to the development of forward and futures markets. Oil prices are likely to remain volatile and the skills of traders in anticipating and judging the market will continue to be important to achieve profitability.

Futures Markets were initially conceived to provide suppliers of a commodity with a degree of *insurance* against adverse price movements. A successful futures market needs price volatility in the commodity to generate the need to trade and liquidity to enable substantial volumes to be traded at all times. It was not until 1984 that the New York Mercantile Exchange (Nymex) futures contract for oil began to attract a substantial turnover and provide the necessary liquidity. The success of the Nymex contract prompted the International Petroleum Exchange (IPE), part of the London Commodity Clearing House, to introduce futures contracts for gasoil and Brent crude. The third active futures market, established in 1989, is the Singapore Monetary Exchange (Simex). These Exchanges guarantee performance at all times, being Clearing Houses.

An important function of futures and forward markets is that of price discovery. The prices for oil futures contracts and forward prices are clearly displayed on screens and in daily publications, for all to see. This *price transparency* offers markets better information as to real price levels and enables supply and demand to be balanced more evenly. Especially in times of crisis, the futures market provides a valuable means for traders to manage their price risk exposure in an ordered fashion. This was clearly evident during the Gulf war.

Therefore, rising or falling crude prices world-wide, changes in the relative price levels of crude from different producing areas and changing relationships between crude prices and prices of refined products will all give rise to risk. To manage this risk effectively, all oil companies are active in futures and forward markets, to a larger or lesser extent.

However, various trading techniques have been developed to manage price risk e.g. *hedging, swaps, options etc.* which may be dealt with in more detail in a separate presentation.

Thus, London is not only a leader in Oil Futures but also the undisputed centre of Shipping, Banking and Insurance Markets.

Bearing in mind the above, there would appear to be significant room for improvement in the area of *Tender Business*.

At present, the *IOC Tenders* invariably result in an upward pressure on prices, only to come off again as soon as the business has been concluded. By spreading requirements out, and relying on spot business as well as long-term arrangements, this phenomenon would not occur.

Also, by varying, the crude oil quality optimisation and pricing periods according to whether the market is in "Backwardation" (where

prompt prices are higher than future prices) or in "Contango" (the reverse) significant savings are to be made. Furthermore, by entering into long-term supply agreements with reliable suppliers on a formula basis, the need for tenders would be radically reduced. Given the vast volumes of Crude Oil and Petroleum Products that India buys, there is no reason why India/IOC should not be able to exert greater control of the market price levels and other conditions, rather than the other way around.

Whilst prior to the advent of Screens and other modern risk management tools Tendering was clearly a sound basis to determined market prices and, therefore, was widely practised as there was not really any other method of perceived actual price discovery. *The tender procedure is today widely regarded as an outdated method of procurement. By relying more on long-term supply agreement and spot purchases, this situation could easily be rectified.* Today, potential IOC suppliers will from time to time direct their cargoes towards Indian Ports in anticipation of IOC purchases. This may obviously greatly enhance IOC's negotiating position as the cost to the supplier for diverting a cargo from its intended port of discharge would be prohibitive. He would then rather accept a lower price for the cargo.

To cite a long-term successful *Purchasing Policy*, one may look to EXXON whose volume is similar to India's. They allocate Long-Term Contracts and Spot Purchases usually at a ratio of approx. 50/50 and by this method, which they keep very hidden, rarely disturb the market and more often influence it to their advantage.

Information on Oil prices

All traders need market information so that they can strike a bargain with confidence in the business value of the product. In addition to the information which traders acquire privately through business contacts, they can consult the many price reporting services such as Platts, Petroleum Argus, the London Oil Report (LOR), Smith Barney Daily Bulletin, PVM Daily Report, Energy Compass and others.

Finally, against the background of uncertainty and price volatility, the forward and futures markets will continue to offer an effective means of managing price risk exposure. The use of *swaps* in both crude and products is likely to continue to increase in volume.

The use of marker crude oils for pricing, like Brent, WTI, Tapis etc., is also likely to continue, although the selection of markers may change. A marker becomes less effective if the liquidity in its market falls. For this reason, Alaskan North Slope (ANS) was replaced in 1994 by WTI as a marker for sales of Saudi crude oil to the USA. Dubai may also need to be replaced as a marker for the same reason.

Over the past ten years, the oil trading world has seen many changes and trading instruments such as *swaps and options* have found increasing use. The geopolitical characteristics of oil suggest that prices are likely to remain volatile. Traders will continue to be adaptable, developing new and possibly more sophisticated instruments for managing price risk exposure. They have become adept in operating in a world where the only certainty is that things will change unpredictably.

Addendum 1

Other Points to be considered : Possibly at a *further session*.—GOI should consider entering into *Joint Ventures* with strong overseas partners with a view to improving the *Energy Infrastructure* in India, as well as *Exploration in India and Third Countries*. We are in the position to suggest reliable and serious partners for these purposes. *Prime Projects:* Harbour facilities, Storage Capacity Increase, Pipelines, Access to fuel supplies by the many new Power Station Projects, Dee-Sea Drilling etc. Dealing with major State-owned companies will clearly lead to improved political contacts with countries with whom GOI may favour closer economic and political ties.

- **Shipping :** IOC should be permitted to at all times utilise the International Shipping Market. For instance, apart from being able to pick up the most reasonable offer, the use of VLCC and LCC can reduce the cost per barrel significantly. Also, suppliers normally do not pass the benefit of such savings on to the buyer.
- **Insurance:** London is, as described, an excellent location for obtaining the most favourable rates. Insurance charges and commissions are very negotiable but these negotiations need to be carried out by persons who know each other face to face.
- **Quality and Grade Requirements:** It is common practice for Refining Companies to review this for each refinery *on a quarterly basis* due to constant changes in demand and price structures. What constitutes a “best Value” crude to a refiner will depend on its quality, location and configuration of the refinery in question and geographical and seasonal differences relating to the supplier and demand.
- **Currency Hedging**

KEYSER INC., a totally independent company, is ready to assist IOC/GOI on a Consultancy or other basis to maximise their objectives & strategies in the energy market, including the opening of a London office, training, communication, etc.

KEYSER INC.

London, April 11, 1997

MEMORANDUM

(1) Expanding on our earlier *Memorandum* submitted at the *Joint Meeting of the Ministries of Petroleum, Commerce and Finance* on January 25, 1997 which explained an outline for urgent action to revise current purchasing methods for Crude Oil, LPG & Products, it has become clear to us that the officials present were mixing up *Risk Management* as advocated by us with *Futures Operations* which by the officials present were called "HEDGING". Hedging, in fact, means "safe-guarding your risk or better : eliminating it" and FUTURES which are meant are only *ONE of the tools of Risk management*. In the following I will, therefore, not refer to "Hedging" when the buyer means "Cover by Futures" but simply say "Futures" Futures trading in my fairly long experience is *without risk* if handled by qualified personnel. That is the reason why futures exist BUT they are only part of the action of Risk Management.

(2) As Your Excellency is aware, I have as an acknowledged friend of India been involved in a number of projects assisting GOI, and being further involved with Crude Oil & LPG for over 30 years, I have watched the operating mechanics of the Petroleum purchasing agencies with increasing astonishment and worry. Friends in the Industry agree with me when I state the GOI may have lost close to one billion Dollars, perhaps more, over the last ten years by outmoded and in fact senseless *TENDER* purchasing, the *only buyer of note* to operate in this expensive way.

The overriding objective of ANY purchasing agency, be it for commodities as Oil or supplies to any supermarket is *PRICE TRANSPARENCY*. Without complete Price Transparency, in tender purchasing the buyer is at risk at not obtaining the lowest market price for several reasons, one of which is that the "registered" tenderers may have silent understanding amongst themselves. Examples of this are plentiful.

There is really no time left for GOI to adopt the new trading tools which are used with exception probably of some small refiners-by *ALL producers and traders*, possibly not always day-by-day but certainly when the screens show advantageous situations which in practice occur *DAILY*. *Then for the first time, you have complete Price Transparency—WHICH IN THE MEETING OF JANUARY 25TH WAS AGREED AS THE MOST IMPORTANT ISSUE.*

We do not know, however, of *one Crude Producer* who is not using this tool BUT it is of lesser importance to them as often they do not care if they receive \$22 or \$19 for their oil-money literally coming out of their ears - *NOT SO for the hapless BUYER*, where every penny counts (apparently except - excuse me saying so - in India).

(3) Consequently, in addition to what we have stated before, by the establishment of a modern International Trading Division by IOC in London we estimate that really serious sums of *Foreign Exchange* (a) world apparently unknown to the Ministry of Petroleum & IOC as I have seen it nowhere in their literature and accounts) will be saved, leaving aside the profit margins that should accrue.

Why London : the whole oil world sits in London for its strategic geographical position between East & West—in a working day, London operates with Singapore/Japan and New York/California during, admittedly stretched, working hours = the Oil Trade arrives at the total "Price Transparency" that is needed in view of the huge moneys involved (and incidentally makes any dishonesty virtually impossible !). Thus it is the centre of Banking, Insurance, Shipping AND Commodities of which Oil is one. For this reason, literally ALL oil companies, buyers and sellers, have their working presence in London. India may maintain that they obtain their oil largely from the Middle East but the Middle East is doing 80% of its business through London where buyers and sellers are in daily if not hourly contact with each other. Assume IOC need one or 100 special cargoes of crude: a few phone calls by the London office would find offers of vessels near India, and within the hour the deal is struck. Of course, if India remains with the Tender Business and sometimes pays the world's highest prices, never mind the Exchange cost, they can sit at their desks in Delhi or Mumbai, not bother about trained computer staff and other modern practices etc. but go on as over the last 20 years.

(4) *I have personally offered before to assist GOI in this endeavour, free of charge as a friend of India, to help implement a new Purchasing and Marketing System which would benefit the whole country as clearly the drain of Foreign exchange must be contained, not only in ten years but now. If nothing is done, the consequence for GOI will be extremely serious. I estimate with requirements rising to about 120–140 million tons a year by 2007, the volume of oil purchase will eventually account for virtually all of GOI's Foreign Exchange earnings with unforeseeable*

consequences, and, therefore, the most strenuous efforts must be made to buy supplies as cheaply as possible. Hence our *unsolicited* proposals of last year which, however, from what I hear in the Trade struck a cord somewhere. (Just for the record: by the expression "Oil Traders" the oil trade means all Producers-Processors-Users, not "oil merchants" The "Oil Trade" is a very elite group and it is a traditional term who are all used to making serious profits, literally working round the clock.

(5) We continually hear in India of "*Hedging*" (= Futures Trading) as the salvation from all evil but we must stress again this is *only one* of the tools of the trade, and probably a minor one (*but minor in this industry is still huge*). Of course, it would be recommended by all Brokerage Houses *without activities in physical trading in oil, i.e. earn retainers for financial advice (on how to spend your money, not theirs) plus commissions on futures contracts which are hefty.*

(6) WE, however, are talking, apart from other equally important building blocks in this structure, of *Responsible Risk Management* connected to physical trading and safeguarding the Nation's long-term needs in which Futures have *from time to time* a part to play, *no more*. We stated above that the Indian buyer means by Hedging simply *case-to-case* Futures operations and will hail this as a "Leap Forward"-*alas they are two decades too late. Since 1973's upheaval the oil world has changed and is today unrecognisable in its adaption of electronic hard and software: at that time tenders were virtually abolished as tender prices always have to be protectively costed, due to the extreme price fluctuations ever since. Arthur Anderson have been talking in New York about their "rust Indian contract" for some time and that they "had their bed made". If GOI need a Futures Broker, there are better ones in the market like Smith Barney whom, we believe, the Saudis and Kuwaitis use and who are in the physical trade atleast, as merchants but of the highest repute for honesty. (if you do not operate personally how do you know at which price your middleman will buy-till later). Anderson stated that they are also hired as "Internal Accountants" to IOC which is even more astonishing : do IOC not have a highly qualified staff themselves ?*

(7) *Of course, it will require some effort : dedicated staff in London who should handle most purchases, a modern Communications system (these are getting cheaper by the day, it seems), a banking arm, a firm system of supply management connected with 3-monthly checks on grades of oil required by each individual refinery, delegation of decision-making to a small team of responsible largely younger people under a dynamic leadership with the will to work 10 hours and more a day (as we all do). You must know, the financial rewards of such an operation are often immense, reading the industry's press.*

(8) *Exploration* this appears to be undertaken in a rather half-hearted way. India urgently needs to offer large sector to private international tenders for *deep-drilling* including off-shore, most drilling has been to shallow, and companies should be invited to survey, sector by sector by each company, the whole of India. They will not charge for this and even pay for the privilege. If commercial quantities are discovered, they will drill, at their cost, and share usually the production with the owners of the land (GOI) on a basis never exceeding 40%, in the Middle East often only 10%. (I know, in India it is the other way round). We ourselves with our associates are deeply interested in this as also in participating in responding to future requirement in crude oil and LPG, once the tender system has been amended. In the meantime, Keyser Inc. would like to apply to be included in the list of "Registered Suppliers" for oil, natural gas & products.

(9) To us, a plan of action is clear in our mind and whilst it would take a little time, the benefits for India would be impressive. We are ready at any time to explain our thoughts further. It will require GOI falling into line with the universal state-of-art practice, by giving the necessary licences, etc. to IOC. Incidentally, it is our strong feeling that GOI/IOC should remain the sole buyer for India of crude oil and LPG through such a modernised organisation as outlined, for the reasons that private buying is open to a lot of abuse and tempt corruption and, furthermore, GOI must keep a close look on the Foreign Exchange outgoings which at this point in time appear to be uncontrolled, judging by the prices paid.

Lastly Mrs Indira Gandhi at a time of supply crisis : "*Oil is to the Nation what Blood is to the Body*" and it must be treated accordingly, and with love for the country and a deep feeling of responsibility. Without resolving the Foreign Exchange problems caused by expanding imports, consumption can only be contained by ever increasing prices to the consumer which may cause serious industrial and internal political problems. Hence, GOI *SIMPLY MUST* import at the lowest possible cost achievable.

At the same time, *work on substitution* must never be out of our mind and *Hydrogen* appears destined to eventually lift the burden of oil debts from our shoulders. A lot of work is being done on this and GOI should strongly participate in this as a "crash programme" with the USA and Germany in particular : both are equally short of indigenous oil sources and have important research and implementation programmes in this limitless natural asset.

As an after-thought : for the *price of the retainer* being paid to Anderson to produce a report on matters which are obvious but to those who do not wish to see, IOC could probably have acquired a staffed, trained office in London (to which they would add their own control) and have it self-sufficient in the first year !

APPENDIX VII
MINUTES
STANDING COMMITTEE ON PETROLEUM & CHEMICALS
SIXTEENTH SITTING

7.4.1997

The Committee sat from 1100 hrs. to 1430 hrs.

PRESENT

Shri A.R. Antulay — *Chairman*

Lok Sabha

2. Shri Dwarka Nath Das
3. Dr. G.L. Kanaujia
4. Shri Ashok Argal
5. Shri Bhanu Pratap Singh Verma
6. Shri Anadi Charan Sahu
7. Shri Oscar Fernandes
8. Shri Paban Singh Ghatowar
9. Dr. Girija Vyas
10. Shri Kodikunnil Suresh
11. Shri Shantilal P. Patel
12. Shri Satyajitsinh D. Gaekwad
13. Shri Girdhari Yadav
14. Shri Surendra Yadav
15. Shri Uddab Barman
16. Dr. Asim Bala
17. Shri Satyanarayana Kaikala
18. Shri Mohan Rawale
19. Shri Bir Singh Mahato

Rajya Sabha

20. Shri Karnendu Bhattacharjee
21. Shri H. Hanumanthappa
22. Mohd. Masud Khan
23. Shri Parmeshwar Kumar Agarwalla
24. Shri Narain Prasad Gupta
25. Shri Parag Chaliha

SECRETARIAT

- | | | |
|----------------------|---|-------------------------|
| 1. Shri J.P. Ratnesh | — | <i>Joint Secretary</i> |
| 2. Shri G.R. Juneja | — | <i>Deputy Secretary</i> |
| 3. Shri Brahm Dutt | — | <i>Under Secretary</i> |
| 4. Shri S.N. Dargan | — | <i>Under Secretary</i> |

REPRESENTATIVES OF MINISTRY OF PETROLEUM & NATURAL GAS

- | | | |
|-------------------------------|---|-------------------------|
| 1. Dr. Vijay L. Kelkar | — | Secretary |
| 2. Shri Ravi Saxena | — | JS & FA |
| 3. Shri Nirmal Singh | — | JS (Refineries) |
| 4. Shri Sanjiv Misra | — | JS (Exploration) |
| 5. Shri A. Sen | — | Secretary, OIBD |
| 6. Dr. Avinash Chandra | — | DG Hydrocarbon |
| 7. Shri K.P. Shahi | — | Adviser (Refineries) |
| 8. Shri. S. Nigam | — | Joint Adviser (Finance) |
| 9. Smt. Archana Nigam | — | Controller of Accounts |
| 10. Shri T.S. Balasubramanian | — | Dy. Secretary (Finance) |
| 11. Shri C.L. Bashal | — | Jt. Secretary |

PUBLIC SECTOR UNDERTAKINGS (PSUs)

- | | | |
|-------------------------|---|-----------------------|
| 1. Shri B.C. Bora | — | CMD, ONGC |
| 2. Shri I.N. Chatterjee | — | Director (Fin.), ONGC |
| 3. Shri M.P. Pathan | — | Chairman, IOC |
| 4. Shri S.C. Mathur | — | Director (Fin.), IOC |
| 5. Shri A.K. Arora | — | Director (R&P), IOC |

- | | | | |
|-----|------------------|---|------------------------|
| 6. | Shri N.N. Gogoi | — | CMD, OIL |
| 7. | Shri R.S. Sharma | — | Director (Tech.) OIL |
| 8. | Shri P.G. Chanda | — | Director (Fin.), OIL |
| 9. | Shri C.R. Prasad | — | CMD, GAIL |
| 10. | Shri J.K. Jain | — | Director (Fin.), GAIL |
| 11. | Shri R.P. Sharma | — | Ex.-Dir. (Opn.), GAIL |
| 12. | Shri M.B. Lal | — | Director (R), BPCL |
| 13. | Shri H.L. Zutshi | — | CMD, HPCL |
| 14. | Shri D.S. Mathur | — | Director (Prod.), HPCL |

At their sitting held on 4th March 1997, the Committee had considered the communication received from the Ministry of Petroleum & Natural Gas regarding representation received from Smt. Vijaya Lakshmi regarding Petroleum Conservation Research Association (PCRA) and took a very serious view of the manner in which the Ministry had responded to a representation received by the Committee on the working of the PCRA. The Committee had decided to pursue the matter and had authorised the Chairman to deal with the matter appropriately.

In this connection in a separate meeting, before taking evidence of the Ministry, the Chairman apprised the Committee about a communication received from the Secretary, Petroleum & Natural Gas expressing regret for injudicious language used in the letter. In view of the regret expressed by Secretary, Petroleum & Natural Gas, the Committee at the request of Chairman decided not to pursue the matter further.

The Committee took oral evidence of the representatives of Ministry of Petroleum and Natural Gas in connection with examination of Demands for Grants relating to Ministry of Petroleum and Natural Gas for the year 1997-98.

The main issues which came up for discussion include crude oil production and accretion of hydro-carbon import of crude oil/petroleum products, system and practice for purchase of crude oil/petroleum products in India, adoption of hedging concept by India in the import of crude oil/petroleum products. A verbatim record of the proceedings of the sitting has been kept. Indeed the Committee examined the Secretary and other officials authorised (of the Ministry) by the Secretary with the permission of Hon'ble Chairman, laying a lot of emphasis on the "Hedging Concept" and went into the details—The interest of economy in import of crude oil, etc.

The Committee then adjourned.

APPENDIX VIII

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS

TWENTIETH SITTING

21.4.1997

The Committee sat from 1300 hrs. to 1500 hrs.

PRESENT

Shri A.R. Antulay — *Chairman*

MEMBERS

Lok Sabha

2. Dr. L.N. Pandey
3. Shri Ratilal Verma
4. Shri Bhanu Pratap Singh Verma
5. Shri Anadi Charan Sahu
6. Shri Oscar Fernandes
7. Shri Paban Singh Ghatowar
8. Dr. Girija Vyas
9. Shri Kodikunnil Suresh
10. Shri Shantilal P. Patel
11. Shri Uddab Barman
12. Shri K. Kandasamy

Rajya Sabha

13. Shri Parmeshwar Kumar Agarwalla
14. Shri Narain Prasad Gupta
15. Shri R.K. Kumar
16. Shri Parag Chaliha

SECRETARIAT

1. Dr. A.K. Pandey — *Additional Secretary*
2. Shri J.P. Ratnesh — *Joint Secretary*
3. Shri G.R. Juneja — *Deputy Secretary*
4. Shri Brahm Dutt — *Under Secretary*
5. Shri S.N. Dargan — *Under Secretary*

2. The Committee took up for consideration the Ninth draft report on Demands for Grants for 1997-98 relating to the Ministry of Petroleum & Natural Gas.

3. After some discussion, the Committee adopted the draft report. The Chairman however, gave an opportunity to the Members to give their suggestions on draft report, if any, by 21st April, 1997 for consideration of the Chairman for inclusion in the Report.

4. The Committee, thereafter, 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.