CPU. No. 56

COMMITTEE ON PUBLIC UNDERTAKINGS

(THIRD LOK SABHA)

THIRTY-FIFTH REPORT

INDIAN OIL CORPORATION LTD.

(MARKETING DIVISION)

MINISTRY OF PETROLEUM AND CHEMICALS

(DEPARTMENT OF PETROLEUM)

LOK SABHA SECRETARIAT
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(THIRD LOK SABHA)

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**Elected (w.e.f. 23-2-1966 in the vacancy caused by appointment of Shri Panampilli Govinda Menon as Minister.

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††Elected w.e.f. 7-5-66 on the retirement of Shri Lokanath Mishra from Rajya Sabha on 2-4-66.

‡Elected w.e.f. 7-5-66 on the retirement of Shri T. S. Pattabhiraman from Rajya Sabha on 2-4-66.

$Elected w.e.f. 18-5-66 in the vacancy caused on the resignation of Shri Abid Ali on 6-5-66.

||Elected w.e.f. 18-5-66 in the vacancy caused on the resignation of Shri M. N. Govindan Nair on 6-5-66.

@Elected w.e.f. 18-5-66 in the vacancy caused on the resignation of Shri M. Govinda Reddy on 6-5-66.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Thirty-fifth Report on the Indian Oil Corporation Ltd. (Marketing Division).

2. This Report is based on the examination of the working of the Indian Oil Corporation Ltd. upto the year ending 31st March, 1966. The Committee took the evidence of the representatives of the Marketing Division of the Corporation from the 22nd to 24th November, 1966 and of the Ministry of Petroleum and Chemicals on the 20th December, 1966.

3. The Report was finally adopted on the 3rd March, 1967.

4. The Committee wish to express their thanks to the Officers of the Ministry of Petroleum and Chemicals and the Indian Oil Corporation Ltd. for placing before them the material and information that they wanted in connection with their examination. They also wish to express their thanks to the non-official organisations/individuals who, on request from the Committee, furnished their views on the working of the I.O.C.

5. The Committee also place on record their appreciation of the assistance rendered to them in connection with the examination of audit paras pertaining to the Indian Oil Corporation Ltd. by the Comptroller and Auditor General of India.

NEW DELHI;
March 3, 1967.
Phalguna 12, 1888 (*Saka*).

D. N. TIWARY,
Chairman,
Committee on Public Undertakings.

I

INTRODUCTORY

The Industrial Policy Resolution of 1956 laid the foundation for the national oil industry in the country. Its operative part said:

> "....the adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance or in the nature of public utility service should be in the public sector".

2. The resolution put mineral oil in Schedule "A" industries whose "future development will be the exclusive responsibility of the State". All new units in these industries, save where their establishment in the private sector had already been approved, were to be put up only by the State.

3. The Marketing Division of the Indian Oil Corporation Ltd. was formerly the Indian Oil Company Ltd. On the 1st September, 1964, this company was merged with the Indian Refineries Ltd. to form the Indian Oil Corporation Ltd.

4. Incorporated on the 30th June, 1959, the Indian Oil Company Ltd, was entrusted with the task of organising the sale and distribution of petroleum products, to begin with, those imported on rupee payment basis from the USSR and later, those produced by the public sector refineries in the country. The first Russian tanker with its cargo of Superior Kerosene was received in Bombay in August, 1960. The next tanker with High Speed Diesel oil came in September, 1960. Thus began the operations of the Company. In its first year, the sales of the company were 32,073 Kls. Since then,

it has been a story of phenomenal growth as will be seen from the following figures:—

Year	*Sales*	*Increase over previous year*	*IOC's market participation*
	(Figures in '000 Kls)		
1960—61	32		..
1961—62	211	559%	2·2%
1962—63	642	204%	6·0%
1963—64	1166	81·6%	9·7%
1964—65	1721	47·6%	13·6%
1965—66	3648	112%	26·4%
1966—67 (Estimates)	4600	26·1%	31·6%

5. In September, 1966, the sales were estimated at the rate of 4.6 million Kls per annum. The Corporation expects that by the middle of 1967 it would be marketing more petroleum products than any other oil company in India.

II

SALES

6. The consumption of petroleum products has risen very sharply during the Third Five Year Plan. From a demand of 6.02 million tonnes in 1960 the total demand in 1966 has been about 13 million tonnes. During the Fourth Plan period the increase is expected to be much steeper. In 1971, the demand is expected to be of the order of 23 million tonnes. In the competition for share in the increased sales, the I.O.C. (Marketing Division) has two distinct advantages over the other companies. While the production of the private sector refineries has been pegged, the I.O.C. will have the expanded production at the Gauhati, Barauni and Gujarat Refineries and in addition, the production during the Fourth Plan of the Refineries at Cochin, Madras and Haldia and possibly a fourth Refinery in North India. Secondly, because of the foreign exchange difficulties, most of the imports of deficit petroleum products might be from the rupee payment sources, in which case the I.O.C. would make most of the imports. Demand.

7. In short, the I.O.C. will be expected to sell an additional 10 million tonnes of petroleum products by the end of the Fourth Plan. Its primary task, therefore, should be to get geared to the task of selling these vast quantities of petroleum products. The question that may be asked is how this is being done.

8. The Committee were informed that a perspective yearly Plan of sales upto 1970-71 was under preparation. Final Master Annual Plans will be framed every year and supplied to the Branches for implementation. According to this Plan the Corporation expects to sell only around 12 million tonnes in 1970-71. Annual Plans.

9. The Refinery production at the end of the Fourth Plan on the other hand, will be as follows:—

Gauhati	..	1.00 MT.
Barauni	..	3.00 MT.
Gujarat	..	3.00 MT
Cochin	..	2.50 MT.
Madras	..	2.50 MT.
Haldia	..	2.50 MT.
Total	..	14.50 MT.*

10. In fact, this production is likely to be even more with some of the Refineries, like Koyali, expecting to achieve a greater throughput because of some in-built capacity in their equipment. Besides this, there would be import of deficit products which is expected to be about 0.5 million tonnes in 1970-71. In short, according to the Plan being prepared, the Corporation would be far from attaining its major objective of being able to market all the production of the Public Sector Refineries and the entire quantum of imports even by 1970-71.

Achievements.

11. Judging from the performance of the past years, the I.O.C's sales achievements have not been upto expectations as will be seen from the following figures:—

(*in* '000 *kls.*)

Year	*Sales Target*	*Actual Sales*	*% of Sales Target*
1961—62	252·5	211	83·6%
1962—63	836	642	76·8%
1963—64	1860 (original)	1166	62·7% (of original)
	1294 (Revised)		90·1%(of revised)
1964—65	2226 (original) 1842 (Revised)	1721	77·3% (of original) 93·4%(of revised)
1965—66	3447 (original)	3648	105·8% (of original)
	3363 (revised)		108% (of revised)

*At the time of factual verification, the Ministry of Petroleum and Chemicals stated that the production in 1970 was likely to be only 12.70 M.T. as Gauhati, Cochin and Haldia were expected to produce only 0.85 M.T., 2.35 M.T. and 1.00 M.T. respectively.

From the above statement of sales of petroleum products, it will be seen that the targets of sales have been revised downward each year from 1963-64 onwards.

12. The reasons assigned by the Corporation for the above shortfall in sales targets for various years are summarised below:—

1961-62:—On account of reduced off-take than the contracted quantity by M/s. Hindustan Organisers.

1962-63:—Due to considerable increase in excise duties on petroleum products resulting in considerable drop in general consumption of oil products. Further, the availability of products ex-Nunmati Refinery was far less than expected owing to initial teething troubles of the Refinery.

1963-64:—

(1) Delay in commissioning of Main Installation facilities owing to delay in securing requisite land.

(2) Difficulties in availability of suitable land for the development of Depots/Retail Outlets.

(3) Delay in the switch-over by cement factories in the Southern and Western parts of India to use furnace oil in place of coal due to difficulties in securing the necessary foreign exchange allocation for importing oil firing equipments.

(4) Barauni Refinery which was expected to go on stream towards the end of 1963 did not commence production during 1963-64 and as a result product availability to the I.O.C. was very much less than what was expected at the time of fixing the targets.

(5) Limited availability of Superior Kerosene ex-Gauhati Refinery.

1964-65:—

(1) Non-availability of land at Cochin for early commissioning of the tankages for SK and MS.

(2) Considerable delay in commissioning of Barauni Refinery as well as irregular availability of products.

(3) Delay in commissioning of Koyali Refinery.

(4) Slow progress in the switch-over by cement factories to furnace oil probably owing to improved availability of coal.

(5) Increase in excise duty on kerosene and other petroleum products.

(6) Reduced imports of lube oils due to stringent foreign exchange position.

Task ahead. 13. *The years ahead are going to be far more trying than before for the I.O.C. because the bulk, if not the whole of the additional demand each year will have to be met by them. From the facts before them, the Committee feel that the I.O.C. has not as yet geared itself to the task before it. The Committee did not find a clear cut Plan showing how the I.O.C. proposed to market the production from the public sector refineries year by year; how much of various products would be marketed through each Branch in each area; how much would be sold on product exchange basis and how much as outright sale to other companies; also, how these products are to be sold and what are the basic requirements needed for this and how best to obtain them. Though the I.O.C. proposed to do its best, the Committee feel that the present Plan is not likely to attain the objective which is to sell all the production of the Refineries and all the imports and not just part of it. Theoretically, the I.O.C. does not make any profit or loss on the products sold through the other oil companies. The profits go to the other oil companies. Apart from that, the I.O.C. loses the benefit by way of reduction in the overheads per Kilolitre sold, which would have accrued to it if the I.O.C. sold these products itself. What is the organisation required for selling the available products is the question the I.O.C. should legitimately ask itself. The Corporation has several organisational shortcomings and many difficulties and handicaps to face, some of which have been brought out in this report, and there is no room for complacency. It is, therefore, very necessary for the Corporation to list out all its deficiencies* vis-a-vis *the requirements to achieve its objectives, and make a realistic assessment of what should be done to make good these deficiencies. Unless this task is taken up urgently and a clear cut line of action chalked out, the Committee* *are doubtful if the I.O.C. will achieve the success which Government, Parliament and the public expect of it.*

14. The I.O.C's market participation in All India petroleum sales has been steadily increasing as the following figures will reveal:— **Market participation.**

1963-64	9.7%	
1964-65	13.6%	
1965-66	26.4%	
1966-67	31.6%	(estimates)

15. This figure will rise much steeper in the coming years with more products coming into the hands of the I.O.C. from the Refineries.

16. A close examination of the sales pattern of the I.O.C. reveals certain interesting features.

(i) In the year 1965-66, sales to Government and semi-Government agencies including Defence, Railways, Central and State Public Undertakings, State Transport Corporations etc. accounted for 43.44 per cent of the total sales of the I.O.C. In 1965-66, the I.O.C. met only about 58.4 per cent of Government requirements and this percentage is bound to go up in future years. The total sales increase in the coming years is bound to be so large that the percentage of total sales constituting sales to Government and semi-Government agencies will fall. **Sales to Gover nment**

(ii) The I.O.C. has been facing considerable difficulty in opening retail outlets. In fact, even the modest targets laid down in the past years had not been realised except in 1965-66, as the following figures will reveal:— **Retail outlets.**

	Target	*Actuals*	
	Pumps (MS & HSD)	*Pumps*	*Outlets*
1963—64 . . .	543	179	120
1964—65 . .	656	272	138
1965—66 . .	400	822	444
1966—67 .	1260		

The targets for the Third Five Year Plan which had been prepared by the I.O.C. had envisaged that there would be a total of 2,289 pumps as on 1-4-1966. As against this, there were only 2,071 pumps on that date.

State-wise Development.

(iii) The development all over the country has also not been uniform as the following figures of retail outlets, Statewise as on 1-9-1966 will reveal:—

Punjab	61
Uttar Pradesh	72
Rajasthan	58
Delhi	23
Himachal Pradesh	3
J & K	4
Madhya Pradesh	76
Maharashtra	76
Gujarat	59
West Bengal	45
Bihar	49
Assam (Tripura and Manipur)	45
Orissa	20
Madras	106
Andhra Pradesh	49
Kerala	65
Mysore	51
Bhutan & Sikkim	2
Nepal	9
	873

Concentration in big cities.

(iv) 35 per cent of the total sales of petroleum products, were stated to be concentrated in the four major cities of Bombay, Calcutta, Madras and Delhi. The number of outlets of the I.O.C. in these cities as compared to the private Companies is very low as the following figures will reveal:—

City	*I.O.C.*	*Others*
Bombay	11	201
Madras	7	121
Delhi	23	139
Calcutta	19	365

The average monthly sales of the I.O.C. pumps in these cities, as compared to the retail outlets of other companies, is also low as the following figures will show:—

City	*I. O. C.*		*Burmah Shell*		*Average for all companies*	
	MS	*HSD*	*MS*	*HSD*	*MS*	*HSD*
Bombay	44	14	79	33	69	29
Madras	15	14	N.A.	N.A.	28	13·5
Delhi	24	35	40	29	33	30
Calcutta	12	15	38	19	31	20

The I.O.C. will have to make considerable headway in establishing new pumps specially in the four major cities.

17. One of the major handicaps that the I.O.C. has to face is the opening of retail outlets owing to the difficulty in obtaining sites specially in the four major cities. The Committee were informed that the Ministry of Petroleum and Chemicals had written several circulars to the State Governments requesting them to give priority to the I.O.C. for the allotment of Government sites both new as well as those for which the leases with other companies expire. The response has been somewhat encouraging from some States like Delhi, Punjab, Rajasthan, Gujarat, Madhya Pradesh and the Southern States. In other States there has been little or no response. In all the States covered by the Eastern Branch, for example, the I.O.C. did not get any priority over other companies in the matter of location of pumps or in the matter of renewal of leases of sites. One of the major reasons for not being able to establish more outlets in Calcutta city, is stated to be the lack of cooperation from the Calcutta Corporation. The same holds good for Bombay City. The Delhi Administration is helpful, but all sites offered are in newly developing parts of the city where sales have to be developed. Hardly any sites have been offered in places which have a high sales potential.

Sites for retail outlets.

18. One case which came to the notice of the Committee appears to be illustrative of the attitude of local authorities. The Calcutta Improvement Trust had advertised inviting applications for lease of a plot of land in the Girish Chandra Avenue Extension, for the installation of a retail outlet. Applications were examined on 3rd December, 1965. Only two offers were received. The I.O.C. had quoted a lease rental @ Rs. 2,500.00 per month while Burmah-Shell's offer was higher by Rs. 72.50. The Calcutta Improvement Trust considered both the offers below their expectation and re-advertised. The I.O.C's revised quotation was @ Rs. 3,000.00 per month while Burmah-Shell quoted Rs. 3,087.00 per month. Subsequently the I.O.C. offered Rs. 3,100.00 per month and even sought the assistance of the Government of West Bengal. The Chairman, Calcutta Improvement Trust, regretted his inability to entertain I.O.C's revised offer.

19. *The Committee hope that the Ministry will take up this matter with the State Governments at the highest level and explain to them that the bulk of the future increase in sales during the coming years will have to be undertaken by the I.O.C. and that unless facilities are afforded to them, the transport industry in the States will face difficulties. Examples of cooperation extended by some of the more helpful States might be cited and similar facilities sought. The Committee do not set much value to general circular letters addressed to all States which tend to be treated in a routine manner by the Departments concerned in the States. It might be better to take up this matter demi-officially with supporting statistics in respect of each State separately. It is only in this way that the importance of the matter can be brought home to the State Governments.*

Attitude of some Central Government Departments.

20. *The Committee cannot appreciate the attitude of some of the Central Government Departments e.g., Port Trusts and the Railways.* In Bombay for instance, the Committee were informed that there was much the Bombay Port Trust could do to help the I.O.C. but this help was not forthcoming. Similarly, the Committee learnt that in South India, the Railways have released sites belonging to them to the private oil companies while refusing the sites to the I.O.C. Yet another example is that of

the Defence Department. While Cantonment Boards give preference to the I.O.C. in the matter of new pump sites or renewal of leases of old sites, they usually demand an exhorbitant premium for the site, which the I.O.C. found uneconomic. For example, in Western India, the Defence authorities charged "market rent" for the sites and demanded a "premium" of twenty times the rent for new sites as well as re-leased sites. *Revenue for Cantonment Boards should not be at the expense of other Government organisations. The Committee desire that the Ministry of Defence should examine this question and lay down a reasonable sum to be charged from the I.O.C. pumps as premium. This should be applicable to all the Cantonment Boards.*

21. *As regards instances of lack of cooperation from other Central Government Departments, the Committee feel that if efforts by the I.O.C. at the highest level fail, the matter should be brought to the notice of the Ministry of Petroleum and Chemicals who should in turn bring specific instances to the notice of the Ministries concerned and request them for help. For example, the Ministry of Transport should be addressed in the matter of obtaining help from the Port Trusts and the Railway Board in regard to individual Railways.*

22. The Committee also found that after a site has been selected by the I.O.C., it takes a very long time to obtain clearance from the various authorities concerned. In Calcutta, the District Magistrate's "No-objection Certificate" takes one month to obtain, the Municipal Corporation and P.W.D. sanction takes 6 months, and the Inspector of Explosives storage licence takes one month. These are not obtained simultaneously but one after the other. The average time taken by the Eastern Branch for settlement of these formalities is 10 months. In Calcutta city, the approximate time taken is as follows:— Clearance.

Police Commissioners' approval	:	8 months.
P.W.D's approval.	:	4 months.
Calcutta Municipal Corporation's approval.	:	8 months.

23. In Bombay, there are no less than twenty authorities from whom sanctions have to be obtained before a

pump can be set up. These include, among others, the Police Commissioner, the Traffic Department, the Collector of Bombay, the Municipal Corporation, the Safety First Association, Survey and Factories Department, the Executive Engineer (Buildings), Fire Brigade Department etc. All these offices are concerned with that part of the law administered by them. Objections are therefore raised and satisfactory explanations given before sanctions are issued. The Committee obtained detailed notes from the Branch Offices on the procedure that has to be followed by them before a pump can be established. *The procedure is complicated. All this can be simplified. Once the location of a site is approved submission of applications for all the other sanctions should be permissible simultaneously and it should be possible for the different authorities to give their sanction within, say, a month. The Committee suggest that the Ministry of Petroleum and Chemicals should request the State Governments to streamline the procedure.*

24. *The Committee understand that a Committee has been set up recently by Government to rationalise the growth/proliferation of retail outlets. The Committee hope that as a result of that Committee's report, the I.O.C. will get a fair share of future development in the field. The Ministry of Petroleum and Chemicals should take adequate steps in this direction.*

New Installations

Airports. 25. In several places *e.g.* airports used by the Air Force, the business has come to the I.O.C. from the private oil companies. The Oil Companies had built their storage tanks and other facilities at these places. When their business was wound up, the storage tanks, pipelines, fittings, refuellers etc., became surplus to their requirements. One would have expected the private oil companies to sell these facilities to the I.O.C. at a reasonable price, but the Committee understood that the opposite was the case. The underlying principle behind this viewed from a national angle, quite apart from commercial considerations, is that the capital cost on Installations etc. should not be duplicated and that where facilities exist they should be utilised rather than new ones set up. One such instance which came to the notice of the Committee was at the Hakimpet

Airport, where the Burmah-Shell had storage and handling facilities. When the business with the I.A.F. passed over to the I.O.C. the Burmah-Shell was not agreeable to part with their installations. They wanted to operate them for the I.O.C. on a 50-50 profit-sharing basis for 18 months. The price demanded for transfer of the assets was far in excess of the book value. Negotiations were held by the I.O.C. with Burmah-Shell regarding this but ultimately, in December, 1965 the talks failed.*

26. The Air Force wanted the I.O.C. to start supplies in September, 1965 and since the Burmah-Shell was not willing to part with their assets, the I.O.C. had to set up new storage tanks etc. quickly to meet the needs of the situation.

27. The I.O.C. has taken over 20 bulk tank installations from Burmah-Shell at various places so far. Where new tanks were constructed because of non-cooperation by private oil companies, only the minimum requirements were stated to have been put up. As far as the staff was concerned, the I.O.C. gave first priority for taking over the existing staff of the private Oil Companies. Unfortunately, the salaries paid by the private Oil Companies were very high compared to those of the I.O.C. and some of the staff did not wish to come over to the I.O.C. on lower scales of pay.

28. One instance where matters had proceeded in the right direction was at TISCO, where the furnace oil business came to the I.O.C. from the ESSO. The ESSO owned the storage tanks which had certain special facilities for heating etc. The depreciated value of the tanks was Rs. 3 lakhs. To construct such tanks now would have cost the I.O.C. about Rs. 15 lakhs at current prices. The tanks had a life of about 20—25 years more. In view of these considerations, the I.O.C. paid Rs. 8.67 lakhs for the tanks and took them over. TISCO.

29. One of the unfortunate cases of this nature relates to the installations at Cochin. The three private Oil Companies have about 50 storage tanks there with a total capacity of 1,68,000 MT of oil. Besides the tanks, there are numerous ancillary facilities like railway sidings, tank Cochin.

*At the time of factual verification of the Report the I.O.C. informed the Committee that the Burmah-Shell had finally agreed to hand over the facilities at a negotiated price without insisting on a share of business being given to them.

lorries, work-shops, garages, lorry filling facilities, barrel filling facilities and tank boat filling facilities. With the commissioning of the Cochin Refinery, imports into Cochin Harbour, whether from abroad or from the private refineries at Bombay or Vizag stopped. All the oil companies now obtain their requirements from the Cochin Refinery. This being so, the private oil companies have no need for the oil installations at Cochin.

30. According to the I.O.C. "it has been the policy of the private oil companies to hold on to their port installations at Cochin apparently because this would give them the benefit of MI charges, if products are delivered to them from the Refinery by pipeline transfer and control over the products which would give them a marketing advantage. Knowing fully that a Refinery at Cochin was coming up, they did not at any stage offer their installations". *This is quite understandable because any commercial firm hopes for the best advantage in a given situation and it was too much to expect them to take the initiative of offering these installations to the I.O.C. In fact the I.O.C. should have taken the initiative by offering to take over the installations after clearly explaining their policy in this regard. This the I.O.C. did not do. Instead, storage tanks and other facilities were put up at the Cochin Refinery for storage and despatch of products by rail and road. The Committee understand that these storage tanks were built with imported material and that considerable expenditure has been incurred on them. This unnecessary expenditure could have been easily avoided.*

31. Some time back, Caltex made an offer to dispose of their installation at Cochin to the I.O.C., since the latter could put this installation to economic use in the context of the magnitude of onshore and offshore movements. During recent discussions, however, Caltex had shown interest only in giving the use of their installation to the I.O.C. on a "throughput charge" basis at the rate of Rs. 5 per k.l., and the proposal for sale of the installation to be settled in course of time. This was not acceptable to the I.O.C.

32. *Such instances are bound to increase in future. More and more business at airports, especially those used*

by the Defence, is likely to come over to the I.O.C. What happened at Cochin will shortly happen at Madras. In all such cases, there could be no justification whatsoever for the I.O.C. to build new installations. It would be a national dis-service for the private Oil Companies to hold on to their installations when they have no use for them, or to sell them as scrap after dismantling. In times of economic difficulties when steel etc. are difficult to obtain, such waste should not be allowed to occur.

Future policy.

33. *The Committee suggest that in future, where oil installations and ancillary facilities become surplus to the requirements of the private oil companies as a result of business passing into the hands of the I.O.C., Government should ensure that such installations are taken over by the I.O.C. and that the I.O.C. does not duplicate the facilities already existing. No national waste should be allowed. If there is a dispute regarding the price to be paid for such transfer of property, Government should constitute a Committee consisting of a representative each of the I.O.C. and the private oil company concerned and an impartial chairman, acceptable to both the parties. The sale price fixed by such a committee should be binding on both the parties.*

III

OPERATIONS

34. One of the most important facts in the petroleum industry in India is that the cost price and the ceiling selling price of the various products are fixed. The profits that a petroleum company makes, therefore, depend entirely on its operating efficiency. Both the Oil Price Enquiry Committee in 1961 and the Working Group on Oil Prices in 1965 made detailed studies of the marketing and distribution costs of all the companies and arrived at certain norms.

Evaluation of costs.

35. *The Committee would have expected the I.O.C., like other well managed companies, to evaluate their costs all-India-wise, Branch-wise and Unit-wise and exercise proper managerial control over expenditure with reference to the norms laid down by the Price Enquiry Committees and those evolved by themselves in the course of working. The Committee were surprised to learn that this was not done. They were given to understand that the accounts of the Corporation are not maintained in a manner capable of revealing the function-wise incidence of expenditure in terms of cost per kilolitre.*

36. *There are defects in the accounting system which have been dealt with elsewhere in this Report. What, however, the Committee fail to understand is why calculations could not be made from the basic figures of expenditure which were available. It was simply a matter of apportioning expenditure under various heads. In what proportion this was to be done for various items was a matter of policy which should have been settled without much difficulty. If expenditure was worked out in this manner it would have been an excellent instrument for managerial control and the Committee are sorry to note that this was not done.*

Cost Accounting

37. It is understood that the I.O.C. has now evolved a system of accounting which would give these figures and that it is proposed to introduce it with effect from 1967-68 onwards. This brings up the question of a proper

cost accounting system in the organisation. The Committee were informed that cost accounting has been introduced to a limited extent in the Corporation and that studies on the cost and profitability of a few selected Depots and Installations and all the Retail Pump Outlets commissioned upto the 31st March, 1965 have been carried out by the Chief Cost Accounts Officer. A more comprehensive system of cost accounting is to be introduced in the Corporation. The system is being evolved together with a suitable detailed classification of accounts, which will make detailed information available for cost studies and cost control. Till now the studies on costing were mostly done by the Chief Cost Accounts Officer at the Head Office. Certain studies were also conducted in one of the Branches. The detailed cost accounting that will be introduced will be both at the Head Office and the Branch levels. The Head Office will have an overall functional control over the cost cells which will be formed at the Branches.

38. *The Committee hope that the decision to introduce a proper system of cost accounting will not be further delayed. Costs should be worked out month-wise, installation and Depot-wise, District-wise, Branch-wise and All India-wise and strict control over costs should be ensured. As stated earlier, operational efficiency is the only factor which will enhance the profits of the Marketing Division and the evaluation of costs should be the main guiding factor for the Management in determining the working efficiency of the organisation. To that extent, its importance should be realised and all steps taken to perfect that system.*

39. The Committee saw a review of the working of the Marketing Division for three years from 1962-63 to 1964-65, carried out by the Senior Cost Accounts Officer of the Ministry of Finance and an Under Secretary of the Ministry of Petroleum and Chemicals. Among other interesting facts about the working of the Division, the review reveals the following figures in respect of marketing and distribution charges* expressed in terms of Kilo litre of All-India Sales. Review of working.

1962-63	Rs. 20·06 per Kl.
1963-64	Rs. 17·75 per Kl.
1964-65*	Rs. 21·25 per Kl.

*The Review states that these figures exclude charges for delivering products from the storage points to the agents' godowns and to the retail outlets as information under this head was not readily available with the I.O.C.

40. The above figures exclude expenses like interest on borrowings, bonus, bad debts, loss or gain on sale of assets etc. If these were added and the total revenue expenditure is taken into account the incidence of cost per kilo litre would be as follows:—

1962-63	Rs. 30·16 per Kl.
1963-64	Rs. 29·21 per Kl.
1964-65	Rs. 31·99 per Kl.

41. All petroleum Companies incur a considerable amount of irrecoverable expenditure like free delivery of products to the retail pump sites within the free delivery zone and at air ports, bridging costs etc. The impact of these out-of-pocket expenses (excluding depreciation) in terms of Kilo litre of All-India Sales was calculated in the review as follows:—

1962-63	Rs. 15·14
1963-64	Rs. 16·12
1964-65	Rs. 19·57

Control over operational costs.

42. It will be seen from the above figures that the trend of unit incidence is progressively on the increase. *The Committee are of the view that a very strict control over operational costs is necessary.* As an example, in the Northern Branch the net under-recovery of freight jumped from Rs. 3·80 lakhs in 1964-65 to Rs. 21·70 lakhs in 1965-66 *i.e.*, an increase of 570 per cent, though the sales increased only by 100 per cent. Similarly, the net under-recovery on account of port-price differential rose from Rs. 1:37 lakhs in 1964-65 to Rs. 6·27 lakhs in 1965-66 *i.e.*, an increase of 458 per cent. *Perhaps these under-recoveries could have been avoided to some extent if the incidence of under recovery had been properly calculated and movement arranged in such a manner as to reduce this figure to the minimum.* Similarly, the Committee found that a large amount of bridging (*i.e.*, uneconomical transport by tank lorries instead of railway tank wagons) is being done in practically all the Branches, particularly in the Western region from Bombay.

43. The net under-recovery on this account in the Western Branch was Rs. 15·49 lakhs in 1964-65 and Rs. 56·45 lakhs in 1965-66 *i.e.* an increase of 364 per cent on a total

sales increase of about 100 per cent. The net under-recovery in the Madras Branch in 1965-66 on account of bridging was Rs. 21·27 lakhs. Here bridging appears to have been done not only within the normal supply zone of a particular installation but also outside the normal supply area. *If proper cost figures were available in time, the Management could have taken measures to prevent unnecessary expenditure or to reduce it. Such examples are numerous. For a proper and efficient exercise of managerial control over the affairs of the Corporation, it is very necessary for the management both at the Head Office and Branch levels to have complete and exhaustive data on all the aspects of the operations in the right form, both in regard to past and projected operations.*

44. The Committee understand that petroleum companies in the Western Countries undertake intensive research on the operational aspects of the industry. A scientific analysis is made of a particular operational aspect, the objective being to develop a system for devising the most economical operating plan. In fact "Operational Research" is being employed to a great extent in the solution of many problems. Computers also play an important part in working out the most economical operational methods and in decision making. The Committee were informed during oral evidence that the Marketing Division also evaluates freight economics and distribution ex-inland refineries with all possible permutations and combinaions and allowing for practical operational aspects and lays out priorities in distribution. *The immensity of the problem in view of the huge size of the country, the large distances which have to be covered, the availability of products at different places etc., make linear calculations by conventional methods almost impossible. The I.O.C. should plan ahead and use machines as well as modern scientific methods for calculations. The I.O.C. will perhaps rank as India's biggest company in terms of gross annual turnover, and as such it is necessary to discard rule-of-thumb methods and switch over to modern scientific analysis of problems.* Research

45. *To take a few examples, it is a fundamental principle in the oil industry that handling should be reduced to the minimum mainly to avoid loss by leakage. The system of delivery in intermediate stages is wasteful in manpower as well as in losses arising from the constant*

handling of products on their way to the consumer. The Committee wonder how far the I.O.C. has evaluated the cost incidence of this principle and worked out movements on the principle that wherever possible, deliveries should be made direct to the customers from the refineries or main installations. Similarly, the size of a tank wagon or a tank lorry is an important factor in operations. Are these of optimum size? Perhaps the very heavy incidence of 'bridging costs mentioned earlier could have been considerably lower if tank trucks were of bigger dimensions. Similarly, storage tanks at dealers' outlets or of bulk customers should be of the maximum size possible to avoid frequent supplies from the installations and deliveries of partial loads at each trip. To illustrate, it is anomalous for a 1500 gallon vehicle to make a round trip of 25 miles to drop 250 gallons. A large storage capacity at the customer's end would also avoid supplies on a fire-engine service basis involving a large number of deliveries at frequent intervals. The Committee saw evidence of this in some of the replies received from public undertakings where they complained of late deliveries causing disruption in their working. If adequate margins for carrying stocks are made by providing bigger storage capacity, such complaints could be avoided and the I.O.C.'s operational costs reduced.

Tank Truck utilisation

46. As one example of operational cost control, the Committee studied the tank truck utilisation figures of the various Branches. This is a very important aspect of operations. The Committee are not convinced that this aspect of cost control is receiving the attention it deserves. Truck utilisation requires considerations of several other matters besides using a truck for a given number of hours and carrying loads upto a maximum limit. It involves vehicle programming, calculation of costs of operations, routing patterns etc. which do not seem to be done adequately enough. To take one example, the Committee noticed during their visit to the Wadala Installation at Bombay that there were as many as 18 tank lorries waiting in a queue to be filled with products. There were only four delivery points at the installation from where lorries could be filled. The idle time both of the lorries and of staff, if evaluated in terms of money, would be substantial.

47. The figures of tank truck utilisation examined by the Committee related to the month of March, 1966.

The following figures will show the differences that exist from Branch to Branch.

Branch	No. of Trucks	No. of Trips	Kls Trans-ferred	Travelled	Hours Worked	Hours Repair	Kms. Idle	Exp. Rs.	Expenses per kilometre Kilo-litre.
									Paise
Northern	35	1672	14,155	171,285	10,728	725	174	81,018	5·58
Eastern	43	981	7,998	137,788	9,297	2,113	327	85,315	7·59
Western .	55	1850	16,189	23[illegible],352	13,960	1,594	1,102	127,602	6·25
Southern .	69	2367	18,868	256,675	16,654	932	1,023	113,475	5·54

48. *To what extent the position could be improved, how it can be improved, what the defects are, etc. is for an expert to say. But a mere examination of the figures of working results suggests a need for greater control over this matter, and the necessity of taking steps to maximise tank truck utilisation. The Committee expect that this matter will receive the necessary attention of the Management early.*

Stock Losses

49. Stock losses occur on account of various reasons, the chief of them being losses due to variations in temperature, evaporation, leakages of tanks during transit, pilferages and lastly incorrect readings of scales in storage tanks.

50. The stock losses during the last four years have been as follows:—

Year	Total Vol. of stock handled (lakhs Kls)	Total stock losses (Kls)	Percentage of losses	Value of stock loss for all products in lakhs of Rs.	Total sale of all products in K/L	Loss per K/L sold in rupees.
962-63 . .	11·70	2,946	0·25	10·[illegible]8	6,37,996	1·64
963-64 . .	23·30	5,500	0·24	23·25	11,99,833	1·94
964-65 . .	34·78	4,977	[illegible]	21·[illegible]3	17,20,051	1·24
965-66 . .	69·57	6,556	0·09	30·[illegible]2	36,28,251	0·83

51. The Committee understand that the average stock losses in the industry is in the region of 0.2 per cent of all products taken as a whole. Compared to this figure, the I.O.C. has done fairly well during the last two years in lowering their figures of stock losses expressed as percentage of total volume of sales. The Committee are also glad to learn that the loss calculated in terms of rupees per kilolitre has also dropped steadily and was last year about one half of the figure of 1962-63.

Auditors' remarks.

52. The Committee, however, came across the following remarks in the Report of the Company Auditors in respect of the accounts for the year 1963-64:—

"(i) The Company has made abnormally high stock losses (estimated at Rs. 23 lakhs) during the year. While a large part of the losses was considered by the Company to be due to normal operational reasons, a part is accounted for by misappropriations of oil stocks, in turn caused by lack of proper control over stocks. Judging from whatever evidence was made available to us, it would appear that the amount of the misappropriation was quite large and probably ran into a few lakhs. The frauds appeared to have been carried out either (i) by making fraudulent issues by under-stating the quantity withdrawn or by not making any entry at all in the stock records or (ii) by not recording receipts of stocks.

(ii) We understand that the stock losses include an aggregate amount of Rs. 3 lakhs odd in respect of tank wagons known to have been received at the destinations but not entered in the stock records. It is not known whether these unrecorded receipts contain an element of misappropriation or just go on to increase the operational losses.

(iii) Mention has already been made of the claims made against the Railways for tank wagons alleged to have been lost in transit. We suggest that cases of missing wagons be properly examined in future before assuming that they have been lost in transit. We notice that in some cases transit losses had become time barred. There were also instances of excess receipts of tank wagons amounting in value to

Rs. 3,00,049·23. The source of these wagons could not be traced by the company's officials. It has, therefore, been assumed that these supplies constitute unrecorded purchases and a provisional entry has been passed by crediting outstanding liabilities".

53. This matter was also adversely commented upon by Audit *vide* Audit Report (Commercial), 1965, para 8, pages 33-34. **Audit. Report**

54. *The Corporation has not been able to provide a satisfactory explanation for this and merely stated that the percentage of loss due to frauds cannot be separately ascertained, but where in a particular Depot or Installation it is found that the loss of products is abnormally high, detailed investigation is carried out to ascertain the reasons and action has been taken where this has been traced to negligence or fraud. The Committee find it difficult to accept this statement. If losses due to frauds are to be dismissed because of inability to detect it is a cause for concern because the offender is virtually given a free hand. Some method should be devised to detect frauds.* **Loss due to frauds.**

55. The Committee found that several measures had been taken to control losses, chief of them being as follows:— **Remedial measures.**

(1) Training in stock loss control for field staff which includes training in system and procedures, for better handling methods.

(2) Incentive schemes by way of cash prizes of Rs. 1,000·00, Rs. 750·00 and Rs. 500·00 respectively for the best three depots in the whole country producing the best results in the stock loss control programme. Besides the best three depots in a Branch are also given cash prizes.

(3) Inspections and checks by Branch and Head Offices staff.

(4) Provision of adequate facilities at depots such as power pumps, drum-fillers etc.

(5) Introduction of comprehensive stock control forms since 1964, wherein daily stock losses are noted and a copy sent to the Branch Office.

Monthly abstracts are prepared by the Branch office and sent to the Head Office. Both at the Head Office level and the Branch level constant vigilance, is exercised and abnormal losses are enquired into immediately.

Claimable losses.

56. The I.O.C. divides the losses under two separate headings—claimable and non-claimable. The non-claimable losses are those which occur due to temperature variations between the shipping point and receiving point. The claimable losses are mostly those which occur on account of leakage and pilferage *en route*. Claims on account of these losses are preferred with the carriers, *i.e.* the Railways or private tank truck owners. The Committee were informed that claims against the Railways are usually repudiated on technical grounds or delayed on some ground or the other. The claim arises when the seals over the valves of the tank wagons are found open and the dip indicates loss. The main hitch over these claims appears to be that the I.O.C. cannot produce any documentary evidence for the quantity lost. It was also learnt that most Railways while issuing RRs merely state: "said to contain......quantity" and do not take responsibility for the actual quantities loaded. The I.O.C. does not have calibration tables pertaining to all the types of tank wagons. It was also stated that most of the tank wagons need to be recalibrated. The Committee were informed that if these two difficulties relating to calibration were solved, much headway can be made towards a solution of this problem.

57. *The Committee suggest that the I.O.C. should obtain the specifications of the various types of tank wagons in use and prepare calibration tables for them immediately. The Corporation should also take up the matter of recalibration of tank wagons, where necessary, with the Railways. Faulty calibration can also lead to wrong accounting by the depots and indicate gains or losses where none exist. The Committee suggest that the I.O.C. should go into this matter with the Railways to prevent leakage and pilferage of oil products in transit. The Railway Board should lend their support to end this diminution of revenue, because in the ultimate analysis, it is public money which is lost, whether the I.O.C. bears the loss or the Railways. As such this matter deserves serious attention of both.*

58. The Committee obtained the stock loss figures for each Branch for the last 4 years and found that the loss figures considerably varied from year to year in each Branch. The permissible loss, that is the targets set by the Head Office of the I.O.C. varied from Branch to Branch mainly due to the temperature variations experienced in that area. The figures given below indicate the permissible percentage of loss for all products taken together and the actual percentage of loss incurred in each of the four Branches, during 1965-66:— Branchwise figures.

	Permissible loss targets %	*Actual loss %*	*Value of actual loss*
Western	0·08	0·0731	Rs. 6·97 lakhs
Eastern	0·24	0·1776	Rs. 16·59 lakhs
Northern	0·22	0·0604	Rs. 4·92 lakhs
Southern	0·1067	0·0110	Rs. 1·74 lakhs
All India	0·24	0·0942	Rs. 30·22 lakhs

59. *While the Committee were glad to note the procedures adopted for controlling stock losses and the success achieved in this direction, they feel that there is scope for further reduction of losses. Since the limits of permissible losses have been prescribed by the I.O.C. itself on the basis of experience, it is necessary to watch the performance year by year and review the limit. In fact, with greater experience, it should be possible to show a better performance and to this extent the limits should be revised downwards each year till a reasonable figure is reached. Last year, the value of such losses was Rs. 30.22 lakhs. This is a huge amount and when the volume of sales increases, this figure is also likely to increase. These losses have to be brought down and all measures towards this end should be taken. The Committee also recommend that this matter should be brought to the specific notice of the Board of Directors periodically.* Need for improvement.

Filling and Service Stations

60. The Committee called for details of cost of construction of service stations under each Branch. Under the Northern Branch there are five service stations and the Service stations

total cost of construction including equipment, building, road, etc., varied from Rs. 1.01 lakhs to Rs. 1.85 lakhs for each Service Station. The Southern Branch has 3 service stations and the cost of construction varied from Rs. 73,389 to Rs. 1,60,625. The Eastern Branch has 5 service stations and the cost of construction of these varied from Rs. 79,738 to Rs. 1,33,635. The Western Branch has 7 service stations the cost of which varied from Rs. 1.41 lakhs to Rs. 2.98 lakhs. The average cost of construction of a service station was as follows in the different Branches:—

Branch	*Location of Service Station*	*Average cost*
Western	Bombay city	Rs. 1,77,000
Northern	Delhi	Rs. 1,34,000
Southern	Madras City	Rs. 1,06,000
Eastern	Calcutta city	Rs. 1,11,900
Western	Up-country locations under the Branch	Rs. 1,25,000
Northern	Do.	Rs. 1,13,000

61. The Committee found that there was considerable variation in the cost of equipment installation, building etc. of these service stations under the same Branch and between different Branches. This variation is considerable and glaring in some cases. For example, the building of the Arthur Road Service Station at Bombay cost Rs. 55,000 while the building of the Annie Besant Road service station cost Rs. 1.52 lakhs though the cost of equipment and installation at the Annie Besant Road Service Station was very much less than that at the other Service Station. Another example is in the Northern Branch where the building for the Link Road Service Station at New Delhi cost Rs. 14,212 for housing Rs. 42,062 worth of equipment, while the building of the new Palam Road Service Station cost Rs. 53,800 to house equipment worth Rs. 19,470. There might be cogent reasons for these variations, which the Committee have not enquired into. *From a general examination of the figures, however, the Committee feel that there has been a tendency in some*

cases to ignore the need for economy in the interest perhaps of putting up a prestige building. The Committee recommend that the I.O.C. should standardise the service stations both in regard to equipment and installations and buildings. Two or three standard types may be designed and an estimate of costs worked out for each of these types. The service stations put up in future should conform to these standards and costs should be confined within the limits laid down.

62. The Committee also found that there was considerable difference in the cost of filling stations constructed in the four major cities and also in up-country locations under the different Branches. The figures are as follows:— Filling stations

Branch	*Location of filling station*	*Average expenditure of construction*
Western	Bombay City	Rs. 1,00,000
Northern	Delhi	Rs. 90,000
Southern	Madras city	Rs. 57,000
Western	Up country locations under the Branch	Rs. 65,000
Northern	Do.	Rs. 55,000
Southern	Do.	Rs. 30,000 to 60,000

63. *The Committee feel that the I.O.C. should standardise its buildings and service facilities in the filling stations. Three or four standards may be laid for different land areas or locations. Standard costs may be worked out and the Branches directed to keep costs within those standards. Till the I.O.C. is able to afford luxury and prestige filling stations, it would be advisable to give greater attention to economy.*

Adequacy of tank wagons

64. Liaison with Railways for tank wagons is maintained through the Railway Inland Petroleum Movement Committee (RIPMC) at Bombay. This Committee consists of representatives of all the oil companies and the Railways. It has 4 sub-Committees at Bombay, Calcutta, Delhi and Madras. Tank wagons between various bases are allotted RI PM C.

by the RIPMC on the basis of requirements of each area and the tank wagons availability in the country. Priority is given for movement of indigenous products of the Refineries.

Shortage of wagons.

65. The Committee were informed that there is some tank wagon shortage in the country. Often, movement of trains carrying foodgrains or Defence requirements hinder movement of tank wagons with the result that movement bottlenecks arise. This has resulted in the necessity of running rakes and block specials in various directions which have improved the availability of tank wagons at the bases to some extent. Difficulties are constantly discussed at the Sub-Committees and at the main Committee and efforts are made to achieve maximum utilisation of available tank wagons. When tank wagons are not available road bridging is resorted to and this leads to under-recovery of freight.

66. All the four branches of the Marketing Division reported to the Committee that the position in regard to availability of tank wagons was far from satisfactory and that most often, tank wagon requirements were not fully met by the Railways.

67. *Judging by the facts made available, the Committee feel that much needs to be done both in regard to the availability of tank wagons and the turn around of wagons. The Railways should make available the minimum number of tank wagons required at different basis. Estimates of annual requirements should be worked out in consultation with the RIPMC and the decisions taken should be implemented fully by the Railways. Inadequacy of tank wagons may lend to serious bottlenecks in the movement of petroleum products, which is undesirable in any circumstances, and worse still in times of an emergency. The Committee have not enquired as to the exact nature of the difficulties faced by the Railways in making available the required number of tank wagons and as such they are unable to comment on that aspect. If there are difficulties, they have to be overcome as no exception can be made in regard to the movement of oil products.*

Wagon turn around.

68. *In regard to turn around of wagons, the Committee hope that both the Railways and the RIPMC will keep a*

close watch and ensure that the position improves. An Efficiency Expert or Consultant could be requested to examine the matter and make suggestions for improvement. If turn around efficiency can be improved even by 10 per cent, the savings and efficiency that can be effected will be considerable.

69. *The Committee were informed that in order to avoid marshalling of tank wagons at various yards and placing them at various oil sidings, joint oil sidings and single point loadings were being considered. The implications of this suggestion should be worked out and a decision taken at an early date.* **Single point loadings.**

70. *As the Indian Oil Corporation will be the biggest petroleum company in India soon, it should ensure that the tank wagon availability and wagon turn around are satisfactory. A continuous watch should be kept over this at the Head Office of the Marketing Division. Difficulties, if any, should be pointed out to the Railway Board and suggestions for improvement discussed with them or with the concerned Railways. The Ministry of Petroleum and Chemicals will no doubt look into this matter and ensure that movement of petroleum products is not hampered because of inadequacy of wagons.* **Coordination.**

Dry Days

71. The Committee enquired from the Branches if on any day during the last two years, the cities of Bombay, Madras and Delhi ran out of stock of products and were informed as follows:—

Bombay:—Between April, 1964 and March, 1966 I.O.C. had nil stocks of H.S.D. on 14 different days.

Madras:—Stocks went very low sometimes due to sudden rise in the demands but somehow they had managed not to run dry.

Delhi:—Between July, 1964 and March, 1966 I.O.C. had nil stocks of petrol on 10 different days.

In July, 1964, there were nil stocks of H.S.D. from 17th July, 1964 to 19th July, 1964.

72. *The Committee feel that running dry of stocks especially in big cities is likely to create a very adverse impression on the public and would injure the reputation of the I.O.C. There is no justification for this to happen. Every installation and depot has sufficient storage capacity and can provide for a good margin of stocks. If movement operations are efficient, there is no reason why storage tanks should go dry at any place, at any time.*

Meetings of personnel engaged in Sales and Operations

73. *The Committee would recommend that there should be periodical meetings of sales and operational personnel within a Branch and between Branches with a view to exchange ideas and experiences and effect improvements. The General Manager of the Division should also act as the link between Branches and transmit ideas from one unit to the other. The Committee would also suggest that a keen sense of competition should be developed between Branches in the matter of operational efficiency and suitable awards made as incentive to better performance.*

Profit responsibility

74. The sales and operations programme of the Marketing Division are controlled from the Head Office. The Branches hardly exercise any direct management control except in so far as carrying out the programme dictated by the Head Office. They have hardly any profit responsibility and the costs incurred by them are not evaluated in order to know how cost patterns are behaving. Cost control has been based more or less on following certain norms, and profits have been automatic. In answer to a question on this subject during the oral evidence of the officials of the Marketing Division, the Committee were informed:—

> "This matter has been exercising our own mind and it is gratifying that we are able to say that we have devised a system which will provide information to each Branch in respect of expenditure and profit per K.L. sold."

75. *The system followed hithertofore leaves very little incentive to the Branches to show better working results, improve operating efficiency, economise on expenditure or*

exercise greater cost control. This is of course not to say that the Branches have been neglectful of their obligations in this regard. The defect is in the system which centralises the entire profit responsibility on the Head Office and results in a loosening of the controls at the Branch level. As the sales of the I.O.C. increase year by year, the volume of business at the Branches will increase. Even now each of them does on an average of Rs. 4 crores of business every month. In handling this large volume of business it is necessary to make them fully conscious of the need to improve the Corporation's profits. If this profit responsibility devolves on them, it is bound to exercise a very salutary effect on the financial management of the Branch and thereby lead to a greater degree of cost control. This might entail a much greater degree of delegation of powers commensurate with the responsibility. This aspect has been discussed in a later chapter.

General

76. *From an overall assessment made of operations of the I.O.C., the Committee feel that there is scope for much improvement in this regard. Suitable incentives could be offered to the personnel actually engaged in operations work for suggestions which help in saving time in operations, increasing efficiency and bringing down costs. The Committee feel that if the rewards are attractive, good suggestions will be forthcoming.* **Incentives.**

IV

PRICING

Import Parity.

77. The pricing of petroleum products is based on the principle of import parity. Eight ports e.g., Kandla, Okha, Bombay, Goa, Cochin, Madras, Vizag, and Calcutta have been made pricing points and the country has been divided into eight economic supply areas based on these Ports. The price of each product has been determined Port-wise and this includes the *f.o.b.* cost (less discounts), marine freight to the Port concerned, Insurance, Ocean loss, landing charges and duty. As the marine freight varies from Port to Port, the prices of products naturally vary from Port to Port.

Inland Refineries.

78. While this principle is sound in so far as imports and production of coastal refineries are concerned, the same cannot be said in respect of the production of the inland refineries. For example, the price of products ex-Barauni refinery and ex-Gauhati Refinery, *i.e.*, the price at which the Barauni and Gauhati Refineries sell their products to the Marketing Division of the I.O.C., is the landed price at Calcutta. Since Barauni and Gauhati are not pricing points, the Marketing Division has to fix prices at various places, with reference to the price at Calcutta. As an example, the price paid by the public at Barauni and round about for petrol produced at Barauni Refinery is Rs. 834.52 per K.L. while the Calcutta consumer pays Rs. 768.68 for the same petrol.

79. *Dispassionately viewed, it is an anomaly that a citizen of Barauni has to pay more for the petrol produced at his doorstep than what a citizen of Calcutta has to pay for the same petrol. Apart from this, the advantage of locating the Refinery in an inland area is lost to a great extent because the industries based on petroleum products would rather set up factories near the Ports than near the Refineries, where the raw material is costlier. One of the aims of our planning is to stimulate industrialisation in up-country areas and not merely encourage development of port and metropolitan areas like Bombay and Calcutta alone. The present pricing policy of petroleum is contrary to this principle of planning.*

80. Another matter is that for all movement of products from the Refineries against the price line, the I.O.C. incurs a loss due to under-recovery of freight. For example, on all products of the Barauni Refinery sold at Calcutta, the I.O.C. has to bear the transport charges because the price line is from Calcutta and not in the direction of Calcutta. **Under-recovery of freight.**

81. The most curious part of the whole thing is that the I.O.C. has not only to bear the under recovery of freight on the products sold by itself but also on products of the inland refineries sold by the private oil companies given to them as product exchange or as outright sale. The total loss incurred by the I.O.C. on under recovery of freight was over Rs. one crore in 1965-66 and is expected to be of the order of Rs. 2 crores this year and nearly Rs. 4 crores next year. This is no small amount.

82. The Working Group on Oil Prices (WGOP) examined the question of pricing of Refinery products in 1965 and came to the conclusion that "for the present no departure should be made from the pricing based on import parity at the Ports." *There is no doubt that the whole pricing structure is so complicated that any departure from the traditional pricing pattern is likely to have several repercussions. This argument, however, cannot adequately justify the present policy because it ignores facts. Having located the refineries in inland area, it is only proper to carry this policy to its logical conclusion. The alternative is to face, as at present, a wholly incongruous situation which can neither be supported by logic nor by argument. The three inland refineries will produce more than 7 million tonnes of products every year and it would be quite anomalous not to treat them as pricing points. How this should be done with reference to other Refineries and to imports is a matter which has to be worked out by Government.* **Refineries as pricing points.**

83. *Having said this, the Committee will now take up the losses incurred by the I.O.C. every year on account of under-recovery of freight. The policy of locating a refinery in an interior location is sound in principle, as it has several virtues, e.g. nearness to consuming points thereby saving transport, development of areas surrounding the location etc. Today, however, Government's pricing policy, runs counter to the policy under-lying inland* **Losses incurred by I.O.C.**

location. What is worse is that an undertaking set up by Government is burdened with the responsibility of absorbing the entire ill-effects of this policy. Viewed from another angle, it is tantamount to saying that because three refineries have been located in interior locations and not on the coast, an annual loss of about Rs. 4 crores will occur (when the Refineries go into full production) and this loss will have to be borne by the public exchequer. The Committee cannot agree with this policy of Government.

84. The Committee understand that between July, 1962 and July, 1966 the Chairman of the I.O.C. has sent 13 D.O. letters to the Government of India urging some action to relieve the I.O.C. from the responsibility of this heavy burden of unrecovered freight. The last of these letters dated 28th July, 1966 from the Chairman, I.O.C. to the Secretary, Ministry of Petroleum and Chemical stated as follows:—

> "As we have pointed out several times, these under recoveries have vitiated the true working results of the Corporation, as these are not normal marketing expenses. There are no similar burdens on the other oil companies, and therefore, a misleading picture of the I.O.C's. performance is presented before the Parliament and the public. That is why we have all along requested Government to neutralise the result of these under recoveries so that IOC may come on a par with other companies and its true marketing results may be presented in the annual accounts.
>
> I regret to say that though this problem was placed before Government about four years back, the impression one gets is that Government have never grappled with the problem squarely, but have been asking us to prepare several detailed statements and raising questions about the quantum etc., in effect, side-tracking the main issue. I must again urge that this is not fair to the IOC and would request Government to take a decision at least now to relieve the IOC

of the extraneous burdens on account of these under recoveries (on the basis of actuals from year to year) and evolve a suitable method to give effect to it."

85. The Committee found that the Ministry of Petroleum and Chemicals had not sent a reply to this letter. Instead, on 10th August, 1966, a letter was sent by an Under Secretary in the Ministry to the Managing Director of the Marketing Division, calling for further particulars relating to the working results of the Division for the year 1965-66, which were "urgently required in connection with the consideration of the Corporation's case for losses arising out of under recovery of Central Sales Tax". The Committee found that till the end of 1966 no decision had been taken by Government in the matter.

Ministry's views.

86. During oral evidence, the Committee discussed this matter with the Secretary of the Ministry and were informed as follows:—

"(a) Such under-recoveries are not peculiar to the IOC and cannot be considered as arising from a locational disadvantage. The coastal refineries are incurring an expenditure of about Rs. 3 crores per annum on coastal movements, the bulk of which has to be borne by their associated companies in the shape of under-recoveries.

(b) The IOC also has at present, the advantage of realising motor spirit price for its entire production of naphtha/motor spirit from inland refineries. The coastal refineries have to export substantial quantities of naphtha/motor spirit at very low prices. When the IOC starts selling a reasonable part of its motor spirit/naphtha fraction as naphtha that net back to the Refineries Division will be much lower while the under-recoveries on freight etc. from inland refineries may disappear. Taking the Corporation as a whole, therefore, it may be in its interest to produce and market motor spirit only, even though in the process, substantial under-recoveries of freight have to be incurred.

(c) The under-recoveries on the products of the Cochin Refinery are not different than similar position obtaining in respect of the other coastal refineries. IOC, on the other hand, has the advantage of marketing the bulk of the production of the Cochin Refinery without having to make investments in setting up the refinery. The under-recoveries are expected to remain only upto 1968.

(d) The IOC has so far been allowed to retain the difference between actual c.i.f. on imports and the c.i.f. assumed under the pricing formula. The continuing gains of the IOC on this account are also substantial."

87. *The Committee are not convinced by the arguments of the Secretary of the Ministry. Firstly, it is a well known fact that under-recoveries do take place because of bulk coastal movements, bridging, movement outside the economic area, etc., which are in the nature of "out-of-pocket" expenses. These are normal marketing expenses and have been taken into account by the OPEC and WGOP. The IOC also incurs these expenses and these are quite separate and distinct from the under-recoveries incurred on account of the locational disadvantages of inland refineries arising directly out of the pricing policy. The Committee do not understand how the two can be mixed up.*

88. *Secondly, recovery of a full price for motor spirit is legitimately due to the Corporation. If it has to sell the product as naphtha at a lower price because of a lack of market for motor spirit, it is a matter for sympathy. The approach of Government that the IOC is recovering full price for motor spirit and therefore, should not make too much of its under-recoveries, is not a correct stand. In fact, an argument can be advanced that because of delays in the construction of the fertiliser factories and the petrochemical industries, the IOC is unable to sell even Naphtha and has to peg the throughput of the Refineries at a lower level than what they are capable of. The IOC incurs heavy losses on this account.*

89. *The Committee do not accept the arguments put forward by the Ministry. In fact, they feel there is a case for*

compensating the IOC because of the freight under-recoveries arising from the fact that the inland refineries have not been fixed as pricing points.

90. *The Committee would make the following suggestion in this regard. Government may levy a uniform surcharge on all products so as to recover from the consumers the total under recovery. This it is stated would amount to about Rs. 2 per tonne. This would imply that the extra freight and other burdens as a result of the location of the inland refineries will be borne by all the consumers on an average basis. Government can then reimburse the actual under-recovery to the marketing companies from the extra collections.* Solution.

91. *The Committee has suggested elsewhere in this Report that all the oil companies selling the products of the inland refineries whether on a product exchange basis or otherwise should bear the under-recovery of freight, port-price differential etc. themselves. When this suggestion is implemented, all the companies incurring under-recovery will be compensated by Government from the surcharge levy.*

92. *Many other solutions are possible. What is urgently required is to relieve the IOC of the responsibility of shouldering this very heavy burden. The Ministry of Finance and the Ministry of Petroleum and Chemicals should consider this matter and take immediate action.*

Uniform prices

93. The Oil Prices Enquiry Committee and the Working Group on Oil Prices had considered the introduction of a uniform price for the whole country by means of a system of pooled railway freight. Both the Committees found that it was not desirable to introduce it now. The OPEC had the following to say on this matter:— Views of Price Enquiry Committees.

> "The advantage of freight pool system is that it helps in removal of locational disadvantages for the industry and stimulates and accelerates industrialisation in up-country areas which are at present unattractive economically on account of high cost of fuel. The bulk of the refined petroleum products are at present consumed in or around the port towns. Industries have also been encouraged in these areas on account of the comparatively lower cost of fuel, under the

present railway freight structure. The creation of a freight pool will necessarily result in increased cost to the cosumers in these areas and may mean considerable hardship to industries located there. It would be doing violence to the price levels of the various manufactured goods in the country, if the cost of fuel were to rise considerably as a result of introduction of the freight pool. The balance of convenience therefore, lies in the maintenance of the *status quo.*"

94. The W.G.O.P. had stated as follows:—

"The prices of all products in the port towns would considerably increase and affect the economy of certain industries which are located in and around port towns. On the other hand, the prices in the interior will be lower, thereby relieving comparatively the locational disadvantages and this may encourage industrialisation in up-country areas. Transport cost is, however, only one among a variety of other factors determining the suitability of a particular locality for establishment of an industry. We have not been able to collect sufficient data to assess the impact of such changes from the existing pattern of prices of petroleum products on the various industries.

The oil companies, including IOC, are not in favour of such an arrangement. We also see serious difficulties and draw-backs in implementing such a scheme."

Advantages.

95. Both the Committees have very clearly stated the advantages that will result from the introduction of a uniform pooled price throughout the country. It is true that some disadvantages will result, specially a rise in price of products in and around the port towns. The problem has, however, to be seen from an all-India perspective and the question to be posed is whether the existing advantages to port towns should be perpetuated and fostered or whether the emphasis should shift to up-country areas which should get encouragement in the matter of industrialisation. Be-

cause of the advantages of cheaper fuel for industries in general and cheaper raw material for industries based on petroleum products, the concentration of industries in the major port towns has already created problems of congestion, inadequate housing and transport and many attendant difficulties in these cities. *In the Committee's view a shift in emphasis to the up-country areas might be a solution to several problems of urban industrialisation.* In this connection the Committee would also draw attention to the Industrial Policy Resolution of 1956 which emphasised *that*—

> "In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has also been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment provided the location is otherwise suitable".

96. *The Committee recommend that the economics of the problem should be worked out in detail and the question examined as to whether it would not be in the interest of the country from the point of all round national development to have a uniform price for petroleum products throughout the country at an early date.*

Excise duty on Light Diesel Oil

97. The excise duty on petroleum products is levied on the basis of volume except in the case of L.D.O. and furnace oil where the basis is weight. In the case of furnace oil, however, the product is sold by weight and the excise duty paid is recovered fully. In the case of L.D.O., how-

ever, the product is sold by volume. The selling rate fixed by the Oil Price Enquiry Committee is also per K.L. and in fixing the excise duty element in the selling rate, the weight was equated to volume on the basis of a certain standard conversion factor, based on average density. The actual density of L.D.O. produced at Barauni and Gauhati is, however, more than the standard fixed, with the result that the I.O.C. incurs an under recovery in excise duty. The under recovery during the last 5 years was as follows: —

	Rs.
1961-62 } 1962-63 }	278,000
1963-64	497,000
1964-65	402,000
1965-66	965,000
TOTAL :	21,42,000

98. The Committee understand that the four main petrol marketing companies have sent a joint representation to the Ministry of Petroleum and Chemicals in June, 1966 requesting that the excise duty on L.D.O. should be levied on a volumetric basis.

99. *There is considerable force in the argument that the excise duty on a product which is sold by volume should be levied on the basis of volume. It appears illogical to use weight as the basis of duty, apart from the fact that it involves unnecessary accounting complications in converting volume into weight. In the case of L.D.O. produced at Gauhati and Barauni, the density is higher, which results in loss to the I.O.C. It is equally possible that in certain cases the density might be lower which would result in loss of revenue to Government. The Committee, therefore, recommend that the basis of excise duty on L.D.O. should be changed from weight to volume. The Ministry of Finance should give this matter their urgent attention.*

V

SUPPLIES TO GOVERNMENT ORGANISATIONS

100. One of the main objectives of the Corporation as laid down in the Instrument of Instructions issued by the Government in 1959, reads as follows:—

> "The Company shall take necessary steps to ensure that within the shortest possible time, it is in a position to arrange for supply of all petroleum product requirements of all Government organisations (Central and State) all over the country."

Sales effected.

101. The table below shows the estimated requirements of Government Organisations and supplies made by the Corporation:—

(Figures in '000 KLs)

Year	Estimated requirements of Gov. Organisations.	Actual sales by I.O.C.	Percentage of actual sales to Estimated deman
1962-63	911	298	30%
1963-64	1575	602	38%
1964-65	2100	888	42·3%
1965-66	2715	1586	58·4%

102. From a perusal of the above statement it will be seen that there has been a considerable increase in the supplies of petroleum products to Government Organisations though the ultimate target appears to be still far off.

D.G.S. & D. Sales.

103. Sales of petroleum products made against rate and running contracts entered into with the DGS&D, account for the biggest quantum of sales to Government Organisa-

tions. In 1965-66, the sales made through DGS&D were as follows:—

Product	*Total Requirements*	*I.O.C. Supplies*	*% of I.O.C. supplies*
Primary Oils	12·06 lakhs Kls.	7·00 lakhs Kls	58%
Lubricating Oil and greases	0·272 lakhs Kls.	0·136 lakhs Kls	50·1%
Bitumen and Bituminous products	3·60 Lakhs M/T	Nil.	..

104. The DGS&D contracts were concluded in 1962 and have been extended from time to time and the present contracts extend upto 31-12-1967. DGS&D purchases products from all the petroleum marketing companies.

105. With the commissioning of the four Refineries in the Public Sector, the I.O.C. is now in a position to meet the entire needs of the DGS&D except perhaps for Bituminous products. It will be seen that the products sold to the DGS&D by private companies, except in the areas where their refineries are located, are those obtained by them from the I.O.C. by way of product exchange or as outright sale. On most of these transactions the I.O.C. loses by way of under-recovery of freight, port price differential or Central Sales Tax, while the private companies retain the profits. *It is time that I.O.C. catered to the entire requirements of the DGS&D except for items which the Public Sector Refineries do not produce or are not directly imported by I.O.C. During oral evidence, the Secretary of the Ministry agreed that this was desirable.*

Sales to Defence Departments.

106. *Similarly, the Committee found that only 50.35 per cent of the total Defence requirements were met by the I.O.C. during 1965-66. The Committee see no reason why this figure should not be raised. It is certainly not due to the I.O.C's inability to effect the supplies.*

Sales to Railways.

107. *The Committee found that the Railways obtained a very good proportion of their requirement of petroleum*

products from the I.O.C. The overall figure was 91.2 per cent of purchases from the I.O.C. In regard to H.S.D. the figure was 94.8 per cent. The Committee hope that the Railways would be able to make all their purchases from the I.O.C.

Sales to Airlines.

108. As regards the two airlines, the Committee were informed that during 1965-66 only 9.4 per cent of the total requirements of the Air India in India for A.T.F. was met by the I.O.C. while the I.A.C. did not make any purchases during the year. The reason given is that the I.O.C. had entered into the aviation business only very recently. *The Committee hope that it will be possible for the I.A.C. and Air India to switch over rapidly to the I.O.C. for their supplies. The Committee would suggest that the Managing Director of the Marketing Division should personally negotiate with the General Managers of the two airlines and expedite switch over of aviation business to the I.O.C. In fact, the I.O.C. should consider transaction of business with the two airlines as a matter of prestige, and make earnest endeavours to achieve it early.*

Sales to Public Undertakings.

109. The Committee called for information from the Public undertakings under the Government of India regarding their purchases of petroleum products from the I.O.C. and were surprised to note that many of them obtained their supplies from private oil companies and in most cases where they purchased from the I.O.C. they purchased from private oil companies also in addition. Some of them had good reasons to justify their action. One steel plant wrote as follows:—

"(1) Technical services of I.O.C. have been very poor. For example, they have not even surveyed the requirement of the Plant as other Oil Companies have done. For 1966-67 tender, they even refused to confirm that products offered by them will meet the end uses mentioned in our enquiry. They did so only when told that no business will be given without this. They reluctantly and blindly gave the confirmation. This has never happened with any other Oil Company.

(2) Their representatives are not at all aware about supply position and are of no effective help

Against this, representatives of other Oil Companies are upto date with supply position etc.

(3) They do not bring out any technical bulletin or other literature to acquaint the plant engineers with their products. We receive technical bulletins from Caltex, Tidewater, Burmah Shell and Esso. We have got many useful films also from some of these firms.

(4) I.O.C. do not take any initiative even when plant problems are referred to them. For example, we wanted to changeover from shell turbo-29 to I.O.C's. Mobil DTE medium. It was discussed with their technical representatives and it was agreed that I.O.C. will take initiative in the matter and prepare suitable scheme for changeover. Six months have passed, we have not heard anything from them."

110. Another Steel Plant had the following to say:—

"There have been a number of instances when supplies have not been made regularly in time and according to the schedule thus necessitating constant follow-up and chasing. In the early years I.O.C. was in a formative stage, and so there had been difficulties in obtaining regular supplies. In the latter part of 1965 and during the current period of 1966 the supplies have been inadequate and unsatisfactory which as explained by I.O.C., are due to foreign exchange difficulties. There are 2 orders placed in 1963, one order in 1964 and three orders in 1965 against which supplies till to date have not been completed. There are instances when the product after inspection had been rejected for non-conformity with the specification. I.O.C. have not been able to offer materials again of the right specification. From the latter part of 1965 till to date the supply position of lubricants has been most critical, causing us great anxiety and we have incurred extra expenditure by collecting materials from different places by road. The position has been living hand to mouth. There have been instances when inspite of assurances, I.O.C. have not been able to supply furnace oil in adequate quantities with the result we had to cut down power generation in the Power Plant. However, it must be added that the general attitude of I.O.C. has been very helpful and co-operative and they have given high Priority for supply to steel plants."

111. Many Undertakings complained that they do not get the supplies regularly according to the delivery schedules quoted by the I.O.C. This was specially so in regard to lubricants and furnace oil. It was also stated by several undertakings that technical assistance rendered by the I.O.C. was far below that received from other oil companies. An Undertaking at Bangalore had complained as follows:—

"Our requirements of High Speed Diesel Oil, Petrol, Light Diesel Oil and Kerosene are obtained from the local I.O.C. Depot (located at Magadi Road, Bangalore). As per terms of our bulk orders, we give 24 hours' notice about our requirement of these items and the I.O.C. would deliver the loads at our factory and fill up the tanks constructed by them in our factory premises for the purpose. Our experience is that we have to contact the I.O.C. Depot quite a number of times over the Phone before the load is obtained. Sometimes loads reach our factory late, after the time limit prescribed for receipt of goods and therefore they have to be returned. There are also instances where supplies have been refused by the I.O.C. Depot at Magadi Road, Bangalore on the plea that payment of their previous Bill has not reached them on the due date prescribed by them; deliveries were made subsequently after the cheques were posted and cheque numbers furnished over the phone."

112. Even the DGS&D stated as follows in regard to regularity of supplies:—

"Their supplies are not regular always and there is scope for much improvement in their performance against contracts placed by DGS&D."

113. *The Committee are not impressed with the performance of the I.O.C. in regard to sales to the public sector undertakings from the reports received from them. One impression that the Committee got is that many of the I.O.C. sales staff sometimes tend to forget that the I.O.C. is a commercial organisation and that petrol and petroleum products are to be received by a customer when he wants them and not when the I.O.C. can deliver them. There is no room for red-tape or slackness or inefficiency. The I.O.C. is not a monopoly organisation. It has several competitors who have organisations as efficient as any in the country, and comparisons are inevitable. The constant efforts of the Management should be to ensure that when comparisons are made the I.O.C. does not stand second to any.*

114. *In so far as the public undertakings .and other private bulk consumers are concerned, the Committee suggest that a Senior Officer in each Branch should visit each of them personally at intervals, ascertain their difficulties and solve them to the satisfaction of the customers. Besides, periodical letters should go out to these undertakings to find out if they are satisfied with the services rendered by the I.O.C. and they should also invite suggestions for improvements. Prompt action should be taken to ensure satisfactory response to the suggestions by the District Offices serving the undertakings.*

115. *It should be possible for the Central and State undertakings .to purchase their entire requirements of petroleum products from the I.O.C. provided they are assured of satisfactory service.*

Technical Advice.

116. *As regards the complaint of not being able to obtain competent technical advice, the Committee feel that the I.O.C. should have well qualified technical experts, specially on lubricants. Whenever technical advice is required, such a person should be sent promptly to tender suitable advice. The sales staff of the I.O.C. should also be thoroughly trained and given occasional refresher course to keep them abreast of modern developments in product design and utilisation. The Commitee saw some of the technical literature on lubricants produced by the I.O.C. but are*

unable to comment upon their completeness or thoroughness or how far they compared with literature produced by other companies. This is a matter which deserves to be looked into in view of the criticism made by the I.O.C's. customers.

Outstandings

117. One very disquieting feature that the Committee noticed in regard to the supplies made to Government organisations including public undertakings and State Transport corporations was the very heavy outstandings against most of them. The Branchwise figures of outstanding in terms of number of days sale value were as follows as on 31-3-1966:—

Branch	Govt./ Semi-Govt.	State Transport
Western	75	57
Northern	19	73
Eastern	97	83
Southern	39	35
All India Total	55	57

118. This is an exceedingly high figure. The annual Report of the I.O.C. for 1964-65 contains a list at page 57, of public sector undertakings who owe money to the I.O.C. The Committee examined some individual instances, a few of which are stated below:—

(i) As on 31-5-1966, the outstandings against the N.C.D.C. was Rs. 52.12 lakhs. The average monthly supplies are to the tune of Rs. 8 lakhs. Some of the outstanding bills are as old as three and four years. What part the Eastern Branch office of the I.O.C. had in allowing these arrears to accumulate need not be gone into here. In 1965 they woke up to the situation and made efforts to recover the arrears. They were unsuccessful. The matter was then taken up at the top Management level. On not achieving much success the I.O.C. threatened to stop supplies. As a result, a payment of Rs. 28 lakhs was made. Thereafter the payments again relapsed into unsatisfactory state. The present position appears to be that financial difficulties are standing in the way of N.C.D.C. clearing the arrears in time. According to the I.O.C., the procedure for payments adopted by the N.C.D.C. is so complicated that it is impossible to get payments within a period of 30 days after submission of bills, as stipulated in the terms of Agreement. *The Committee regret that matters have come to such a sorry pass.*

(ii) As on 1-5-1966, the total outstandings against Bhilai, Rourkela and Durgapur Steel Plants were Rs. 30.51 lakhs, out of which Rs. 7.09 or about 23.5 per cent were outstanding for over 6 months. The Committee were informed that Durgapur Steel Plant presented considerable difficulty in reconciling their accounts and even admitting the correctness of old bills.

(iii) In the Eastern Branch the position of outstanding amounts against some State Electricity Boards, Central and State public sector undertakings, transport corporations etc. was so bad that as on 31-3-1964, the outstandings represented 216 days sales. On 31-3-1965, this was reduced to 105 days and on 31-3-1966 to 64 days. Some of the major defaulters under this Branch were as follows as on 1-5-1966.

(Rs. lakhs)

Electricity Boards:	Total	*over 6*
Assam . .	4·03	0·71
W. Bengal (Siliguri) .	4·03	2·58
Bihar	11·78	10·56
State Road Transport Corpns.:		
Bihar (Ranchi)	7·35	1·10
North Bengal	3·08	1.16
Assam (Gauhati) .	5·80	1·99
Others:		
O.N.G.C.	10·61	0·68
Calcutta Port Commissioner . .	6·42	1·82

(iv) In other Branches the position was not much better as the following figures of outstandings against Government and Semi-Government parties and State Transport organisations as on 31-3-1966 will show:—

Branch	Period	Govt./Semi Govt.	State Transport
		Rs.	Rs.
Western Branch	Ovr 6 months	55,01,436	26,09,759
	Less than 6 months	3,01,38,473	1,34,28,380
		3,56,39,909	1,60,38,139
Northern Btanch	Over 6 months	95,39,074	26,48,829
	Less than 6 months	2,20,14,199	1,05,81,121
		3,15,53,273	1,32,29,950
Eastern Branch	Over 6 months	1,62,24,828	18,43,165
	Less than 6 months	4,69,42,735	47,67,025
		6,31,67,563	66,10,190
Southern Branch	Over 6 months	14,20,141	4,16,06L
	Less than 6 months	1,46,78,960	74,98,625
		1,60,99,101	79,14,692
	TOTAL	14,64,59,846	4,37,92,971

119. Practically all the arrears of outstandings over 6 months amounting to Rs. 4·02 crores* have not been confirmed by the parties concerned. *As the facts stated above will reveal, the position in this regard is far from satisfactory. It is true that the I.O.C.'s accounting procedures were very defective and that this was to some extent responsible for the accumulation of such heavy arrears. This, however, is not the whole of the problem. The Committee are inclined to feel that there is some serious defect in the procedure which makes the public undertakings indifferent in the matter of prompt payment.*

*At the time of factual verification it was stated that the arrears of outstandings over six months had been brought down to about Rs. 2 crores.

120. *The Top Management of the I.O.C. should give serious thought to this and find out a solution in consultation with the Government of India, the State Governments and the Public Sector Undertakings, Electricity Boards, Transport Undertakings etc.*

121. *The Committee would like to make the following suggestions in this regard:—* Suggestions.

(1) *As a first step, the Committee feel that a credit limit of 30 days or 45 days as is considered proper, should be fixed for all the Government undertakings. All outstandings beyond this period should carry interest at the usual bank rate. This will have a salutary effect on all accounting officers who will thereby be made responsible for delays in payments. The Committee understand that the average time taken by Government parties, to whom supplies are made by the Western Branch, for making payments is 75 days and 97 days in the Eastern Branch. This is far too long. One of the main reasons given is the procedural formalities that the bills have to pass before payment. The stipulation of payment of interest charges will automatically act as an incentive to introduce reforms in the procedure.*

(2) *The Committee understand that in the Southern Branch, where a Government customer does not pay bills within the prescribed credit limit of 30 days, all further supplies are made only on cash basis. This has helped to freeze accumulation of outstandings and has made the customer conscious of his obligations. The Committee recommend that the other branches may also adopt this procedure.*

(3) *Every undertaking may be requested to nominate a senior officer who may be addressed personally by the Branch office in case the under-taking falls into arrears.*

(4) *The Financial Controller/Chief Accounts Officer in each Branch should constantly watch the position of collection of dues and take prompt action by personal intervention if necessary, where arrears cross limits laid down. Difficult cases should be reported to the Head Office and the General Manager's or the Managing Director's intervention sought.*

(5) *The District Sales Representative should be made responsible for chasing claims. If they report difficulties of procedure which hamper prompt payments, as in the case of N.C.D.C. pointed out earlier, the matter should be taken up by the Branch Office with the Chief Accounts Officers of the undertakings.*

(6) *The Committee understand that the Governments of Kerala, Mysore and Andhra Pradesh make advance payments for their requirements.. The I.O.C. should try and persuade other State Governments to follow a similar procedure. The Central Government may, perhaps, give the lead in this matter.*

General

122. While explaining why the I.O.C. has not been able to cater to 100% of Government requirements it was pointed out that while the Instrument of Instructions enjoins upon the I.O.C. to strive to supply the requirements of Government organisation there is no corresponding obligation on the Government Departments/Organisations to purchase their requirement from the Corporation. The I.O.C. has under the circumstances to compete with other oil companies in the private sector to capture the business and offer the customers products at competitive prices to wean them away from private oil companies.

123. As a sequel to the Estimates Committee's recommendations in this matter, the Ministry of Petroleum and Chemicals did write to all the State Governments in July, 1964 requesting them to patronise the I.O.C. The general circular letter does not seem to have had much effect. *The I.O.C. should canvass individually with each party and persuade it to patronise them. If persuasion fails at a lower level, then the matter should be tackled at higher levels either by personal talk or by correspondence. Supplies to Government Organisations are one of the primary objectives of the I.O.C. and this matter deserves much greater attention by the Head Office and the Branch Offices than what has been given to it till now.*

VI

PRODUCT EXCHANGE ARRANGEMENTS

124. The I.O.C. has entered into Product-Exchange Arrangements with the private Oil Companies. The main object of these agreements is to avoid cross movement of petroleum products and consequent increase in costs on account of freight. The products of Barauni Refinery are given by the I.O.C. to say, the Burmah-Shell at Calcutta and obtained back, product for product, at Bombay from the Burmah-Shell. If the I.O.C. is unable for some reasons to withdraw from Burmah-Shell all the products it has given in exchange, then the balance is transferred to an outright purchase account for settlement in cash. Object.

125. The first Agreement was entered into in 1962 and the Committee were surprised to see that this Agreement was extremely unfavourable to the I.O.C. When asked about this matter the Committee were informed as follows:— Terms of Agreement.

"The terms on which IOC had first to enter on exchange arrangements are admittedly unfair to I.O.C. The I.O.C. realised this fully, and the Government also knew it and realised the full implications on the first product exchange agreement entered into in 1962. But there was no alternative.

In other words, IOC entered into product exchange arrangements on unfavourable terms because of its poor bargaining position.

Thereafter, it made a continuous effort to improve their terms. The main items which were against the interest of the IOC were:—

(i) IOC had to bear the under recovery of rail freight.

(ii) IOC had to bear the under recovery of central sales-tax.

(iii) IOC was not entitled to take back deficit products in exchange.

(iv) IOC was not paid M.I. charges on any products.

126. As IOC's own markets increased and its bargaining position improved, IOC was able to get M.I. charges on all products (except Motor Spirit on which bulk loading charges were obtained) and also get back deficit products in exchange from 1964. IOC could not however, get the under recovery of rail freight or central sales-tax from other companies, as these under recoveries are inherent in the pricing formula on oil products".

127. Para 2.5 of the Manual on Nunmati/Barauni product Exchange and outright purchase/sale arrangements entered into with Burmah-Shell states as follows:—

"For supplies ex-refineries which are not pricing points the supplying company shall absorb any difference in Railway freight and also the main port price differentials as compared with the normal supply points relevant for pricing purposes."

Under recovery of freight.

128. This requires to be explained further. The price of petrol ex-Barauni/Gauhati is landed price at Calcutta Port for similar products. Freight is recovered only from Calcutta to a particular destination irrespective of the actual source of supply. For example, if a product is sent from Gauhati to Allahabad, the I.O.C. recovers only a notional freight from Calcutta to Allahabad. There is, therefore, an under recovery of freight which has to be borne by the I.O.C. When, therefore, a product is given to say Burmah-Shell on a Product Exchange basis, the I.O.C. bears this loss on account of under recovery. Even where the product is treated as outright sale, the difference in freight is borne by the I.O.C. The net under recovery of freight borne by I.O.C. in respect of products given to other companies either as exchange or as sales in respect of products from Barauni and Gauhati were as under:—

	Rs.
1961-63	7,65,000
1963-64	66,38,000
1964-65	70,04,000
1965-66	1,30,91,000
TOTAL	2,74,98,000

129. As for under-recoveries on account of port price differential the position is as follows. For fixing selling prices, the C.I.F. wharfage and landing rates will be determind on the basis of the consumption point although the supplies may come from a different economic port area. In other words, if a supply is made from Gauhati (which will be governed by Calcutta CIF, wharfage and landing rates) to Delhi which falls within the economic supply area of Kandla Port, the I.O.C. will be able to recover only the C.I.F. and Wharfage and landing prices applicable to Kandla Port which is lower than the rate applicable to Calcutta area. Thus, there is under recovery on account of port price differential. According to the Product Exchange Agreement the I.O.C. will bear this under recovery even when it is the other companies that sell the products. The under-recovery on this account is as follows:— Port Price Differential.

	Rs.
1961—63	1,70,000
1963-64 . .	9,95,000
1964-65	25,56,000
1965-66 . . .	32,32,000
Total:	69,53,000

130. Besides these two items, the I.O.C. has also to bear the incidence of central sales tax. When the I.O.C. despatches products ex-their installations to other oil companies under Product Exchange, to destinations outside the State where the Refinery is located, the I.O.C. has to pay Central Sales Tax. Under the Agreements entered into by the Government of India with the Private Sector oil Companies, no Central Sales Tax is payable by the Oil Companies for inter-company transfers of products in Maharashtra or Andhra State. In short, the I.O.C. is not able to recover the Central Sales Tax from the private sector oil companies as they have refused to reimburse the amounts on the ground that if products are imported by Central Sales Tax.

them, they would not be incurring these charges. The total loss on this account is as follows:—

		Rs.
1962-63	.	4,26,000
1963-64	. .	26,92,000
1964-65	. . .	35,25,000
1965-66	. . .	47,18,000
	Total .	1,13,61,000

131. It will be seen from the above figures that on account of these three items alone the I.O.C. has had to bear a burden of Rs. 4.59 crores during the last 4 years on products sold by other companies and on which the other companies made profits.

Products taken back.

132. The Committee found that during the last four years the I.O.C. was able to take back less than 50 per cent of what was given to other companies by way of product exchange as the following figures will show:—

Year	*% of total products taken back in exchange*
1962-63 .	20·64
1963-64 .	24·37
1964-65 .	32·29
1965-66	46·40

133. The break up product-wise for the year 1965-66 is as follows:—

Product	*% taken back*
Motor spirit	18·9%
Superior Kerosene . . .	72·1%
Inferior Kerosene . .	3·4%
H.S.D. . . .	42·3%
L.D.O. .	84·7%
F.O. .	100%
Total:	46·4%

134. *The Committee are not at all happy over this position. To say that the I.O.C. was not in a bargaining position in 1962 is not a satisfactory explanation. The Government of India decided to establish the Refineries at Gauhati and Barauni and it is the Government of India which fixed the prices. Yet it is very strange that they decided that a Government of India Undertaking should bear all the losses on account of this wrong location while the private sector companies who sold most of the products of these Refineries got all the profits on account of such sale. Worse still, this state of affairs is continuing even today when the I.O.C's so called lack of bargaining power does not exist.*

135. *The Committee do not wish to comment further on these inequitable arrangements. These arrangements should be revised forthwith. All exchange of products should be ex-Refineries and the receiving oil companies should bear all incidence of freight, port-price differential and any other expenditure involved.*

Central Sales Tax.

136. As for the incidence of Central Sales Tax, the Committee understand that only the States of Maharashtra, Andhra, Kerala, Gujarat and Assam have agreed to the exemption of the tax. Appeals have been made by the Central Government to the Madras and Bihar States to grant similar exemptions but so far, they have not agreed. *The Committee feel that as the location of Refineries in these States has brought about several permanent benefits to these States, they should be generous enough to forego their revenue on this account. Individually taken, the amount paid to each State might not be a big amount, but as it is only one party who is expected to foot the entire expenditure on this account, the burden is extremely heavy. In fact it is very unfair to load the I.O.C. with this tax. The Committee, therefore, suggest that the matter should be taken up by the Ministry of Petroleum & Chemicals with the States concerned at the Chief Minister's level and the States persuaded to forego this revenue. If such efforts do not meet with success other means should be devised to compensate the I.O.C.*

VII

IMPORTS AND EXPORTS

IMPORTS

Imports by I.O.C.

137. The following statement shows the imports of petroleum products in the country and the imports handled by the Corporation during 1960—65.

('000 *MT*.)

Year	*Total imports*	*Imports by I.O.C.*	*Percentage*
1960 .	2031	22	1·09%
1961 .	2442	163	6·7%
1962 .	2957	418	14·14%
1963	2858	764	26·7%
1964 .	2927	940	32·11%
1965 .	2852	1858	65·15%

138. The bulk of these imports has been kerosene, H.S.D. and furnace oil. In 1965, the I.O.C. made 72:59 per cent, 84.33 per cent and 55.86 per cent of the total imports of kerosene, H.S.D. and Furnace oil respectively mostly from Russia on rupee payment. The total value of such imports has been Rs. 43:89 crores from 1960 to 1965.

Desirability of I.O.C. making all imports.

139. The aim of the Government while setting up the I.O.C. was that it should handle atleast 50 per cent of the total imports of deficit petroleum products. This the Corporation has achieved. *The Committee wonder whether this policy should not be revised and the I.O.C. made responsible for all the imports except for exceptional cases where it cannot obtain the products easily from abroad. There are three important reasons for this:—*

(i) *Deficit products like Kerosene, H.S.D. and Furnace oil are available from rupee payment areas.*

(ii) *The I.O.C. has been able to obtain certain products from free foreign exchange sources at rates cheaper than even what has been paid to Russia and at far greater discounts on posted F.O.B. prices than what has been fixed by Government for import of products by private oil companies. Since all imports by private oil companies are to be met by release of foreign exchange, savings on this account are of vital importance.*

(iii) *It is only the deficit products which are imported. It might be better if the distribution of these products is kept with a government undertaking in order to control the distribution system.*

Demurrage

140. There are a few disquieting features in regard to imports that the Committee noticed. The first is in regard to demurrage. The year-wise payments on this account from 1963-64 were as follows:—

Year	*Demurrage paid* Rs. lakhs	*Import* Tonne/ lakhs	*Demmurrage* per tonne
1963-64	5·30	5·85	0·90 p.
1964-65	7·44	9·89	0·75 p.
1965-66	20·51	19·72	1·02 p.

141. The following reasons have been given for the incidence of demurrage:—

(i) Inadequate berthing facilities at various ports resulting in the vessel having to wait for a berth.

(ii) Inadequate discharge lines at ports resulting in tankers which have already obtained a berth, having to wait for tanker discharge line to be released by the previous tanker.

(iii) Detention of tankers at outer anchorages, as a result of night navigation not being permitted at certain ports with the result that tankers can be brought in for berthing only during daylight hours.

(iv) Tidal conditions at certain ports restricting entry and departure from the port only during high water hours, with the result that the tanker is detained either at the berth of within the port limits from the time of completion of discharge till the peak tide.

(v) Draft restrictions at certain ports necessitating lightening of the tanker at other ports to effect reduction in the draft of the vessel.

(vi) Increase in the size of tankers being received during the past one year to cater for the increased offtake. Since demurrage is calculated on the dead-weight of the tanker, there has been a proportionate increase in the total demurrage payable.

142. The percentage of small tankers received during the years under review, has decreased considerably as will be seen from the following figures:

1963-64	85%
1964-65	82%
1965-66	42.5%

Pumping time.

143. Pumping time is not proportionate to the size of the tanker. Laytime is same for all tankers and hence even when pumping capacity of the tanker is increased, rate of discharge is not proportionately increased with the variation in the size of the tanker, due to limitation of port facilities.

Avoida- expenditure.

144. *While the Committee cannot place the blame wholly on the I.O.C. for this expenditure, they cannot view this matter with equanimity. An annual expenditure of Rs. 20.51 lakhs and an unrecoverable incidence of Rs. 1.02p. per tonne on imported oil is something to be viewed seriously. This matter deserves attention at a high level in the Marketing Division and all efforts should be made to reduce the incidence of this avoidable expenditure.*

145. *In the Committee's opinion, one of the major problems that deserves to be tackled by Government relates to facilities at Ports to receive large tankers. The pattern of the world tanker fleet is fast changing and giant tankers upto* 150,000 *tonnes DWT are the order of the day. Apart from quick movement of products, the incidence on freight is also considerably lower. As this country will have to depend on imports for sometime both for crude and refined products, we should build special oil terminals at Ports capable of handling giant tankers.* **Port facilities.**

146. The reason of inadequate discharge lines at ports given for incurring demurrage appears to be very strange. The cost of the extra facilities would perhaps be equal to a year's demurrage. This demurrage is paid in foreign currency. *The Committee recommend that Port Trusts should give this matter their urgent attention and provide extra discharge lines wherever inadequacy exists.*

147. The Committee noticed some curious anomalies in regard to berthing priorities. Berthing priority has been granted at all ports for tankers carrying imported kerosene and HSD on a representation made by the Corporation to the Ministry of Transport. However, this priority is not applicable to Port Okha, where the priority has been laid down as follows:— **Port Okha.**

(i) Tankers bringing LDO for agricultural purposes.

(ii) Tankers bringing HSD/SK from rupee payment sources.

(iii) Tankers bringing Furnace oil or Fuel Oil. For each of the above categories, Burmah-Shell receives preferential treatment on account of a special agreement with the Maharaja of Baroda while the IOC tankers receive second priority.

148. *The Committee wonder why such an anomaly exists. The legal implications of this Agreement require to be looked into.*

Tanker Diversion

149. Another disquieting feature in regard to imports that the Committee noticed is the fact that in a few cases, tankers were diverted to other Ports than the one **Extra expenditure.**

originally scheduled. Such diversions involved diversion charges which amounted to a considerable wasteful expenditure.

Loading pattern.

150. The Committee were informed that such diversions took place because the loading pattern of tankers sometimes differed from the one indicated to the suppliers by the I.O.C. and confirmed by them. The tanker programme had, therefore, to be revised in order to meet the requirements of each Port based on the size of the tankers as well as the products loaded. Another reason advanced for the diversion of tankers is that indents on suppliers were placed 45 days in advance based on the expected offtake for a particular month. It was stated that this offtake usually varied due to varying market conditions which were unpredictable at the time of working out the requirements.

151. The Committee examined some of the cases and found that tankers had to be diverted to other Ports because the storage tanks were already full and could not take the extra load from the tankers. As such, instead of a single port discharge, the tankers were discharged at two ports and sometimes at three. During their visit to the Eastern Branch Office at Calcutta, the Committee were informed that in one or two cases tankers which were originally scheduled for Calcutta had to be diverted to other Ports because their Port storage installations for kerosene oil were full.

152. *The Committee are not happy over this matter. If tanker loadings are not according to indents, it appears to be a serious matter because the I.O.C. might get more products than it requires or it might get less than what it wants which might create market difficulties in the case of deficit products. Also to say that market conditions vary so much within 45 days to make estimates go wrong to such an extent as to make tanker diversions necessary appears untenable. If this is a fact, the Committee would not be able to escape the conclusion that estimates are not made realistically, or the persons concerned are not competent.*

Reduction of Kerosene imports.

153. *Aside from this, the Committee are inclined to think that the I.O.C. is making more imports than is absolutely essential, specially, of Kerosene. The problems*

relating to the sale of Kerosene has been dealt with elsewhere in this Report. The I.O.C. appears to have more Kerosene on its hands than it can sell. The question arises as to how far the I.O.C. is implementing Government's policy of reducing the imports of Kerosene to the barest minimum. The Committee are not convinced that the imports of Kerosene are the minimum required. They suggest that the Government and the Corporation should have a close look at this matter.

Indian Tankers

154. *All the imports made so far have been in foreign tankers. The Indian merchant fleet now owns a few tankers and it should be possible for the I.O.C. to make some of the imports in Indian tankers. Apart from the fact that it will save payment to a foreign country whether it is in rupees or free exchange, it will also act as an encouragement to Indian shipping. Since most of the Indian tanker fleet is under a Public Undertaking, dependence should not be much on foreign tankers. Apart from financial considerations, self-reliance in this matter would be advantageous in times of an emergency.*

Exports

155. Motor spirit is surplus to the requirements of the country and will continue to be surplus till 1970-71 when demand is expected to catch up with supply. The supply and demand position during the Fourth Plan period as estimated by the Oil Advisory Committee is as follows:— Motor Spirit.

			(000 tonnes)		
Refinery Production	1966-67	1967-68	1968-69	1969-70	1970-71
Public Sector	1110	1233	1810	2237	2601
Private Sector	1160	1160	1160	1160	1160
	2270	2393	2970	3398	3761
Demand:					
Petrol	1148	1218	1291	1360	1452
Naphtha	125	390	750	1221	2695
	1273	1608	2041	2581	4147
Balance	987	785	929	816	..

156. It will be seen from the above figures that during the next four years, the amount of motor spirit in the hands of the I.O.C. is going to pose a problem. There are only two alternatives. The Refineries will be forced to work to a reduced throughput to produce only that much Motor Spirit as is necessary, which means also a proportionate reduction of other products, or else all surplus Motor Spirit will have to be exported. The Committee were informed that export of motor spirit was not very easy because very few countries wanted the product and even those few who wanted it, like U.S.A. and some European countries wanted 93 and 96 Octane petrol. The Indian specification was 79 Octane, which means that the Refineries had to use special processes to produce petrol of higher Octane number. This difficulty apart, petrol prices abroad are lower than in India and exports had to be subsidised to a certain extent.

Naphtha.

157. The production of naphtha instead of petrol was also difficult, because the fertiliser plants which would use this product have not come up as scheduled.

Need for exports.

158. *The Committee would urge the Government and the I.O.C. to make efforts to find foreign markets for the surplus petrol. Even if exports are to be made at a loss, it would still be better than working the Refineries at a reduced capacity and importing the deficit products. If export markets are not found immediately the Cochin Refinery, for example, is likely to run into serious trouble. The Committee would also suggest that the coastal refineries must be encouraged to export their petrol production. The private sector refineries should be able to find foreign markets with the help of their principals abroad.*

VIII

KEROSENE

Sales.

159. The sales target for kerosene and the actual sales made by the I.O.C. during the past three years are as follows:—

('000 Kl)

Year	*Sales Target*	*Actual Sales*
1963—64	433·5	359·1
1964—65	489·5	462·0
1965—66 . .	963·6	1315·1

Imports.

160. The quantum of kerosene imported into the country during the last three years is as follows:—

('000 MT)

Year	*Total Imports*	*Total I.O.C. impor (% in brackets)*
1963	945·4	306·3 (32·4%)
1964	965·4	292·5 (30·31%)
1965	1092·2	792·9 (72·6%)

Kerosene Trade.

161. *From the facts before them, the Committee cannot but conclude that the trade in kerosene in this country has many unpleasant aspects. Of all petroleum products, Kerosene is the one commodity which is used by every section of the community from the poor to the rich. Kerosene is mostly used for lighting and as domestic fuel and for a very large section of the people it is a daily necessity. A fair, adequate and efficient distribution of kerosene is therefore a very important matter and one in which the State or local government is vitally interested. The I.O.C. being a public undertaking has, therefore, a great responsibility*

in ensuring that the unethical methods and practices adopted by private parties to gain their own ends do not affect the community.

162. Till June, 1965 there was a severe competition in the kerosene trade and price cutting was adopted by the petroleum companies. Rebates were given by the I.O.C. to combat the market selling methods of its competitors. These rebates were given to match those given by other companies. The economy of the problem can be judged from the following figures of discretionary rebates given by the I.O.C. during 1964-65 and upto June, 1965:— Price Cutting.

(Rs. lakhs)

Branch	1964—65	April to June, 1965
Western	14·33	3·50
Southern .	9·90	1·15
Northern . . .	3·91	0 55
Eastern . . .	6·93	0·21
Total:	35·07	5·41

163. The rebates have stopped since July, 1965 mainly because of the shortage of kerosene and rationing which was introduced. Selling difficulties and price cutting result when supply is greater than the demand and such a situation in this case was unjustified when this surplus was created by spending large amounts of foreign exchange on purchase of Kerosene. *When the private oil companies have been proclaiming that the margin of profit allowed to them by Government is low, it is rather strange that undercutting is resorted to by them in one of the items. This might be due to the fact that they have been getting bigger discounts in overseas markets than given out.* Rebates.

164. *The Committee feel that all future imports of Kerosene should be made exclusively by the I.O.C. Firstly, this is available from rupee payment sources. Even where it has to be imported from free foreign exchange sources, the I.O.C. can negotiate for larger discounts than 12 per cent allowed to private oil companies in terms of the* Future imports.

W.G.O.P. recommendations.. This will save foreign exchange. Secondly, kerosene is an essential commodity and should not be subject to manoeuvrability.. The Committee heard that on certain occasions when the I.O.C's supplies ran dry, an artificial scarcity was created by the private oil companies by releasing only limited quantities in the market which resulted in kerosene being sold at exhorbitant prices. Kerosene will remain in short supply for several years to come and will have to be imported in spite of increased production from our Refineries. If the I.O.C. is given the monopoly of imports there is no reason why scarcity should recur.

Difficulties in selling

Rationing.

165. Kerosene is rationed in a greater part of the country but it is extremely doubtful if this rationing system is working well in all the States. For example, the following views were expressed by the I.O.C. in respect of the position in the West Bengal:—

"(1) During 1964 the total consumption of kerosene in West Bengal was 21000 Kls per month and at the growth rate of 7% per annum which has been found to be accurate for the rest of India, the total consumption of West Bengal for the year 1966 should be 24440 Kls per month. The quota now fixed for West Bengal is 29000 Kls, which in our opinion is far in excess of the demand today.

(2) We have received numerous complaints from our agents that stocks are piling up at their godowns and they are not getting distribution schedules from the District authorities in time due to which they are unable to complete the monthly quota fixed for them. The State Government authorities have been apprised of this and are taking necessary steps to see that there is no hold up at the District level.

(3) A number of dealers who have been selected by the Civil Supply authorities are not experienced in the business and are not in a position to invest the requisite finance, purchase necessary containers, as a result of which they are

unable to lift stocks in time when needed from our agents.

(4) Our analysis reveals that the dealers selected are not taking any initiative and interest in business due to meagre profit margin available to them. According to the present procedure a dealer can supply to a maximum of 3000 ration card holders i.e. 3000 litres per month and by this he can only earn Rs. 150 per month as gross profit.

(5) The decision of the Civil Supply authorities to allow 0·5 litres per head per month initially has now been increased to a quantity of one litre per month. In this respect it may be mentioned that the Director of Consumer Goods has increased the quota per head to 1 litre per month after the 20th of May, 1966 and 2 litres per month per head after 20th June, 1966. We feel that the allotment should be increased to 2 litres per head per month on a permanent basis.

(6) The decision of the Civil Supply authorities to issue kerosene as fuel for cooking, purposes should be made applicable for the entire State of West Bengal and should be advertised in the newspapers as the decision in this respect is still not known to the general public.

(7) Since 29000 kls of Kerosene is available per month which according to our estimate is sufficient to meet the entire need of the State, we feel that 50 per cent of the product should be allowed to be sold by our agents directly to the consumers. This will help agents to maintain their staff and bear the cost of operation and their establishment. In this connection the home delivery system for kerosene which was available in normal marketing times should be allowed to operate."

166. There are several other problems, for example, in an urban area, kerosene is hardly used for domestic lighting but many use it as domestic fuel. In the villages, the reverse is the case. In cities there are many who do not need kerosene at all. To have a uniform rationing, therefore, seems illogical. Some may need more than they get

and some may not need the quota they are entitled to. Favourable conditions for black marketing are thereby created. Difficulties are also faced by the public in obtaining their weekly or daily quotas of oil, with restrictions like the ban on home delivery requiring the customer to go to the Agents' shop to obtain supplies. On top of this, there is maldistribution. In some places stocks pile up for want of off-take and in other supply in scarce and shortages result. On the one hand all these difficulties exist while on the other oil companies have more than sufficient kerosene to meet the demand. In fact, the Committee understand that the Branch Manager of the Southern Branch of the I.O.C. had on several occasions sought the intervention of the Commissioner of Civil Supplies in order to persuade the District authorities to increase the quotas fixed for consumers. This was done in order to uplift accumlated stocks of kerosene. The Committee also heard during their visit to the Eastern Branch that the storage capacity at Calcutta was often full due to slow off-take and that sometimes this even resulted in diverting tankers to other Ports for want of ullage at Calcutta.

167. The off-take by Agents varied considerably from month to month which was strange during rationing. For example, the following are the monthly figures of sales in Kilo litres by two of the biggest agents in Calcutta city from January to May, 1966:—

(KL)

	January	*February*	*March*	*April*	*May*
Agent No. 1	430	150	274	467	624
Agent No. 2	230	160	168	86	245

168. The sales of the Eastern Branch also varied considerably from month to month as the following figures of sales from January to May, 1966 will show:—

	January	*February*	*March*	*April*	*May*
					(KL)
Calcutta Metropolitan Area	4061	2542	3594	2889	2999
Rest of area under Branch	4580	3126	4689	4824	4903

169. Besides these difficulties, some of which are inherent in regard to a controlled commodity, some interesting peculiarities were noticed by the Committee in some States. For example, the Bihar Government allowed kerosene Agents a Commission of Rs. 7.70 per KL and no allowance was granted for barrel depreciation, handling charges, godown charges or leakage etc. The adjoining State of West Bengal has permitted an additional expenditure of Rs. 3.30 per KL for barrel depreciation, and Rs. 6.60 per KL for handling allowance, godown charges etc. Thus while the Agent in Bihar got a commission of Rs. 7.70 only per KL, the Agent in West Bengal got Rs. 17.00 per K.L. According to the I.O.C. this commission of Rs. 7.70 per KL. was too meagre to cover even the legitimate expenses of the agents, with the result that they have shown considerable reluctance to lift the kerosene even when it was available. Worse still they were even tempted to indulge in black marketing to meet their expenses. The Committee were unable to ascertain the reasons for this disparity but one conclusion is inevitable that the distribution of kerosene in the State leaves much to be desired.

170. *The above facts reveal that the kerosene rationing system is not working well. It is true that kerosene is in short supply and has to be imported and as such a rationing system is desirable to ensure even distribution and to prevent wastage. The question, however, is whether the objects under-lying rationing are being fulfilled. There are two aspects of it. One is whether the public are getting their minimum requirements without much difficulty and at reasonable rates. The second is how far rationing has helped in reducing imports of kerosene. That the public is happy is not borne out by facts. That imports are the minimum required is also not borne out by facts or otherwise the petroleum companies would not be having surplus kerosene in their storage tanks which they find difficult to sell.*

171. *The Ministry of Petroleum and Chemicals should examine this matter in consultation with the State Governments and the Oil Companies and formulate a policy whereby the public are provided with the minimum requirements without difficulty and imports are also reduced to the minimum. Difficulties as those encountered in Bihar because of restrictions imposed by the Government, should also be*

overcome by enforcing a uniform practice throughout the country. Though the Secretary of the Ministry of Petroleum and Chemicals stated during evidence that each State should decide for itself what allowances it should allow, the Committee feel that it would be better for the Ministry to decide the matter and issue orders for enforcing uniformity in all the States. Such uniformity can cure several ills that exist today and which are affecting the economy.

Packed Kerosene Sales

Tin plates. 172. There is a great shortage of tin plates in the country and the I.O.C. like other oil companies has been forced to reduce its sale of kerosene in sealed tins, as the following figures will show:—

	Sales in sealed tins	*% to total bulk sales*
Western Branch		
1964—65	9898 Kls.	8%
1965—66	13294 Kls.	4%
Northern Branch		
1964—65	16470 Kls.	20%
1965—66 . . .	10863 Kls.	4·5%
Southern Branch		
1964—65 . . .	3280 Kls.	2·9%
1965—66 . . .	4664 Kls.	1%
(Upto June, 1966)		

Under recovery. 173. There is also an under-recovery on the sale of kerosene in tins. The OPEC had allowed Oil Companies a recovery of Rs. 1.88 per tin in the selling price while the actual cost of the tin was Rs. 2.75 per tin in 1964-65. The Talukdar Committee had raised the recovery rate to Rs. 2.56 but the cost of tin had increased in the meanwhile. The present under recovery is of the order of 87 paise per tin.

174. The Committee were informed that tin plates were allocated by Government to the I.O.C. on a very restricted basis and that the Corporation had not resorted to purchases from the open market to meet its needs.

175. While the trend in this matter is good, the Committee feel that there is further scope for reduction of sale of kerosene in sealed tins. For example between April, 1965 and June, 1966, 4304 Kls. of kerosene were sold in sealed tins in Bombay city and 2087 Kls. in Delhi city while no kerosene in sealed tins was sold in Madras city. There appears to be no justification in selling kerosene in sealed tins in Bombay and Delhi cities where it is possible to sell kerosene loose. As tin is an imported item, severe restrictions should be imposed on its use. *The Committee feel that in all urban and rural areas where regular markets exist, kerosene should be sold loose and not in sealed tins. Use of tins should be restricted to areas, where transport is difficult as in hill areas, for defence units serving in forward areas etc.* **Sale in sealed tins.**

176. *The Committee also feel that it should be possible to find a cheap and reliable substitute for tin containers in plastic, polythene or other modern packing materials.* **Substitutes.**

IX

LIQUIFIED PETROLEUM GAS

Indane. 177. At present Liquified Petroleum Gas (LPG) is manufactured by the I.O.C. only at the Barauni Refinery. It is sold at Calcutta, Patna, Allahabad, Varanasi and Jamshedpur under the trade name of INDANE.

178. The Committee were informed that the sale of INDANE was restricted due to the non-availability of Cylinders. Till recently, cylinders were fabricated out of imported deep drawing quality steel. The Rourkela Steel Plant was now in a position to offer this quality of steel. The I.S.I. had formulated a specification for LPG cylinders last year and all future cylinder production was proposed to be based on this specification. M/s. Hyderabad Allwyn Metal Works had recently produced a proto-type cylinder based on this specification and this had been approved by the Chief Inspector of Explosives, I.S.I. and the I.O.C. The cylinders had an element of imported raw materials *viz.* copper and zinc for making valves and also welding flux and copper coated electrodes.

Cylinders. 179. The Committee were glad to hear that the problem of indigenous procurement* of the cylinders had at last been solved and orders placed for the cylinders. One lakh of additional cylinders were expected to become available between October, 1966 and May, 1967 and another 2 lakh cylinders during 1967-68. From the present level of 1,200 tonnes per year the sales of INDANE were expected to reach the level of 20,000 tonnes per year by the middle of 1968.

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*At the time of factual verification it was stated that the HSL's entire production of deep drawing killed quality steel has been allotted for Defence production with the result that the programme of production of cylinders for LPG has suffered a set back. Experiments are being conducted to test the suitability of a different variety of steel (C 15 MN 75) offered by HSL.

180. The Committee were informed that the proposed initial production of L.P.G. in each of the Refineries and the maximum production possible are as indicated below. Production.

Tonnes

Refinery	Initial Production	Maximum production possible
Gauhati	2,500	6,000
Barauni	10,000	64,400
Koyali	10,000	21,000
Cochin	8,000	15,000
Madras	10,000	40,000

181. *There are a few vital facts which have to be borne in mind in regard to the production of LPG.*

(1) *It is a modern type of fuel and economical to use. It saves the housewife a great deal of the chores inherent in the use of conventional domestic fuels like firewood, coal and Kerosene, for there is no grime, smoke and dirt. It has, therefore, a greater attraction and should be easy to sell, specially in urban areas. In view of the difficulty of getting conventional fuels and the need especially to economise on the use of Kerosene, which is imported to a great extent, it is vital to popularise other forms of domestic fuels. LPG being cheaper than say electric hot plates, an all out drive for boosting its sales should be undertaken. The saving in foreign exchange to the extent that LPG can replace superior Kerosene as a domestic fuel, will itself be a significant amount. Popularisation of the use of LPG will, therefore, be in the national interest.*

(2) *If more LPG is made, the cost of production would come down.*

(3) *If LPG is not made, the gases are wasted. At present most of the gases are used as refinery fuels (for which cheaper substitutes can be used) and the rest is just flared.*

Demand Survey.

182. When the Committee went to the Gauhati Refinery, they were informed by a local firm that they had demonstrated LPG at an exhibition held in 1965 and that as a result 20,000 people had registered with them for supply of LPG, for domestic use when production started. According to this firm, it would be very easy to sell 6,000 tonnes of LPG annually in Assam.

183. The Refinery, however, proposed to produce only 2,500 tonnes and even this, is at present only in the planning stage. Asked why they intended to produce a quantity which was less than the demand, the Committee were informed that the Indian Refineries Ltd., (now Refineries Division) of the I.O.C., had prepared an LPG market survey of Assam based on statistical data collected by the Department of Economic and Statistics in Assam and reported in the survey of consumers expenditure of the middle class house-holds of Assam (Feb-Aug. 1960) and sample survey of employment and unemployment in the urban area of Assam. Based on this study, the Indian Refineries Ltd. suggested an initial LPG production of 2,500 metric tonnes per year with an ultimate production of approximately 3,900 M.T. per year. However, according to the desk survey based on Thomson Index, the I.O.C. (Marketing Division) assessed the Assam domestic LPG potential at about 400 to 500 M.T. per year. As regards Industrial LPG requirement of Assam, the availability of natural gas at much cheaper rate in abundant quantities makes LPG comparatively unattractive. Since the Assam Government indicated a possible annual LPG potential of 6,000 tons, the Indian Oil Board of Directors decided that the LPG unit capacity of Gauhati Refinery may be restricted to an initial 2,500 tonnes per year with the proviso to increase it to 6,000 M.T. per year, the latter production to be achieved subject to Assam Government's undertaking to uplift upto 6,000 M.T.

184. *The Committee feel that this is a conservative approach to the problem. Firstly, the Committee cannot appreciate why in a matter like this the help of a Government Department is taken to conduct a demand survey. A Government Department is hardly equipped for undertaking such a market survey. Secondly, it is not known why an assurance by the Assam Government has been laid down as condition precedent for increasing production.*

185. *The I.O.C. should accept the marketing of LPG as a challenge to its abilities of salesmanship and go ahead with its plans. Due to the pioneering efforts of Burmah Shell and the I.O.C.'s own efforts in the Eastern Region, L.P.G. has become popular with the public. It is the I.O.C.'s task now to forge ahead in a vigorous manner. The Committee are unhappy to note that each of the five refineries propose to convert only a small percentage of their potential to LPG. The Committee feel that the I.O.C. should expand its production.*

186. *Apart from LPG for domestic use it would be desirable for the I.O.C. to enter the industrial field and manufacture the gas for industrial purposes. The Committee were told that no survey of industrial demand had been made. Its marketing possibilities for the industry should be ascertained and exploited.* **LPG for industrial use.**

X

PIPELINES

187. The I.O.C. has three major pipeline projects *viz.*, Gauhati-Siliguri Products Pipeline (425 KM), the Haldia-Barauni-Kanpur products pipeline (1149 KM) and the Koyali Sabarmati products pipeline. The Haldia-Barauni-Kanpur (HBK) pipeline is not ready yet. The other two are working. The Pipelines Division of the I.O.C. is responsible for the construction, maintenance and operation of these pipelines.

H-B-K. Pipeline. 188. The original contract for the construction of the HBK Pipeline project was entered into with M/s. Snam Saipams of Italy on 31st July, 1963 according to which the Haldia-Barauni Section was to be completed on 31st December, 1964 and the Barauni-Kanpur Section was to be completed by the 30th June, 1965. However, these dates were revised to 30th June, 1965 and 30th April, 1965 respectively. The Barauni-Kanpur line was completed on the 10th March, 1966 and the Barauni-Haldia Section in May, 1966. The installations at Patna, Mughalsarai and Allahabad were commissioned on 1st October, 1966, 3rd October, 1966 and 7th November, 1966 respectively. Work on the Kanpur installation was completed on 20th December, 1966 but this has not been commissioned yet. The Barauni-Haldia section has also not been commissioned yet. The Committee found that the reasons for this delay were that the installations at Kanpur, Allahabad, Mughalsarai, Patna, Rajbandh and Maurigram, the construction of which was the responsibility of the Marketing Division of the I.O.C., were not ready in time. The Committee enquired into this matter and found that the facts are as stated below.

189. The target date laid down by the Corporation for the completion of the works at Kanpur, Allahabad, Mughalsarai and Patna was April, 1966. The position at each place was as follows:—

Kanpur:—All essential works were ready by due date except for the Railway siding and one 180′ diameter floating roof tank. The tank was not ready because of delay in the receipt of 16 mm thick steel plates from Rourkela Steel Plant. The steel plates were indented on 29-1-1965. Constant reminders were sent to M/S Hindustan Steel Ltd. and ultimately the steel was received on 28-3-1966. The construction of the tank was completed in September, 1966.

Allahabad:—Except for the Railway siding, all other works were completed by April, 1966.

Mughalsarai:—All essential works were completed by April, 1966 except for the 100′ diameter tank which could not be constructed because of the delay in the receipt of Steel plates. These were received on 27-3-1966 and the tank was completed in September, 1966.

Patna:—In April, 1966 only one facility was not complete *i.e.* the 100′ diameter tank. The steel plates for this were received on 3-2-1966 but could be transported to the site only in June, 1966 because the approach road to the site was closed for repairs.

190. *The Committee found that adequate attention had not been paid by the Marketing Division in regard to the procurement of steel plates in time. Even according to the revised schedule, the pipeline should have been completed by April, 1965 and if the installations were to be completed simultaneously, it would have been necessary to make arrangements for the procurement of steel at least by January, 1964. Instead, the Marketing Division seems to have moved in the matter only in January, 1965. The H.S.L. were unable to make the supplies because the work did not get any top-priority treatment in the matter of steel supplies. This matter was realised only in late November, 1965 and the Ministry of Iron and Steel was approached for the issuance of sanction for high priority allotment of steel. The Iron and Steel Controller issued his sanction within a fortnight of the request by the I.O.C. The Committee feel that such a priority should have been obtained atleast in May, 1965, when it was known that the supplies were likely to be delayed. That this was not done would indicate lack of vigilance on the part of the officers incharge of the Project.*

191. As far as the Railway sidings at Kanpur and Allahabad are concerned, the Committee found that the position was as follows:—

KANPUR:—The I.O.C. selected a plot near Panki Railway Station in consultation with all the authorities concerned, including the Railways in December, 1963. As there was some dispute with the land owners regarding the rate of compensation, the land could be taken over by the I.O.C. only in November, 1964. A request for Railway siding was sent to the Railways on 12th February, 1965. The Railways asked for a deposit and this was made on 27-3-1965. At the I.O.C's request, on 13th April, 1965, the Railway Board issued instructions on 19th May, 1965 to all the General Managers concerned to expedite proposals relating to the Railway sidings at the pipeline installations.

In June, 1965, the Divisional Superintendent, Allahabad, felt that the location of the siding was not operationally feasible. The Railways then worked on an alternative proposal for a new siding to be extended from Juhi Yard. The proposals were stated to be finalised by the Railways in October, 1965. On 9th February, 1966 the Railway authorities intimated the Corporation that the cost of the proposed work would be Rs. 32.71 lakhs which was proposed to be borne by the Corporation. This was objected to by the I.O.C. The Railways then prepared an alternative proposal for bringing a siding from Panki Railway Station. The plans were finally approved by the Railways on 10th June, 1966. The Railways then demanded a deposit of Rs. 12.08 lakhs towards the cost of the siding. The deposit was made on 29th July, 1966. The siding was completed on the 22nd December, 1966.

ALLAHABAD:—The Corporation applied for a Railway siding on 31st December, 1964. Payment was asked for by the Railways for survey and estimates on 17th August, 1965 and payment was made on 17th September, 1965. The Railway authorities then found two difficulties in regard to this project:

(i) It was felt that the Railways will be able to handle only a maximum of 3 tank wagons per day because of congestion at Subedarganj; and

(ii) On account of the existing subway between Subedarganj and the site, there were difficulties in coping with the problems of gradient.

There were detailed discussions on 9th November, 1965 in the office of Divisional Superintendent, Allahabad, when an alternative for having the siding at Cheoki was mooted by the Railways. By that time, the Corporation had already started construction of the installation at the selected site; it was in any case not possible to take a pipeline connection from Cheoki to Subedarganj because the area was inhabited and heavily congested. On 18th December, 1965 the Chief Tank Wagon Superintendent proposed that the siding at Subedarganj did not suit the Railways and asked if the proposal for having a Railway siding could not be dropped and the anticipated movement undertaken by road. In view of the difficulties expressed, the Corporation decided on 21st February, 1966 to take upon itself the burden of road movement and to drop the proposal for a rail siding, inasmuch as a mere movement of three tank wagons per day did not justify provision of a separate rail siding. At the instance of the I.O.C. the Railway Board however reconsidered the proposals and agreed to the revival of the proposal for a railway siding at Subedarganj. The Divisional Superintendent, Allahabad Division informed the Corporation on 22nd April, 1966 that a tentative plan for the siding had been decided upon and that the plan and the earthwork cost was under preparation and would be sent to the Corporation for approval in the first week of May, 1966. Finally the Railway's approval was received on 22nd July, 1966. A sum of Rs. 7·5 lakhs was demanded towards the cost of the estimate. The amount was deposited on 29th July, 1966. Meanwhile the Corporation had obtained formal approval of the Railway authorities to commence the earth work in June, 1966. Order for earth work was placed on the contractor on 20th June, 1966 and the work was started on 15th July, 1966. The siding was completed on 1st November, 1966.

192. The Committee asked for a statement of facts from the Railway Board and their reply is reproduced below in full:

> "The proposal for providing a siding at Subedarganj was initiated on 31st December, 1964. The details of the traffic requirements were submitted by the party on 12th May, 1965. The I.O.C. deposited the requisite preliminary charges towards the survey and preparation of plans and estimates on 17th September, 1965. The plans and estimates were thereafter prepared and sent to the I.O.C. on 3rd December, 1965 for their approval and acceptance of the estimated cost

of the work. Towards the end of February, 1966, the I.O.C. advised the Railway Administration that they were no longer interested in the siding at Allahabad and that the proposal might be dropped. The scheme was however revived by the I.O.C. sometime in June, 1966. Thereafter the details were finalised in a meeting held in Delhi on 22nd July, 1966 and the I.O.C. deposited a sum of Rs. 7·5 lakhs towards the cost of the work, through a cheque dated 26th July, 1966. The estimate was processed thereafter for sanction and the work taken in hand. The siding has since been completed on 31st October, 1966 and opened on 1st November, 1966. The delays in the construction of the siding are mainly on account of the delay in the indication of the traffic potentialities by the I.O.C. and their having called a halt to the scheme in February, 1966."

193. *The Committee do not wish to comment on the contradictory statements of facts submitted by the I.O.C. and the Railway Board. They cannot, however, help remarking adversely about the I.O.C. and the Railways in the manner in which these two cases have been handled. The initial selection of the sites both at Kanpur and Allahabad was done with the participation of the Railway authorities and the Railways should not have agreed to the proposals unless they had made a full analysis of all the problems involved in this regard. To have gone back on their original agreement after a considerable lapse of time was regrettable. From the facts made available, it appears that there had been no proper co-ordination between the I.O.C. and the Railways. If only the officials concerned in the I.O.C. had discussed these matters personally with the Railway officials at the proper time and sorted out all the problems, these difficulties and consequential delays would not have arisen. It looks as if this matter was carried on by routine correspondence most of the time, which was unfortunate.*

194. The pipelines were expected to cater to the transport of products from the Barauni Refinery. The Railways had apparently not made any arrangements for extra tank wagons for this area to cater to the Barauni production, in view of the pipelines. Fortunately for the Marketing Divi-

sion there was difficulty at the Barauni Refinery and the first million tonne stage went on stream only in July, 1964 as against the original schedule of February, 1963. The Second million stage was supposed to have gone on stream in July, 1963 but has not been fully ready yet because of certain difficulties. *If the Barauni Refinery had gone into production as scheduled there would have been no end to the difficulties in transporting products because of the delay in the commissioning of the pipelines. Even as it is, there have been considerable difficulties in the matter of transport because of the shortage of tank wagons in Eastern India. In view of the vital importance of this project and the bearing it had on the completion of the Barauni Refinery, there is no justification for the delay in the completion of the installations and the Railway sidings at the four cities, in time. The Committee hope that greater care will be exercised by the top management in ensuring that the various departments under it work according to schedule. Where the completion of one project is inter-linked with another, synchronisation should be ensured so that the working of the I.O.C. is not hampered.*

195. As regards the Barauni-Haldia pipeline, the Committee learnt that the initial planning of tankage at Maurigram and Rajbandh was done on the expectation that the Barauni Refinery will reach 3 m.t.p.a. production some time in 1966. The quantum of storage capacity at these two installations was assessed on the above assumption. On a realistic assessment of refinery throughputs made towards the end of 1965, it was felt that the installation/completion of these tankages should be deferred so as to synchronise with the 3rd million tonne unit of Barauni and thereby minimize the amount of capital tied up. On a further appraisal of the economics of logistics by rail/pipeline in the context of Barauni throughput at 2 m.t.p.a. and also taking into account the possibilities of Gauhati products movement through the Barauni-Haldia pipeline (with attendant sizeable savings on rail freight) it was felt that storage facilities at Rajbandh (for M.S., HSD and some Kerosene) and at Maurigram (for M.S.) could be developed even before the 3rd million tonne unit of the Barauni Refinery was commissioned. The conclusion reached was that: **Barauni-Haldia Pipeline.**

(i) On 2 m.t.p.a. throughput of Barauni, the pipeline installation at Maurigram cannot be used economically unless a way can be found to transport Gauhati production of M.S. through the Barauni-Haldia pipeline.

(ii) If Gauhati production of M.S. can be transported through Barauni-Haldia pipeline, storage facilities at Maurigram can be justified (though to a somewhat limited extent) even before the 3rd million tonne unit of Barauni.

(iii) When the 3rd million tonne unit of Barauni is commissioned, facilities at Rajbandh and Maurigram can be developed to a fuller extent. Maximum utilisation of Maurigram facilities can be achieved only when Haldia refinery comes up.

196. In view of the above analysis, no target dates have been fixed for the establishment of facilities at Maurigram as this is dependent on a satisfactory solution being found regarding the proposal to move Gauhati Motor Spirit through the Barauni-Haldia pipeline. This proposal has been under discussion with the Excise authorities and, to give effect to the proposal, the provision of separate storage facilities at Barauni Refinery is under consideration.

197. The timing of facilities at Rajbandh is linked with the timing of the commissioning of the pipeline itself. The pace of work at Rajbandh has been so regulated as to synchronise with the commissioning of the pipeline. The pipeline installation is now planned to be made ready to receive products by the end of March, 1967 by which time the Barauni-Haldia pipeline is also expected to be commissioned.

198. *The Committee are not happy over this matter also. The completion of the pipeline and the installations has been delayed, and there is hardly any purpose in finding excuses. The entire staff engaged for the construction of project have been there since the beginning and they have to be paid whether usefully employed or not, for the entire period taken in the completion of the project. There have also been considerable difficulties in the movement of products from Barauni to Calcutta for want of adequate number of tank wagons. It is also well known that the I.O.C. has been incurring under recovery of freight for all the products moved from Barauni to Calcutta. If the pipeline*

had been constructed and products moved to Maurigram by this line considerable financial savings would have accrued to the I.O.C. though not particularly to the Marketing Division. The Marketing Division would have benefited from a quick and unhindered movement of products. In view of these advantages there was no justification for delaying the pipeline project. The Committee hope that it would be possible to complete this pipeline without any further delay.

Other Pipelines

Cochin-Coimbatore Pipeline.

199. The Committee understand that a pipeline is contemplated between Cochin and Coimbatore and between Madras and Bangalore. No decisions have been taken about this matter yet. In the meanwhile, the products of the Cochin Refinery are expected to move by rail and road and also by tankers to the Eastern coast. The Committee are not aware whether satisfactory arrangements have been made in regard to the movement of products. *The Committee hope that the Marketing Division will take adequate steps in time to ensure that there is no difficulty in the movement of products from Cochin. The economics of a pipeline to Coimbatore should also be worked out. If this will solve the transport difficulty, early action should be taken to proceed with this project.*

200. *The Committee were glad to hear that the pipes for the pipelines are now produced by the Hindustan Steel Ltd. Only pumps need to be imported from abroad. This being so, there should not be much difficulty in constructing the pipelines if they are found to be economically feasible.*

Profitability of pipelines

201. The Committee were informed that the pipeline projects were fairly remunerative. The Gauhati-Siliguri Products pipeline cost Rs. 737 lakhs and though only 65.5% of the rated capacity was acutally utilised in 1965-66, it yielded a net profit of Rs. 22.66 lakhs or 6.47% return on

equity. In 1967-68, the volume of traffic was expected to be 82.7% of rated capacity and net profit was expected to be Rs. 36.26 lakhs or 10.36% return on equity. The Barauni-Kanpur pipeline cost Rs. 1550 lakhs. During 1967-68 the volume of traffic was expected to be only 53% of the rated capacity and the net profit was expected to be Rs. 25·65 lakhs or 4.27% return on equity. The profits are bound to be much higher when the Barauni Refinery goes into full production and the volume of products handled reaches the rated capacity of the pipeline.

202. The Committee were informed that the rates of transport that the Pipelines Division would charge the Marketing Division would be the same as the railway freight. One of the main advantages of pipelines is its cheapness compared to other forms of transport. *It will be evident from the figures of profitability mentioned above that the Pipelines will be considerably profitable to the Pipelines Division, especially when the volume of products handled is the maximum possible. However, the Marketing Division does not derive any benefit in costs due to the laying of the pipelines. In view of the fact that the Marketing Division incurs considerable loss due to the location of Gauhati and Barauni Refineries, the Committee feel that the rates charged by the Pipelines Division should be less than the railway freight. In short, the financial advantages of the pipelines should be reflected in the accounts of the Marketing Division to some extent even though it might be argued that it is ultimately the Corporation that stands to benefit from this.*

XI

FINANCE AND ACCOUNTS

Financial Results

203. The statement given below shows the financial position of the Marketing Division from 1959-60 onwards:—

(Rs. in lakhs)

	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
(A) ASSETS							
(1) *Fixed assets*							
(a) Gross Block .	0·21	3·66	105·94	360·80	635·58	970·34	1477·01
(b) Less Depreciation .		0·23	7·91	37·04	29·83	58·49	105·08
(c) Net fixed assets .	0·21	3·43	98·03	323·76	605·75	911·85	1371·93
(2) *Current Assets*							
(a) Current assets loans & advances	1·58	97·63	414·46	1136·71	2670·27	3357·91	5219·48
(b) Less Current liabilities .	0·15	58·10	262·67	796·36	1293·21	1624·28	3086·99
(c) Net working capital .	1·43	39·53	151·79	340·35	1377·06	1733·63	2132·49
3) ***Net Capital employed*** .	1·64	42·96	249·82	664·11	1982·81	2645·48	3504·42
(4) ***Other Assets*:**							
(a) Trade investments .	..	..	0·10	..	10·00	10·00	32·64
(b) Capital work-in-progress	..	11·08	77·55	104·16	195·55	340·85	408·93
TOTAL .	1·64	54·04	327·56	768·86	2188·27	2996·33	3945·99

	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
(*B*) *SOURCES OF FINANCE*							
(*a*) Equity Capital (paid up capital including advance per shares)	2·25	57·25	297·25	322·25	497·25	661·25	997·25
(*b*) Reserves and surplus .	..	..	..	43·45	152·86	125·80	214·49
(*c*) Less intangible Assets	0·61	3·21	17·17	..		4·11	2·43
(*d*) Net worth (a+b—c) .	1·64	54·04	280·08	365·70	646·38	782·94	1209·31
(*e*) Loans from the Government .			..	300·00	475·00	592·94	1581·64
(*f*) Loans from the Bank .	..	..	47·48	102·57	1066·98	1620·45	1155·04
TOTAL .	1·64	54·04	327·56	768·27	2188·36	2996·33	3945·99

204. The total sales, sales revenue and profits for each year were as follows:—

	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
Sales (000 KL)	Nil	32·0	210·4	642·5	1166·1	1721·6	3648·2
Sales Revenue Rs./crores	Nil	0·78	5·83	21·35	52·43	77·82	168·00
Profits (Rs. lakhs)	(—) 0·61	(—)2·61	(—)13·96	59·61	83·57	(—)2·59	297·00

205. The net fixed assets and the working capital formed the following percentages of net sales realisation:—

	Net fixed assets %	Working capital %	Total capital employed %
1962-63 . . .	15·16	15·94	31·10
1963-64 . . .	11·55	26·26	37·81
1964-65 . . .	11·72	22·28	34·00
1965-66 . . .	8·43	13·01	21·44

206. It will be seen that the percentage of net capital employed to sales realisation showed a rise in 1963-64 and 1964-65 over the figures for 1962-63 but fell fairly steeply in 1965-66. While this aspect of the working of the Corporation cannot be complimented during 1963 to 1965, there appears to be a trend for the better since 1965-66. The Committee also noticed the corresponding figures for 1963 as worked out by the W.G.O.P. for the Burmah-Shell, Esso and Caltex which were 23·71, 25·6 and 27·03. Compared to these figures, the I.O.C. figure of 21·44 per cent is good. *The Committee hope that this good trend will continue and this figure further reduced.*

207. The Committee enquired why the financial results of the I.O.C. were poor, specially when compared to the private oil companies. While profits seemed to be a by-word in the oil industry, it was surprising to see the I.O.C. incurring a loss of Rs. 2.59 lakhs in 1964-65. The answer given by the I.O.C. is reproduced below in full:— Reasons for poor financial results.

"In order to place the results of the I.O.C. in proper perspective, from year to year, and also on a comparable basis with other companies, it is necessary to observe the following general principles, and apply several correctives, to the published accounts.

The Indian Oil Corporation's working stands comparison with the working of other oil companies if the results of extraneous factors are first corrected. Unlike other companies, the I.O.C. bears several extraneous burdens, which have nothing to do with the marketing and trading results. These are:—

(i) *Under recovery of railway freight*

This arises because products actually move from the Gauhati and Barauni Refineries. The I.O.C. pays freight from there but the pricing formula allows it to recover from the market only the rail freight from Calcutta or Kandla. This is usually less. I.O.C. bears this loss on the entire production of the refineries, including what is sold to other companies.

(ii) *Central Sales Tax*

When products are sold from the refineries to the other marketing companies for consumption in other States, I.O.C. pays Central Sales Tax. This cannot be recovered from the market and is a loss to I.O.C. In a like situation, State Governments have granted exemption of this tax to other oil companies but not to I.O.C.

(iii) *C & F Loss*

Oil pricing in India is geared to the Middle East levels. The prices fall steadily but this benefit does not go to the consumer. It is absorbed by Government by means of an uniform average rate of non-recoverable duty. The extra duty that a company pays to Government and the extra benefit it gets on the reduced prices do not exactly balance. Government allowed other oil companies to keep an adjustment account called, C. & F. account, to neutralize this difference. But I.O.C. was not allowed to do this till May, 1965 though I.O.C. paid to Government much more duty on its expanding business, than what it had gained on reduction of prices.

The accounts of a year include some items of expense or receipt relating to a previous year. These appear in the Profit and Loss Appropriation Account. Though the printed accounts cannot be corrected, such items really change the profits of previous years. We have to make corrections, to make a proper comparison.

I.O.C.'s growth has been very rapid. Whereas the fixed assets of other companies grow annually at a rate of 5 to 10%, I.O.C's. fixed assets have grown at nearly 100% to take care of the huge volume increase. It takes one or two years to construct and complete the facilities to a point where they start to yield returns. To show comparable results, the cost of works completed only has been taken into consideration, and work in progress, excluded.

The working results show:—

(i) I.O.C's. return on equity has been excellent. After a study of 1001 companies in India, the Reserve Bank of India found that a return of 18% on equity capital was average, I.O.C's. poorest year gives that return, for other years, the position is far superior.

Rate of return on equity for the foreign oil companies cannot be calculated, because they are not subject to the discipline of the Indian Companies Act, and their equity and loans bear no meaningful relationship.

(ii) Return on capital employed is generally better than ESSO and Caltex, and is equal to that of Burmah-Shell. This is so even though I.O.C's. facilities were constructed at a period (1960s) when construction cost were much more compared to the time (1940s or earlier) when other companies built their facilities.

(iii) I.O.C's. profit per K.L. is much better than that of the other companies.

(iv) I.O.C's. capital employed per Rs. 100/- of sales is higher. The working capital part of it is of the same order as that of other companies. But the cost of fixed assets is more; other companies built their facilities many decades back, but I.O.C. built them in the last 4 or 5 years. The price levels were at least three times more, but I.O.C's. cost of fixed assets per Rs. 100/- sale is only double that of other companies. In 1965-66, the level of the other companies is matched due to increased throughputs.

(v) Taking all indicators into account one may say that financially, during the last three years, I.O.C. has done better than Caltex and ESSO. Burmah-Shell has done somewhat better than I.O.C. This is in line with the relative size of the companies. During 1965-66. I.O.C. did even better than Burmah-Shell.

(vi) Over the years, I.O.C. has brought down its level of customers' outstandings in relation to sales, and of the operational cost per kl."

208. *The Committee agree that the actual published accounts do not reflect the actual working of the I.O.C. in so far as the Corporation is obliged to incur under-recoveries of freight etc., for no fault of its own. The Committee have recommended elsewhere, that relief should be given to the I.O.C. in regard to these matters. This, however, does not mean that all is well otherwise with the I.O.C. There are many matters pointed out in other parts of this Report which have to be set right. There is doubtless an encouraging trend in the management of the Marketing Division not only in regard to the administrative changes that have been made but also in regard to policy. There is no reason why the Division should not yield better profits if its affairs are handled energetically and prudently.*

Working Capital

Reasons for rise.

209. It will be seen from the figures given earlier that the working capital has registered a very steep rise from Rs. 340.35 lakhs in 1962-63 to Rs. 2186 lakhs in 1965-66. The rise was particularly steep in 1963-64 when it rose nearly four times. There are two main reasons which the Marketing Division have given for the rise in working capital:—

(i) More and more products from the public sector refineries are being handled each year and the Refineries Division offers only 45 days credit as against 180 days allowed by foreign suppliers.

(ii) There has been a considerable increase in supplies to Government organisations who take more time than other private customers to settle their dues. At present the I.O.C. is supplying about 58 per cent of the total requirements of Government organisations as against 30 per cent in 1962-63.

Payment to Refineries Division.

210. The Committee examined to see how far the Marketing Division has been prompt in its payments to the Refineries Division in spite of the increase in its working

capital. The fact is that because of delays in payments by the Marketing Division (the sole customer), the Refineries Division was finding it difficult to manage within its working capital. The Board of Directors, therefore, decided in 1965 that the Refineries Division may recover full interest charges from the Marketing Division with retrospective effect from February, 1962 on overdue outstandings.

211. The amount of interest paid for outstandings over 45 days is as follows:—

	Rs. in lakhs
1962-63	9·84
1963-64	30·83
1964-65	21·54
1965-66	2·00
TOTAL	64·21

212. The Committee found that every month in 1965, the Marketing Division was in arrears of payments to be made to the Refineries Division and the amounts were quite substantial. Since April, 1966 there has been no arrears.

213. *The Committee feel unhappy over the position that on the one hand money is borrowed from Banks with a view to paying the Refineries Division and heavy interest charges incurred thereon and on the other hand, the bills of the Refineries Division are not cleared in time and heavy interest charges are incurred as a result on these outstandings also.*

Over drafts from Banks.

214. It will also be seen from the figures quoted earlier that the over-drafts from Banks at the end of the last three years were Rs. 1067 lakhs, Rs. 1620 lakhs and Rs. 1115 lakhs respectively. The maximum amount of over draft during 1964-65 was Rs. 1764.99 lakhs and Rs. 1772:61 lakhs in 1965-66 against the sanctioned limit of Rs. 1800 lakhs. The interest paid on these overdrafts amounted to Rs. 81.65 lakhs and Rs. 121.94 lakhs in 1964-65 and 1965-66 respectively.

215. The need for such heavy borrowings were stated to be the requirements of working capital. While the Committee agree that the requirements of working capital are high in the petroleum industry, it is well to remember

while examining the figures that outstandings against customers at the end of the last three years were Rs. 1393 lakhs, Rs. 1586 lakhs and Rs. 2275 lakhs respectively for which the I.O.C. obtained no interest. *As has been pointed out elsewhere, the position about collection of outstandings is far from satisfactory. If only the I.O.C. had realised its dues from its customers in time, it would not have been necessary to resort to such heavy overdrafts and incur such colossal expenditure on interest charges. While these interest charges were being paid by the Marketing Division they were inclined to look upon their debtors with a certain amount of indulgence and allowed them interest free credit. The financial management in the I.O.C. was far from satisfactory. They hope that the recent trends for the better will continue.*

Relation to Sales.

216. The following table shows the sale value (turnover), the actual working capital employed, and the number of rupees of working capital employed for every 100 rupees of sale.

Year	Sale value	Working Capital employed at end of the year	Working Capital per Rs. 100 of sale
	Rs./lakhs	Rs./lakhs	Rs.
31-3-61 . . .	78	43	55
31-3-62 . . .	583	169	29
31-3-63 . . .	2,135	469	23
31-3-64 . . .	5,243	1,698	32
31-3-65 . . .	7,782	1,787	23
31-3-66 . . .	16,844	2,186	13

217. It is understood that the Talukdar Committee had recommended Rs. 20/- as a reasonable working capital for every Rs. 100/- of sale. The Government modified this figure to about Rs. 18/- per Rs. 100/- of sale, *i.e.* 1/6th of sale value. Against this, the I.O.C.'s achievement of Rs. 13/- for the last year appears to be satisfactory. *The Committee hope that every effort will be made to better this figure.*

Sundry Debtors

Total outstandings.

218. The total amount of outstanding of the Marketing Division as on 31st March, 1966 was Rs. 2275.65 lakhs. The gross sale revenue was Rs. 168.00 crores. The outstand-

ings, therefore, represents 49 days sales if the average sales during 1965-66 is taken as basis of calculation. The I.O.C. prefers to take the figures of current sales as the basis and in terms of this figure, the outstanding amount represents 38 days sales value. The Committee feel that the I.O.C.'s method of calculation gives an inaccurate impression, because the outstandings are actually of sales made during the year and should be related to the sales of that year and not current sales.

219. The amount of Rs. 2275.65 lakhs also included a provision of Rs. 9.18 lakhs towards doubtful debts Rs. 393.87 lakhs or 17.49% of the total outstandings were over 6 months old. Among the four Branches the position was worst in the Eastern Branch which had a total outstanding of Rs. 8.47 crores which was 37% of the total outstandings and represented 68* days' sale Rs. 2.29 crores of the total outstandings of this Branch were more than 6 months old. The best figures were in respect of the Madras Branch whose outstandings represented only 17 days sale.

220. Of the total outstandings of the I.O.C., Government and semi-Government organisations accounted for Rs. 14.65 crores (64.37%), State Transport Rs. 4.38 crores (19.24%), Cooperatives Rs. 0.19 crores (0.83%) and private parties Rs. 3.54 crores (15.55%). Sales to D.G.S. & D. during 1965-66 were Rs. 50·48 crores and the outstandings on 31-3-1966 were Rs. 8.47 crores which represented 61 days sales.

221. The Committee found that the position of outstandings had improved considerably as the following figures will show:

As on date	Money due from customers	Money due from customers shown as No. of days' sale
	Rs. lakhs	
31-3-61	31	144
31-3-62	205	126
31-3-63	628	108
31-3-64	1,393	96
31-3-65	1,586	72
31-3-66	2,276	38

*The figures of outstandings haven been expressed in terms of curre n ales and not of average sale during the year.

Reasons. 222. The Committee enquired why the position in this regard had been so bad during the past years and were informed as follows:—

"In the initial years, there were no contracts or even exchange of letters with many customers. Supplies were just started somehow, and this led to several disputes regarding rate variation, measurement of quantities, transit losses, shortages, etc. Moreover, the Corporation had often to offer credit to the customers to wean them away from other Oil Companies even though no clear cut credit policy had been evolved in the early years.

In order to ensure quick collection, it was essential to link up payment or part payment made by the customers to correct bills. In many cases the customers paid money in lump and did not provide details of the bills towards which they made the payments. Therefore, the linking up of the payments was most difficult. It became difficult to present a clear cut picture of accounts to the customer in time, showing what the balance was, and towards what bills.

Till the year 1963, the collection of dues was considered the responsibility of only the Finance & Accounts Department; they would only send out the bills and hope that the customers would pay them. The Sale Department and the field officers were not associated with the collection work. In this manner there was no follow up of the outstandings with the customers at personal level. At the most, reminders were sent to the customers with a request to clear the outstandings.

In case of D.G.S.&D. parties, various documents were to be submitted with the bill and the Accounting Staff was to be trained in this respect so that minimum time was taken for the presentation of correct bills duly supported by essential documents for prompt payment. Therefore, effective steps in various directions were necessary and many changes were effected with a view to reduce the outstandings."

223. Broadly speaking, the reasons for the heavy outstandings could be attributed to the following five major reasons:—

1. Undue delay in preferring bills.
2. Inadequate control over recovery of dues.

3. Irregular sale on credit to private parties.
4. Absence of agreed terms of sales resulting in disputes.
5. Delay in realisation from Govt. parties in respect of sales effected through D. G. S. & D.

Payments for D.G.S.&D. Supplies.

224. *While steps appear to have been taken by the Corporation in tackling most of these causes, there is one matter which requires further scrutiny and early solution. This relates to payment for supplies made on D.G.S. & D. rate contracts.* In such cases, inspection notes and C.R.Cs. are to be submitted to the Pay and Accounts Officer at New Delhi along with the bills. There is firstly a time lag between the date of supply and the submission of the bills which is mainly on account of delay in the receipt of inspection notes from the inspection authorities and the C.R.Cs. from the consignees. In many cases the I.O.C. has to obtain amendments to rate and running contracts and these are received as late as 6 to 8 weeks from the date of supply of the products. The products are, usually, supplied in anticipation of the amendments. This resulted in unnecessary delays, particularly in the Eastern Branch who were called upon to make large supplies to the Defence authorities.

225. All bills in respect of D.G.S. & D. sales are prepared by the Branch Offices and routed through a special D.G.S. & D. Cell in the Accounts Department of the Northern Branch, at Delhi. The cell receives all the bills in respect of D.G.S. & D. supplies, presents them to the Pay & Accounts Officer, collects money due against these bills and keeps the Branches informed. If there are objections, the Cell takes up the matter with the Branch Office and obtains the necessary clarification.

226. *A suggestion has been made that the D.G.S. & D., should agree to decentralise the payments through their Pay and Accounts Officers at Bombay, Calcutta, Delhi and Madras instead of at Delhi alone. This would save the time in routing the bills through Delhi and also in answering objections raised by Pay Accounts officers. The Committee suggest that the D.G.S. & D. should consider this matter urgently in order to decentralise payments preferably with effect from the next financial year.*

Delays. 227. The Committee obtained some statistics from the D.G.S. & D. about the promptness of the I.O.C. in sending bills to them for payment and were surprised at the delays revealed by the following figures:—

In July, 1966, 2100 bills of the I.O.C. were paid. Of these:—

(1) Approximately 500 were received within one week of the supply of stores.

(2) 700 bills after a week but within a month.

(3) 500 bills between one month and two months.

(4) 150 bills between two months and three months.

(5) 100 bills between three and four months.

(6) 150 bills between four months and one year.

228. The D.G.S.&D. also reported that several bills had to be returned for either one or more of the following categories of mistakes:—

(a) Number and date of the relevant supply order and/or rate/running Contract is not given correctly.

(b) Mistakes in calculations.

(c) In the absence of rates for supplies ex-up-country Depots, claims are preferred at the minimum Main Installation rates.

(d) Sales tax claimed without provision for the same in the relevant contract.

(e) Required certificates are either not sent or are not signed.

(f) Bills are prepared for excess supply without getting the quantity ordered increased suitably.

229. The Committee also obtained figures of bills received and payments made during June and July, 1966. The details are given below:—

	June 1966	July 1966
Receipt	1,941	2,370
Paid within 7 days	1,427	1,634
Returned within 7 days	116	177
Paid between 8—15 days	324	452
Returned between 8—15 days	37	55
Paid after 15 days	1	..
Returned after 15 days	36	43
Balance	Nil	9 (these are pending for want of some documents from the Indentors).

230. *The above facts reveal a disconcerting state of affairs in regard to billing for DGS&D supplies. The Committee can only draw the attention of the Management to this unsatisfactory state of affairs and suggest that close attention should be paid to this matter both by the Head Office and the Finance and Accounts Officers of the Branches. The Head Office should call for weekly statistics of bills submitted to DGS&D by the Branches from the Cell at Delhi and try to analyse the causes for delay or incorrect billing and take necessary steps to improve matters. This vigilance should not be relaxed till the Head Office is satisfied that the procedure has attained a certain standard of efficiency. The Accounts Officers of the Branches should be held responsible for this matter.*

Powers of Liaison Officer.

231. The D.G.S. & D. has also made the following suggestion in regard to the contracts with the I.O.C.:

> "POL is a centralised item and all contracts are concluded by the D.G.S. & D. at New Delhi. Clarifications/back references, where necessary have to be made to I.O.C. at Bombay, as their Delhi Liaison Office and Branch Office are not

in a position to give any decision in the matter. It is felt that in the interests of quicker coverage/expeditious supplies, I.O.C. should have an empowered Liaison Officer in New Delhi capable of taking spot decisions, more or less on the same lines as the Chief Representatives of other Oil Companies stationed at New Delhi."

232. The Committee discussed this suggestion with the Officers of the I.O.C. during oral evidence. It was stated that this would be a very difficult suggestion to implement as several matters relating to rates, supplies, routing etc. had to be decided upon. The Liaison Officer would require a big organisation to attend to these matters which would be a waste. Even in the private petroleum companies, the Liaison Officer was not authorised to take decisions on these matters as stated by D.G.S. & D. They had to obtain orders from their Head Offices, but this was done quickly over the teleprinter.

233. *The Committee agree with this view. With the establishment of a teleprinter circuit between the Delhi and Bombay offices, communication would be swift and it should be possible for the Liaison Officer at Delhi to obtain clarification or decisions from the Head Office within a day.*

Suggestions for improvement.

234. During the course of their evidence before the Committee, the officers of the I.O.C. made the following suggestions for improvement in regard to billing and payment for D.G.S. & D. supplies:—

(1) *Delay in extension of contract by DGS&D.*

An obligation should be imposed on the indentor/consignee that they should write to the D.G.S. & D. authorities for extension of contract well in time. Nowadays mere confirmations are made by indentors after the supplies have actually been made, and payments are delayed till the D.G.S. & D. issues extension sanction after receipt of the confirmation.

(2) *Amendments to contracts.*

The average time taken for issue of Amendments to contracts is between 6 and 8 weeks. In many cases the time taken was 6 to 8 months. This time lag should be reduced. If D.G.S. & D. do not issue the necessary amendments within a prescribed time limit, the Pay and Accounts Officer should be authorised to pay the bill against indemnity to be tendered by the I.O.C. The I.O.C. shall be bound to refund the amount to the P. & A. O. if the necessary amendment is not issued at a later stage.

(3) *Changes in Sales Tax.*

At present the I.O.C. is required to forward a copy of the Gazette notification incorporating the changes in the Sales tax alongwith each request for amendment to the Rate/Running contract. This procedure can be simplified. There is already a Sales Tax Cell in the D.G.S. & D. who should be able to obtain a copy of the relevant Government notification and circulate it to all the Branches concerned in their office. The I.O.C. can merely quote the number and date of such notifications.

(4) *Supplies from alternate sources*

The normal source of supply is indicated in a contract but sometimes supplies have to be made from a different source due to non-availability of wagons, products etc. This, however, is to be provided by an amendment to the contract. As this does not affect the price of the product, there should not be any delay in issuing the amendment as soon as a request for it is received as, this is a mere formality.

(5) *Freight*

The contract provides for the payment of notional Railway freight from the normal source of supply to destination and on production of proof of cash receipt under which the freight was paid. The payment to Railways is, however, made through Railway Credit Notes and it becomes difficult for the I.O.C. to produce cash receipts in support of its claims. The Ministry of Finance may be requested to issue the necessary concurrence for passing the bills on the basis of certificate by the I.O.C. that the Railway freight charged in the bills was in fact paid to the Railways.

(6) *Emergent supplies*

In some cases supplies are effected without supply orders at the request of indentors/consignees under emergent circumstances. An obligation should be placed on the part of the Indentors/consignees to issue a supply order without delay. This obligation should form part of the normal procedure laid down by the DGS&D.

235. *The Committee feel that the above suggestions deserve favourable consideration by the DGS&D. They suggest that a committee of officials of the DGS&D, including the Pay and Accounts Officer, and the I.O.C. should be constituted to go into the whole question of billing and payment, and recommend ways and means of simplifying the entire procedure in order to expedite both billing and payment. Efforts should be made to eliminate all cumbersome and unnecessary requirements and make the procedure streamlined and efficient.*

236. *As for other outstanding and the reasons therefor, the facts speak for themselves without the need for any special comment. The Committee can only express regret at things having been allowed to drift in this manner without effective and timely action being taken to put matters straight. Half the I.O.C's. financial troubles were due to the fact that the matter of collection of outstandings was not given the importance that it deserved.*

237. *The Committee have made some suggestions in this regard while dealing with the sales to Government organisations. These are the major customers that the I.O.C. has to tackle first. If the Corporation can succeed in obtaining payments from Government parties say within 15 days of presentation of a bill, it would go a long way in solving this problem of heavy outstandings. In fact, the Committee would suggest that all the Branches should aim at reaching the figures of the Southern Branch whose outstandings represent only 17 days' sale. The position of the Eastern Branch is particularly bad and requires extra effort to stabilise it. The Committee, however, realise that the difficulties of the Eastern Branch are mainly due to the fact that it caters to a difficult and far-flung area with myriads of problems of communication and supply. The Head Office should give the Branch all possible assistance by writing to the parties concerned to cooperate in clearing the arrears. The Committee hope that by the end of the financial year the Eastern Branch will catch up with the other Branches. The Committee also suggest that the*

position of the outstanding should not only be watched once a year but every month by the Branch Office and the Head Office.

238. The Committee examined the figures for 4 months from April to July, 1966 and found that the outstanding at the end of each month expressed as number of days sale were as follows:—

	I.O.C.	West Branch	East Branch	North Branch	South Branch
April, 1966	30	24	53	30	17
May, 1966	34	29	64	32	15
June, 1966	35	26	71	31	17
July, 1966	35	28	65	33	15

239. *These figures reveal that the position has been fluctuating from month to month and in a fairly wide range. If proper credit control is exercised, such a fluctuation should not arise. The above figures indicate the need for greater control both by the Head Office and the Branch Offices in the matter.*

Accounts

240. The Committee found that the Company Auditors had year after year been severely criticising the system of accounts of the I.O.C. Some random samples of the Auditors' remarks given below will reveal the condition of the accounts:— **Comments of Auditors.**

Accounts for 1961-62

(i) The Company has from time to time issued written instructions laying down the responsibilities of various officers in regard to the maintenance of accounts. However, little attention seems to have been exercised to see that these are followed.

(ii) The invoicing procedure is unsatisfactory. It is not clear as to who is responsible for ascertaining that all sales have been billed. Many sales invoice serial numbers were missing for which no satisfactory explanation was forthcoming. There were several unbooked sales invoices.

(iii) Stores records were incomplete in many respects.

(iv) Oil stock registers are not adequate. Proper records were not available for receipts and issues of oils at depots. In some cases it is difficult to distinguish between transfers and sales.

(v) The accounting work was in arrears for 4 months.

(vi) There is no internal audit system.

Accounts for 1962-63

(i) There were numerous instances of the accounts not being properly maintained which often precluded "auditing in depth".

(ii) Sales journals were incomplete. The invoicing procedures were unsatisfactory. There was no system of serially numbering invoices and there were several instances of two invoices bearing the same number.

(iii) The filling system left much to be desired.

(iv) There were instances of cheque payments being booked late. (One example given was of a cheque which was entered in the cash book after 4 months).

(v) There was no proper system of accounting for stores. There was no system of cross references between various registers. The complete breakdown of this extremely cumbersome system is illustrated by the fact that in a very high proportion of items differences were disclosed between book balances and the balances as per physical inventories.

(vi) The accounting work for the year 1963-64 had not commenced as on 15th September, 1963.

(vii) No register was maintained showing oil withdrawn or received and the customs duty etc.

paid. Consequently, claims to be put up with the Customs authorities for overcharges and adjustments were considerably delayed.

(viii) Innumerable errors were noticed when checking sales invoices. Items had been left uninvoiced. Invoices had calculating errors of all sorts *e.g.*, sales value, sales tax etc., errors were noticed in pricing and extensions, totalling errors and in many cases the quantities were also incorrect. The main category of errors arose in the billings to the DGS&D.

(ix) Sales were not properly recorded. Some sales effected in 1961 or 1962 were billed as late as July or August, 1963.

(x) There were instances of credit or debit being recorded against the wrong party.

(xi) There were a large number of unconfirmed advances and deposits.

Accounts for 1963-64.

(i) As a result of the rather belated decision to decentralise the accounting system on 30th September, 1963, some confusion was caused in fixing responsibility for the various deficiencies in the accounting system.

(ii) Auditing in depth was attempted but was found to be very difficult because of inadequate references and deficiencies in the filing system.

(iii) Records in respect of debtors were not properly maintained. In the majority of cases no satisfactory explanation was available for disputed balances.

(iv) A large number of debits and credits could not be identified and were kept under cash sales or suspense Accounts.

(v) Follow-up of old outstandings was very poor and recoveries in many cases were slow.

(vi) The rates charged were in many cases found to be wrong. Due to defects in proper billing, double billing etc., several rectifying entries had to be passed but these too were at times found to be wrong and necessitated further corrections.

(vii) Considerable delays were noticed in billings to DGS&D parties, as would be apparent from the very large amounts of long outstanding balances due from such parties. While to some extent the delay in effecting recoveries from the DGS&D parties was out of the company's control, in many cases, the delay was due to the fact that prompt action was not taken by the Company, firstly in looking into the causes of non-payment and secondly in complying with various formalities. For instance adequate contract-wise record was not maintained for the quantities supplied, and often quantities in excess of the order were supplied without obtaining the necessary amendment to the original order.

(viii) Adequate records for stores were not maintained at any of the Branches. There was no proper system of recording issues to contractors nor were any acknowledgements obtained from them, especially over steel stores.

(ix) There were mistakes in billing *i.e.*, incorrect oil rates, wrong/non-recovery of recoverable charges, and incorrect calculations. There was no proper check in the invoices issued.

(x) In several cases the books of accounts and accounting records were not maintained upto date.

(xi) No proper system was laid down for the issue of credit and debit notes and no proper record of these issues was maintained.

(xii) Control over cash sales was also found to be deficient.

(xiii) It was noticed that in a very large number of cases no confirmation had been received from parties in respect of advances. Further, there were several old outstanding amounts, details of which were not available.

Accounts for 1964-65

(i) While there was definitely some improvement in the system of accounts and book keeping, the performance of the duties and responsibilities laid down for various officers in regard to the maintenance of accounts left something to be desired.

(ii) In respect of State Transport as well as semi-Government parties there was a large number of unlinked receipts. Unless these are linked, bill-wise break-up will not be available.

(iii) In the case of accounts which had been analysed, it was found that there were several instances of short payments of bills which could result in the balance amounts not being recoverable. It is possible that when the unpaid bills are paid, further short payments might result. In a majority of the cases, reasons were not known for short payments or non-payment of old outstanding bills. In cases, where reasons were known the staff had not had time to follow up and, therefore, it was not possible to determine the chances of recoverability of such balances.

(iv) The accounts of the Marketing and the Refineries Divisions in each other's books could not be agreed and disclosed a net difference of Rs. 61,477.80 which has been left in suspense. This is a sad reflection on the accounting system of the Corporation.

(v) There is an accounting manual in existence containing instructions for closing of accounts. However, a very detailed and comprehensive accounting manual is necessary for the Corporation.

(vi) Some sort of monthly trial balances are prepared, but without opening balances. In view of the general deficiencies in the accounting system, they cannot be considered to be satisfactory.

(vii) Management accounting is in vogue to a very limited extent.

(viii) Unless the state of records in respect of debtors is improved it is not possible to exercise satisfactory control thereon. However, some improvements have been made over the previous year *e.g.* in effecting recoveries in respect of certain classes of customers. By and large, the situation is still far from satisfactory.

(ix) It cannot be said that budgetary control is effective in as much as no attempts appear to have been made to look into the causes of variations between estimates and actuals.

I.O.C.'s reply.

241. The Committee asked for the comments of the Corporation on this most unsatisfactory state of affairs and the reply was as follows:—

"It is true that the position with regard to the accounts was extremely unsatisfactory in the past. The position is good now.

The Company was started with a cashier from the Railways in charge of the entire accounts. No organisation was built up and no accounts manual was written up. After the Company had been in existence for about two years, an office order running to five pages was issued in August 1961, setting out the accounting instructions. This is all that was by way of an accounts manual. Other oil companies have detailed manuals running into several volumes. When the sales rapidly rose, the entire accounting system collapsed and in 1962 the auditors made adverse comments on almost all aspects of the accounts.

Heroic efforts were then made to set right the earlier lapses, tone up the accounting system and cope up with the problems of rapid growth of the company. This was done systematically, by drawing up a list of things to be done, including organization, recruitment and staffing, training of men, writing up of manuals, their implementation, systematic follow-up and internal audit. A scheme of priorities was also evolved and every year, we assessed what were the defects, how much of improvement was feasible and set out clearly who should do what, how and when. The measure of improvement is reflected in the fact that the critical comments of company's auditors gradually became less and less.

This improvement was made in spite of the rapid growth of the organisation, when the sales increased from 2 lakhs kl. in 1961-62 to 36 lakhs kl. in 1965-66, and the sale value from Rs. 6 crores in 1961-62 to Rs. 168 crores in 1965-66. Though there is scope for further improvements, and these are constantly under study, the position of the accounts is now good.

The position of customers, outstandings has also improved steadily over the years. The problem of old outstandings however still remains. The amount pertaining to the period ending on the close of the previous financial year (*i.e.*, March, 1965) is about Rs. 1½ crores. Special efforts are being made to collect all these old outstandings by deputing teams of officers to contact the customers, under the direction of a special officer.

In the initial stages there were many defective contracts. In fact, in many cases supplies had been started without fixing up the price or entering into any contract and this led to incorrect billing and disputes. The sales grew rapidly, but the accounting organisation was not at all geared to take the load. The accounts of customers were, therefore, not kept properly. This led to several difficulties in collecting the amounts due.

These defects have been gradually set right and proper accounts of customers are now maintained. Also from 1963, definite monthly targets for collections were laid down by the H.O. for each Branch. The Branch Managers break up these targets down to each sales officer. Accounts pertaining to each customer are prepared regularly and sent both to the customer and to the sales officer in the field. The work of current collections is going on satisfactorily."

Shortcomings.

242. *The above statement will speak for itself and the Committee do not wish to comment further on this matter except to say that the Committee do not share the Corporation's complacency that the accounts are "Good" now. In the Committee's view a great deal has to be done. For one thing, the Manuals drawn up are far from complete and comprehensive, as pointed out by the Company Auditors themselves. The billing system in respect of DGS&D. supplies is still in an unsatisfactory state as has been pointed out earlier. Collection of arrears is lagging behind. The mechanisation of accounts has been done only in one Branch and is yet to be introduced elsewhere. These are just some of the shortcomings. Others can be quoted. In view of this, Accounts require the urgent attention of the senior officers concerned in the organisation.*

Accounts of Southern Branch.

243. In making this generalisation, the Committee do not wish to overlook the position of the Accounts of the Southern Branch. It appears the Company Auditors have stated that the accounts of that Branch are the best they have seen in any public sector undertaking and that it would compare very favourably with the accounts of any good private sector company. This is also reflected in the performance of the Branch when compared to the other Branches in respect of outstandings etc. *The other Branches would do well to attain the pace set by the Southern Branch.*

Accounting Staff

244. While examining the position relating to accounts the Committee examined details relating to the senior staff in-charge of accounts. The position is as follows:—

(i) The Chief Accounts officer was the senior most officer of the Accounts Department of the Marketing Division whose direct responsibility it was to see that the accounting system was organised in a proper way. The first Chief Accounts officer worked from April, 1960 to

November, 1965. He was a chartered accountant with considerable experience in the Gulf Oil (India) Ltd.

The Committee wonder why in spite of this official's acknowledged failure to organise the accounts of the Corporation in a proper and systematic manner, he was kept in employment for so many years. A person with proved efficiency and a good knowledge of the accounting systems in any of the private oil companies in India would have been more suitable for this important post.

(ii) It is only after decentralisation of the accounts in October 1963, that Accounts Officers were appointed in Branches. Even here the Committee found that Officers were brought on deputation.

In many cases they served for short periods and were either transferred from one Branch to another or went back to their parent offices. The following are examples:—

Madras:

(i) Accounts officer on deputation from AG's Office worked from August 1962, to September, 1963. This person has been serving as Assistant Accounts Officer in the Branch since then.

(ii) From October 1963 to date IA & AS officer on deputation.

Delhi:

(i) August 1962 to September, 1963, an IRAS officer on deputation.

(ii) September, 1963 to May 1965, an IA & AS officer on deputation.

(iii) November 1965 to date an IRAS officer on deputation.

Calcutta:

(i) January 1963 to September, 1963 an IA & AS officer on deputation.

(ii) September 1963 to August, 1965, an IRAS officer on deputation.

245. *The Committee wonder whether it is a wise policy to bring Accounts Officers to these posts for a few years on deputation basis. By the time they get to know intricate problems of commercial accounting, specially of the petroleum industry, and did something practical to improve matters, they would be sent back to their parent services. Further, a deputationist would find it difficult to solve the problem of arrears or of ever increasing sales, like a person trained in commercial practices, in view of fact that their experience confined generally to non-commercial accounting in Government Offices.*

246. Another matter which the Committee noticed was that in the Branches, the Branch Financial Controller was in charge of the Accounts. The Financial Controller has to advise the Branch on all financial matters and scrutinise the transactions involving financial implications. If he is burdened with the management of accounts also, it is doubtful if he can devote the necessary time or attention which the matter deserves. In fact, at present, the accounts in most Branches require the whole time attention of a senior officer and with the increase in sales it is doubtful if the officer in charge of accounts should be made responsible for other matters also.

247. The Committee also feel that the Accounts Department should not be biased by an opinion that their senior most officer may have given as Financial Controller. *The Committee, therefore, feel that the functions of Financial Controller and Accounts Officer should be bifurcated. For the post of Accounts officers, experienced and qualified persons with sufficient training in dealing with accounts of petroleum Companies should be given preference.*

XII

AGREEMENT WITH M/S HINDUSTAN ORGANISERS

248. The I.O.C. entered into an agreement with M|s Hindustan Organisers in August, 1960 whereby the I.O.C. was to make available 40,000 tonnes of superior kerosene every year to the latter. There were certain disquieting features in this agreement which were criticised by the Estimates Committee in paras 25 to 32 of their Twenty-eighth Report (Third Lok Sabha). Government in their reply stated that the agreement was being terminated with effect from 31st December, 1964, after the lapse of four years, specified in the Agreement (*vide* 12th Report of the Committee on Public Undertakings, page 20).

Legal flaw.

249. It is seen that in spite of this assurance the Agreement has been extended for a further period of 4 years upto 31st December, 1968. The I.O.C. is to make available a total quantity of 40,000 tonnes of Kerosene every year to the Company and obtain an assured margin of Rs. 8|- per tonne, the same as stipulated in the original Agreement. The reason given for this extension is that there is a legal flaw in clause 1 of the Agreement which reads as follows:—

> "This Agreement is for a period ending 31st December, 1964 from the date hereof. The agreement shall be automatically renewed for successive period of four years unless before the expiry of any period of four years, either party has given at least twelve calendar months' notice in writing of its intention to terminate the same".

250. In terms of the above clause, the first extension for four years is automatic. Thus the I.O.C. had no alternative but to extend the agreement.

251. *While the Committee do not wish to comment on the merits or demerits of the agreement, they are concerned with the principle involved in this case. Because of a legal flaw, the Corporation is forced to enter into a business deal which it might not have done normally. The*

Corporation has to enter into various agreements and contracts in the course of its business and every precaution has to be taken to safeguard its interests which might be jeopardised because of some legal flaw in an agreement or contract. This particular case would emphasise the need for subjecting all such documents to a careful and thorough scrutiny by an expert before they are finalised. The Committee hope that the I.O.C. will make adequate arrangements for a well qualified and experienced legal expert to advise it on all such matters.

Credit limit.

252. The Committee noticed one unhappy feature in the dealings with M|s Hindustan Organisers. The I.O.C. allows an interest free credit of 135 days to the firm, in terms of clause 26 of the agreement. However, M|s Hindustan Organisers never seemed to be prompt in their payments and some bills were paid as late as two years after they were presented. The Committee called for details of payments made by the Company during 1965-66 and found that out of 79 bills paid only 24 bills were paid within the due date. The delays over the credit limit in respect of the other bills paid were as follows:—

	bills
Delay upto 50 days	29
51 to 100 days	14
101 to 200 days	6
201 to 300 days	1
301 to 575 days	5
	(3 were above 550 days)

253. Surprisingly enough, no interest was levied for the late payments. This thus reduces the clause relating to credit limit to a mere paper provision, without ever being applied. *The Committee regret to point out that this provision was not applied. It might be worthwhile to enquire if the interest charges were waived deliberately or it was an act of omission on somebody's part.*

254. The Committee have recommended elsewhere in this report that all payments delayed beyond the stipulated credit limit should attract interest charges whether the consumer is a Government party, a public undertak-

ing or a private individual. *The I.O.C. should lay down this penalty clause in all future agreements, for supplies of products and enforce the penalty invariably. Exceptions should be granted only by competent authority and on good reasons. In the case of M|s. Hindustan Organisers, the Committee see no ground for exemptions being made in the collection of interest on late payments. The Committee also recommend that the credit limit should not exceed* 45 *days* i.e. *the limit which the Refineries Division gives to the Marketing Division for the supply of produces.*

XIII

DELEGATION OF POWERS

255. The Committee saw the list of powers delegated to Branch Managers by the Head Office. They understand that Branch Managers are not authorised to sub-delegate their powers to subordinate officers under them. However, in very urgent cases, in the absence of Branch Managers, the Branch Operations Managers in the grade of Rs. 1100—1400 may exercise the powers of the Branch Manager, subject to ratification by the Branch Manager on his return.

Tendency to Centralise powers.

256. From a perusal of the list of delegated powers, the Committee feel that there is a tendency to centralise authority in the Head Office of the Marketing Division and the Branch Managers have to refer a very large number of cases to the Head Office for decisions. Some typical examples are given below:—

(i) The Branch Manager has powers to grant leave to staff only in respect of staff in the grade of Rs. 400—710 and below.

(ii) Normal increments to staff can be given by the Branch Manager only to staff those grade of pay is Rs. 400—710 or below. The other cases have to be sanctioned by the Head Office.

(iii) For suspension of an employee or for taking disciplinary action against him or for acceptance of resignation, the Branch Manager has powers in respect of employees in the grade the maximum of which is Rs. 300|- p.m. or less.

(iv) The Branch Manager's powers in regard to certain tenders are as follows:—

	Rs.
(*a*) When only a single tender is received .	10,000
(*b*) Limited tenders	10,000
(*c*) By negotiations after invitation of tender .	10,000
(*d*) Contracts without calling for tenders in emergent cases	5,000

(v) For emergency purchases without calling for tenders the maximum limit prescribed is Rs. 2,000/- in each case.

(vi) For purchases at controlled rates without calling for tenders the limit is Rs. 10,000/-.

(vii) The Branch Manager has no powers to fix rates for hire of machinery, of tools, equipment and furniture.

(viii) For selling of surplus and unserviceable stores, the Branch Manager has powers only up to Rs. 10,000/- per annum.

(ix) The Branch Manager has powers to sanction claims for demurrage up to only Rs. 500/- in each case.

(x) All cases of appointment of distributor or agents have to be approved by the Head Office.

257. The above are some of the instances. There are many more such cases which will reveal that on a very large number of matters, the Branch Manager has to make a reference to the Head Office and obtain sanction before he can act. Apart from the large volume of paper work involved, this is likely to lead to delays, as the Head Office naturally would want to go deep into the merits of a case, examine its financial and other implications, and perhaps ask for and obtain clarification of details, before issuing a sanction. Inadequate delegation.

258. The Branch Office transacts Rs. 3.5 to Rs. 4 crores work of business monthly and as the turnover of the I.O.C. increases, this figure will rise every year. The Branch Manager is a very senior officer of the Corporation and the Committee feel that he should be made fully responsible for all the work of the Branch and given the maximum delegation of financial and other powers in order to give him maximum flexibility of operation. He is the man on the spot and should be able to decide a case within the broad framework of policy laid down by the Head Office. He may be made to report to the Head Office on the powers exercised by him and where the Head Office feels that he has gone wrong, clarifications may be obtained or the Branch Manager cautioned to observe the policy laid down. The General Manager and the Managing Director of the Division may also guide Branch Managers in regard

to policy, when they visit the Branches on tour or when the Branch Managers come to the Head Office.

259. *The Committee recommend that the Branch Financial Controllers may be given greater authority than now in regard to financial matters. Where financial concurrence is necessary, the Branch Managers may obtain it from the Branch Financial Controller rather than refer cases to the Financial Controller of the Division at the Head office. Only in exceptional or major cases should a reference be made to the Division's Financial Controller.*

260. *The present policy of retaining most of the powers with the Head Office is neither conducive to efficiency nor in keeping with modern thinking on Management. Therefore early action should be taken to revise the list of delegated powers.*

XIV

PERSONNEL

261. The Committee were informed that the organisational pattern at each Branch was uniform. The Committee noticed, however, that there were considerable variations in the number of staff employed at each of the four Branches. The number of staff employed as on 31-3-1966 were as given below. The volume of business handled in 1965-66 is also given for sake of comparison. Staffing pattern.

	No. of staff	Volume of sales
		Lakhs Kls.
Western Branch	1,031	10·52
Northern Branch. . .	679	8·25
Eastern Branch . . .	1,143	8·61
Southern Branch.	895	8·95

262. *From a casual analysis of the above figures, there does not appear to be a uniform staffing pattern in the Branches. The Committee recommend that the Head Office should work out norms for various categories of staff based on the experience of Branches and the staffing pattern of private companies. These norms should be linked to both volume of business and expenditure on staff compared to total sales value. Such norms should be applied in a uniform manner in all the Branches and constant efforts should be made to increase staff efficiency by comparing inter Branch performance and encouraging a keen sense of competition. The Head Office should also frequently review the position of staff in the Branches and ensure that staff productivity at all levels is maintained at a high level. For this purpose it might be useful to devise a mathematical formula whereby numbers and expenditure are related to sales and the result expressed as a ratio or a whole figure.*

263. *The performance of the sales staff should also be subject to constant review and figures of sales and expenditure should be compiled district and Branch wise for judging productivity. The Committee would also suggest that the Head Office should have an Efficiency Expert who has been specially trained in O & M work with special reference to the petroleum industry. He should be entrusted with the task of devising methods for measuring performance and for increasing productivity and efficiency in the various fields of the I.O.C's activities i.e. sales, operations, accounts, depot management etc.*

Unnecessary Staff.

264. The Committee did come across some cases of posting of unnecessary senior staff. One such instance was that of a Liaison Officer at Calcutta in the scale of pay of Rs. 1100—1400. During their visit to the Eastern Branch at Calcutta, the Committee asked the Branch Manager what exactly were the Officer's functions and were informed that there was hardly any liaison work in the Branch. In short the Officer had scarcely any work to do. And yet he was in a very senior scale. The Committee got the impression that he was posted there by the Head Office without any request being made by the Branch Office. The Committee also found that Liaison Officers did not exist in other Branches and that this was almost a unique post. The Committee were, however, glad to hear in November, 1966 during the oral evidence of the officials of the I.O.C. that the Head Office had realised, though belatedly, that this post was unnecessary and had abolished it.

265. *The Committee suggest that a thorough scrutiny of all the posts in the various Branches be made with a view to pick out and eliminate posts like that of the Liaison Offices at Calcutta.*

Training

266. An Administrative Staff Training College has been established at Bombay for the purpose of imparting training to the existing staff, new recruits and defence personnel dealing with petroleum products. This college was set up in March, 1966. Prior to this, training activities in the Marketing Division were confined to the Operations Department and lubrication training programmes being conducted by a representative of Mobil oil Co. These training

programmes were held at different centres like Bombay, Calcutta, Madras and Delhi. With the establishment of the Administrative Staff College, all training activities have been brought under one roof in a residential type of set up.

267. Thirteen different courses have been established. Till October, 1966, 452 Corporation employees and 178 Defence personnel had attended the various courses. The various courses include operations, stock loss control, aviation quality control, marketing etc. It is understood that several training manuals on different aspects of the work in the I.O.C. were being prepared.

268. *The Committee are glad to know of the establishment of the Staff College and hope that it will be possible to impart thorough training to all the I.O.C. staff, in the sphere of their work. This is a very important aspect both in regard to increasing the efficiency of the Corporation and also to ensure that servicing of customers is effective. As pointed out earlier, the Committee received complaints that some of the I.O.C. sales staff were not thorough with the technical details of the products being marketed, especially lubricants. This is a lacuna which the staff college should seek to plug. Intensive training should also be given on modern sales methods and sales promotional activities. For this purpose it would also be desirable for the teaching staff of the Staff College to keep abreast of developments in sales and management techniques that are taking place in more advanced countries. These new techniques could be discussed with people who are doing the job, so that they may be applied in a practical way and adapted to Indian conditions. The trained staff could then report their experiences back to the College who can make an assessment of the value of such techniques. In short, the training programmes should act as a two way-traffic both for imparting of knowledge to be carried into the field and obtaining results from the field of the practical application of such knowledge. The Committee would also recommend that refresher courses should be given to persons who have been once trained, so that knowledge of latest or advanced technique can be imparted to them.*

269. *The Committee would also recommend that pump attendants should be given a short training on how to conduct themselves with customers who patronise the pumps.*

They should be given lessons in courtesy and correct behaviour to be adopted and should also be given practical training on the peculiarities of different types of vehicles that are likely to come to a pump and how each is to be served. On the behaviour and efficiency of the pump attendants will depend greatly the impression that the public will carry of the I.O.C. and it is important to ensure that these men are not wanting in courteous behaviour, knowledge of their work and efficiency.

270. *Another category of staff who should be properly trained is the Accounts staff. From what the Committee have been able to see, the working of the Accounts Department in most of the Branches has been far from satisfactory and it has been stated that the chief cause has been the lack of adequately trained staff. It is very necessary to ensure that all Accounts staff are thoroughly trained and their method of work is efficient, methodical and thorough. Unless the billing and collection work is carried out efficiently, the work of the Corporation is bound to suffer, as has happened till now.*

Deputationists

271. The Committee were informed that the Marketing Division had nine senior officers who are deputationists from the Government of India. *The Committee feel that in an industry like petroleum where a high degree of specialisaiton is necessary, a policy of obtaining officers on deputation for a fixed tenure of two or three years would be undesirable. While there would be no objection in obtaining men from Government sources it should be on the condition that they would be absorbed in the I.O.C. after a probationary period fixed for that category of post. At the end of that period, if found satisfactory they should be absorbed permanently in the Organisation and should be made to severe their connections with Government. A person who is on deputation and is looking forward to his next promotion in his parent department cannot be expected to give his best in the organisation.*

Advance Increments

272. Advance increments are granted to staff either on first appointment, in the light of the qualifications,

experience and suitability of the candidate and with special reference to the salary last drawn by the candidate or during service, as a recognition of specially commendable work or of uniformally outstanding performance. Advance increments are granted on first appointment on the basis of the recommendations of the Selection Committee, and in order to secure the services of suitable candidates to man the posts. The grant of advance increments during service is based on the recommendation of the higher officers. The Committee were informed that advance increments are granted only in rare cases on the merits of each case.

273. All cases of advance increments have to be approved by the Managing Director. During the last three years, advance increments were given to 123 persons on initial appointment and to 205 persons on considerations of merit.

274. From a perusal of the list of various categories of staff to whom merit increments had been granted, the Committee found that these included 53 grades of staff from Branch Managers to Telephone Operators. In this connection, the Committee would draw attention to the following observations made by the Estimates Committee in their Twenty-Eighth Report (Third Lok Sabha) on the Indian Oil Company:—

> "The Committee feel that there was no justification for giving advance increments on such large scale...............Advance increments were given in the past to practically all categories of staff including drivers and stenographers which practice has been stopped by the present Managing Director. This would indicate that not much discrimination was exercised in this respect in the past."

275. The position does not appear to be different even now. It is seen that personnel officers, accounts officers, materials officers, machine accounts supervisors, telephone operators and laboratory assistants have been given merit increments. •

276. The list of staff granted advance increments on initial appointment during the last three years include

stenographers, assistants, draftsmen, section officers and accountants. This also would indicate that the position has not improved since the Estimates Committee made their recommendation in this regard in their Report referred to above.

277. *While the Committee have no objection whatsoever to the grant of advance increments in deserving cases, they cannot help feeling that advance increments are being granted as a matter of course which diminishes the value of such rewards and tends to create jealousies within the organisation. The Committee, therefore, recommend that utmost discretion should be exercised by the Managing Director in the grant of advance increments and only those meriting the highest consideration should be sanctioned. Such rewards besides benefiting the person concerned should also be duly publicised so that the whole organisation may come to know of the recognition of merit by the management. It might, therefore, be useful to publish a list of persons to whom merit increments have been given in the house journal of the Corporation.*

Rapid promotions

278. The Committee saw a list of persons who were promoted twice or more since they joined the I.O.C. There were 33 such cases of officers who were promoted in the scale of Rs. 400—710 and above. *Some of these instances led to a doubt whether too rapid promotions were not being given in some cases, than was legitimately due. While it is admitted that in an expanding organisation, many new posts are created, it does not seem right that a person with only a limited experience in a lower post should be promoted to fill a new vacancy in a higher grade before he is fully mature and has gained the technical expertise to qualify himself for higher responsibilities. The Committee agree that merit should be recognised and rewarded but to give two rapid promotions and in addition, to give advance increments on initial fixation of pay in the new scale appears to be incongruous.* To quote one such instance as an example, an officer was appointed initially on a scale of Rs. 700—1150. He was then promoted to the scale of Rs. 1100—1400 and his initial pay was fixed at Rs. 1150/-. He was then promoted to the scale of Rs. 1300—1800 and his initial pay was fixed at Rs. 1400/-. This is not

an isolated instance. There were other cases of this nature. *The Committee cannot appreciate such rapid promotions coupled with advance increments.*

Vigilance cases

279. The Committee understand that a senior officer in the Marketing Division has been designated as a Vigilance Officer. He deals with complaints made to the Chairman or Managing Director by the Special Police Establishment or received through the Ministry of Petroleum and Chemicals. The results of the investigations are communicated to the S.P.E. or the Ministry where necessary. There are no Vigilance Officers at the Branch level. However, Branch Managers and other Senior Officers have Chairman's instructions to extend full cooperation to the Vigilance Officer at the Head Office in his work. The Vigilance Officer's jurisdiction extends to the Branches as well.

280. The Committee learnt that there were only 37 vigilance cases so far. Out of these, allegations in 31 cases were not substantiated. In the other 6 cases where the charges were proved, suitable action was taken against the persons concerned. *The Committee are not satisfied with the arrangements made by the Corporation in dealing with cases of corruption, blackmarketing etc. that may arise.* Barring perhaps the Railways, the I.O.C. is the one public undertaking which has the maximum dealings with the public. However many rules one may have, there is a very large field of discretion which has necessarily to be allowed to officers at practically all levels. Right from appointment of dealers and agents to the daily supply of products to them one officer or the other does exercise some discretion. In other words, these matters do not automatically follow a definite rule. This being so, the possibility of an officer's decision being influenced by unfair considerations cannot be ruled out, specially when there are a large number of items which are in short supply and also when an agency or a dealership is such a profitable business.

281. *The Committee recommend that the Corporation should have a proper and well publicised organisation for dealing with complaints from public. Each Branch manager should be designated by name as vigilance officer and*

a notice hung up at all the I.O.C. Offices, Pumps and Agents' Shops requesting customers with complaints to write to the vigilance officer at the Branch or the Head office giving full particulars of the case about which the complaint is being made. All such complaints received should be acknowledged and where a prima facie *case seems to exist, enquiries should be conducted. The cases need not merely relate to corruption but also black-marketing by dealers or agents or other corrupt practices adopted by them.*

282. *An enquiry into a case should be made quickly, and where an allegation has been proved, the case should be processed swiftly and the formalities of procedure gone through without waste of time.*

XV

MISCELLANEOUS

A.—Air Travel

283. The Committee were informed that officers in the grade of Rs. 1300—1600 and above were entitled to travel by air. In case of emergency employees below this grade could also be granted authority to travel by air. During 1965-66 a sum of Rs. 2·02 lakhs had been spent on air travel by the Head Office and the Western Branch, the details of which are as follows:—

Grade	Head Office	Western Branch
	Rs.	Rs.
Officials upto Rs. 500	3,093	232
Rs. 501 to Rs. 1000	31,049	6,897
Above Rs. 1000	1,56,286	4,909
TOTAL .	1,90,428	12,038=2,02,466

284. *The Committee feel that this is a high figure of expenditure and that there is a great scope for reduction. It will be seen that more than Rs. 34,000 had been spent at the Head Office alone on air-travel by the officials who are not entitled to travel by air. In order to economise, air-travel should be allowed only in very genuine and urgent cases.*

B.—Telephones

285. The Committee found that in 1965-66, as against the budget provision of Rs. 10.08 lakhs on telephones, the expenditure was 14.66 lakhs. *There appears to be need for greater economy in this expenditure than exercised so far. The Committee understand that there is a move to install teleprinter service between Branches. When this is done strict care should be taken to ensure that the number of*

trunk-calls made are kept to the minimum. The Committee feel that it would be desirable for the senior most officers in each Branch and in the Head Office to examine each month the number of trunk-calls made by each officer and the justification for the same.

C.—Publicity

286. The publicity conducted by the Indian Oil Corporation has been mainly institutional in nature, aimed mainly at acquainting the public with the activities of the Corporation and creating a favourable image of the organisation.

287. Press advertising has been the main medium for publicity. Participation in exhibitions, and distribution of calendars and diaries were other media through which the activities of the organisation were publicised. A monthly house journal is also produced. **Press advertising.**

288. To a very limited extent, product advertising was also undertaken in respect of MOBIL lubricants and INDANE.

289. The expenditure incurred during the last 3 years and the estimates for 1966-67 are as follows:—

	Rs. in lakhs
1963-64 .	12·39
1964-65 .	13·45
1965-66 .	24·90
1966-67 . (estimates)	35·26

290. The break-up of the expenditure for 1965-66 and estimates for 1966-67 are as follows:—

(Rs. in lakhs)

	1965-66	1966-67 estimates
Press advertising	13.28	16.00
Outdoor publicity (Hoardings, neonsigns etc.)	3·70	4·00
Exhibitions and Photographs . .	1·89	5·00
Indian Oil News (Circulation 11,000)	1·43	2·00
Calendars, diaries & other giveways . .	4·60	8·26
TOTAL .	24·90	35·26.

Object of publicity. 291. *Except perhaps for the Post Office, the I.O.C. is the one Government of India undertaking which will operate throughout the length and breadth of the country and spread its influence upto the remotest village in India. The I.O.C. will therefore be a symbol of the Government of India. Publicity of an institutional nature is, therefore, important in order to build up an image of the I.O.C. in the public mind. The efficiency and quality of service of the I.O.C. will also of course influence the impression that the public will gain of Government institutions. The publicity should, therefore, emphasise this aspect so that the public looks upon the I.O.C. as their friend on whom they can depend for prompt service.*

Need for improvement. 292. *The Committee feel that there is great scope for improvement in the quality and standard, both of the press advertisements and the outdoor publicity, consisting of hoardings both at retail outlets and elsewhere. The advertisements and hoardings should be catchy as for example those of Air India, and should also emphasise that the I.O.C. belongs to the people. Being a public undertaking, a sense of public participation in its activities should be created. It might be advisable for the I.O.C. to consult a reputed advertising consultant with a view to improve the standard of its advertising.*

293. It will be seen that Rs. 4.60 lakhs were spent on calendars and diaries in 1965-66 and Rs. 8.26 lakhs is intended to be spent this year. *The Committee understand that expensive diaries are printed and distributed every year. While diaries and calendars are useful publicity media, there is no room for excessive expenditure on this account, even if the intention is to match the quality of the private oil companies.*

House Journal. 294. The Committee understand that the "Indian Oil News" the monthly house journal has a circulation of 11,000. It is circulated free. It is a useful publication and contains interesting information. The expenditure last year on this publication was Rs. 1.43 lakhs or 5.75 per cent of the total expenditure on publicity. For the current year, the estimates envisage an increase of Rs. 0.57 lakhs totalling Rs. 2.00 lakhs which works out to 5.67 per cent of the total annual expenditure on publicity. *A look into the circulation list of this journal could result in some economy.*

295. *The Committee found that the journal had practically little or no news about the three Refineries or the Pipelines Division. If the publication is a House journal of the Corporation then it should legitimately publish news of the Refineries and Pipelines Divisions also in addition to the news of the Marketing Division.*

296. *As for product advertising, the Committee feel that there is scope for better effort in this direction. For example, the Committee received complaints that there was lack of information about the quality of the lubricants marketed by the I.O.C. Attractive folders could perhaps be printed giving full details of the various products marketed and distributed to potential consumers. Similarly as the Committee have pointed out elsewhere in this report, Liquified Petroleum Gas, which the I.O.C. is marketing under the brand name of INDANE requires to be widely publicised not merely from the point of view of the brand, but with an idea to induce the public to change to LPG from kerosene and other conventional fuels. It would be in the national interest to make people discard kerosene for LPG.* **Product advertising.**

D. Office Buildings

297. The I.O.C. does not own any landed property or buildings and all their offices are in rented buildings. The Corporation has been trying to secure a plot from the Government of Maharashtra since June, 1961 but its efforts have not met with success so far. A plot of land was allotted by the Maharashtra Government at Rs. 4000/- per sq. yard in April, 1966 but vacant possession has not been obtained yet, and the allotment is subject to the encumbrances on the land being removed. The Committee hope that it will be possible for the I.O.C. to obtain the land soon and construct a suitable building in keeping with its importance.

298. The building occupied by the Head Office in Worli was rented out in 1965 and a sum of Rs. 16.12 lakhs, representing 18 months rent was paid in advance for the building before occupation. It has a total floor area of 75,828 sq. feet and the rent is Rs. 1.20 per square feet for 68,509 sq. feet and Rs. 1.00 for 7,319 sq. ft. *The Committee are not very happy about the payment of advance rents in this manner. While justification has been given for such an* **Advance Rents.**

abnormal procedure, the chief among them being that advance rents have become an acknowledged practice in commercial circles, it is regrettable that Government cannot exert its influence to obtain accommodation on more favourable terms.

299. The Committee found that it was not only for the Head Office but also for the Branch Offices that advance payment of rents was made. Some of the glaring instances are as follows:—

	Advance Paid	No. of months rent.
	Rs. in lakhs	months
Western Branch (*i*)	3·00	24
(*ii*)	1·40	12
Eastern Branch	5·20	24
Northern Branch	6·89	24

L.I.C. buildings

300. *The Committee recommend that where the Life Insurance Corporation of India constructs new buildings which are to be leased for office accommodation, first preference should be given to Public Undertakings, and it is only after their needs have been met, that private firms should be rented accommodation. The rents to be charged from such public undertakings should be based on a formula to be worked out by the Government of India and the L.I.C. and not the market rent. This formula may take into consideration the value of the building and the city where it is located. This will save the necessity of each public undertaking trying to construct a building of its own.*

Office accommodation.

301. *As an alternative, two or three public undertakings with headquarters in a city may pool their resources and construct a building for themselves. The Central Government should give all assistance in the matter of leasing of suitable sites for such ventures where land belonging to them is available or else the Government should use their good offices to persuade the State Governments to lease out suitable land for this purpose. At any rate, renting of*

private accommodation at such exhorbitant rates and on such unusual terms as 1½ to 2 years' advance rent should be discouraged.

302. In Delhi the Committee found that the I.O.C. offices were located in as many as six different buildings. The Refineries Division is located at Link House, the Branch offices of the Marketing Division are located in Nehru House and in Connaught Place, the Aviation Department is located at Sundar Nagar, the Liaison Department is located in the Allahabad Bank Building on Parliament Street, and the Pipelines Division at Jor Bagh. *Efforts should be made to locate all the I.O.C. offices in a city under the same roof. Such proliferation of offices is not conducive to economy or efficiency.*

XVI

AUDIT PARAS

Construction Works: Inadequate control over issues of Steel to fabrication contractors—Section II Para 4 of Audit Report (Commercial), 1965

303. For the fabrication of tanks at Bombay, the Indian Oil Company Ltd. imported 1282 tonnes of steel valued at Rs. 11 lakhs approximately during 1962-63. In the absence of adequate storage facilities of its own, the entire stock of steel was placed in the contractors' godowns. The I.O.C., however, did not keep any account of receipts, issues and balance of steel and Audit reported that because of non-maintenance of such accounts and in the absence of records indicating the actual requirements for each work and issues there against, it could not be verified whether the steel taken as used was actually used on the works.

304. Audit has further pointed out that till November, 1963, the Company had allowed an *ad hoc* 10% wastage of steel. From November, 1963 this figure was reduced to 5% based on rough estimates.

305. The Corporation had admitted that the accounts of steel were not maintained properly in the early years. This was as a result of the extremely unsatisfactory accounting system followed. This has already been commented upon by the Committee elsewhere in this Report.

306. The I.O.C. has stated further:—

> "The records in respect of receipts/issues/balances have been rebuilt and we have satisfied ourselves that the steel received has been used in our works, subject to certain reasonable margins for wastage during fabrication. Proper accounts were compiled on the basis of the documents available regarding issues and receipts of steel. Subsequently the actual physical stocks were verified by our Engineers and no discrepancies were found.

The accounts of steel were not maintained properly in the early years of the Corporation, in the circumstances in which the Indian Oil Company was set up initially without prescribing a proper accounting system and without having adequate trained accounts staff. It was not possible to fix the responsibility for not maintaining the accounts of steel on any individual."

307. As regards the allowance for wastages, the I.O.C. has stated that wastage depends on the size of the steel plates and the sizes, dimensions etc. of the tank for which the plates are issued. It was not considered prudent to stipulate a standard wastage before 1963 as it required technical study on the basis of experience to be gained in the actual execution of work.

308. The fabrication of steel was not done departmentally by the I.O.C. It was done through contractors. There was no direct way by which the I.O.C. could find out the actual wastage of steel used in the work. This could only be estimated on the basis of technical considerations, taking into account the size, dimensions and other qualities of the steel and the type of work for which these were fabricated. Even though the percentage of 5% was fixed in 1963 as maximum permissible wastage, it was represented by the contractors that this was totally insufficient and the actual wastage in use was nearly 10%. This was verified with the contractors by the I.O.C's. Engineers at the time of inspection of fabricated tanks and this figure of 10% was considered reasonable by the engineers and accepted. The limit of 5% has, therefore, not been enforced at all.

309. The quantity and value of wastage allowed prior to November, 1963 at 10% are indicated below:—

(i) Quantity	748,392 tonnes
(ii) Value	Rs. 6,24,908/-

The value of wastage has been regarded as reasonable by the I.O.C. in the context of the total construction work of steel.

310. During oral evidence the Managing Director of the Marketing Division stated that the full cost of the

steel was recovered from the contractors and as such, there was no loss to the I.O.C. The scrap arising from the wastage was also sold by the contractors and the I.O.C. did not take it over.

311. *The Committee feel that the I.O.C. did not act properly in not keeping accounts of the steel issued to the contractors. While it is true that the I.O.C. did not lose any money on this, it is well to remember that the steel was imported and since steel was in short supply there was every possibility of diverting it for other uses by showing an excess amount of wastage. Since the Committee did not enquire into the matter it cannot be said that this happened. All that they wish to point out is the possibility of malpractice in the absence of proper accounting procedures. The Committee hope that the I.O.C. will be more prudent in such matters in future.*

Non-recovery of Penalty—Section II Para 5(i) & (ii) of Audit Report (Commercial), 1965

312. An agreement was entered into in April, 1962 by the Indian Oil Company Limited with a firm for the fabrication of 375 tanks of 3 types valued at Rs. 27·05 lakhs. The Agreement provided for a monthly delivery schedule and contained the stipulation that the total supplies were to be completed by the end of June, 1963 and that in case of any default in supply the contractor was liable to pay specific penalty of Rs. 30, Rs. 20 and Rs. 10 per day depending on the type of the tank.

313. The contractor could not adhere to the monthly schedule of supply and till 30th June, 1963 delivered only 155 tanks. For this default, a penalty of Rs. 15·65 lakhs became leviable on him.

314. Audit reported that the Management have stated that the contractor could not keep to the delivery schedule because of non-availability of materials (plates) during the emergency. However, the Company had offered steel plates to the contractor as early as April, 1962, but he had not agreed to take delivery thereof.

315. The Company did not levy this penalty and entered into a compromise with the contractor to the effect that the penalty would not be levied in return for which the latter would withdraw all his claims (Rs. 10

lakhs) in respect of two other contracts for the supply of '4 Imperial Gallon Tins' at Siliguri and Bombay. These two cases relating to the supply of tins at Siliguri and Bombay are as follows:—

(i) In December, 1961 the Company accepted the tender of a firm for the supply of 6,000 '4 Imperial Gallon Tins' per month at Siliguri at an estimated cost of Rs. 2.15 per tin and asked the contractor to go ahead with the preliminaries pending the finalisation of the agreement. The idea of filling tins at Siliguri was, however, dropped in March, 1962 and the agreement was not finalised. It was found difficult to assess the correct requirements at Siliguri because of the changing product pattern of the Gauhati Refinery. The firm in June, 1963, claimed a sum of Rs. 7 lakhs as damages for breach of contractual obligations stating that it had to incur expenditure on completion of certain structures and fabrication of plant for the manufacture of tins.

(ii) In the other case, the I.O.C. had in March, 1962 accepted a tender of another firm, a sister concern of, the former firm, for the supply of '4 Imperial Gallon Tins' at Bombay and forwarded to it a copy of the Agreement for the formal contract. In this case also the contract was not eventually finalised. The party preferred a claim of Rs. 3 lakhs against the I.O.C. for breach of contractual obligations.

316. The I.O.C. has stated that the firm concerned with the construction of tanks was M/s. Khemchand Rajkumar who were to supply 375 tanks of various sizes within the prescribed schedule date of 30th June, 1963 to the I.O.C. The firm, however, supplied only 155 tanks upto June, 1963. The reasons for their inability to supply were as follows:—

(a) *Non-availability of M.S. Plates*:

While I.O.C. offered large quantities of steel plates in April, 1962 itself, the firm was taking steel plates in instalments till the end of 1962, due to the fact that the firm was not prepared to lock up their funds on large quantities of steel plates given by us. As the steel plates kept in the godown of the contractors were incurring rental and since the plates were required for other works by I.O.C., they were allotted to other fabricators with the result that M/s. Khemchand Rajkumar could not be given steel, when they complained about the non-availability.

(b) *Non-availability of electrodes*:

The firm was complaining to I.O.C. verbally very often about the non-availability of electrodes required for welding. While it was not the responsibility of I.O.C. to procure electrodes, the I.O.C., however, approached Indian Oxygen Co. in August, 1962 for making available the necessary electrodes to the firm. Despite this, electrodes could not be obtained by the Contractors. It was also true that at that time other contractors were also complaining about the non-availability of electrodes, on account of which I.O.C's. Chairman had to take up the matter for importing electrodes with the Ministry in August, 1963. This was done purely on account of the acute shortage of electrodes in the country especially on account of the emergency and hence it would not have been equitable to force the contractors to adhere to the delivery schedule for the supply of tanks. The contractors could also argue that electrodes were not available due to Government control on imports and thus, these were reasons beyond their control and could have also invoked *force majeure* conditions. It may be stated in this connection that the tankage targets and developments were not affected materially on account of the failure of the contractors to supply tanks. This was due to the fact that there were orders for supply of tanks on other contractors on account of which the work did not suffer. In fact at one stage, as far as 50 Kl. tanks were concerned, the I.O.C. themselves had asked the contractors to slow down their progress of supplies.

317. The I.O.C. took legal opinion and the solicitors advised that enforcement of penalty can be made only

after a lengthy litigation and the quantum of penalty recoverable cannot be claimed arbitrarily but would be restricted to the actual loss, if any, sustained by the I.O.C. on account of the delay in the supply of storage tanks. As the I.O.C. had not really suffered losses, it would have been impossible to prove any losses and it would have been very difficult to substantiate the I.O.C's. claim for the loss on account of the delay in delivery. In view of the circumstances mentioned above, it was considered desirable to avoid unnecessary, fruitless and lengthy litigation. It was, therefore, decided not to recover the penalty but to arrive at a compromise with the contractors.

318. The claim of the I.O.C. was not pressed, in view of the additional reason that thereby the other claims of the contractor against the I.O.C. for expenses on fabrication of tin plates were also settled at the same time, as part of a blanket settlement.

319. As regards the Siliguri contract, it was awarded to M/s. Khemchand Rajkumar, after invitation of tenders. Pending finalization of a formal contract the firm was asked in December, 1961, to go ahead with the construction of a tin factory at Siliguri. While the contract was being finalised, it was felt that on account of the uncertain production pattern at Gauhati, economical quantities of kerosene would not be available at Siliguri for filling in tins. This resulted from the unsatisfactory working of the Kerosene Treating Unit, which is even today an unsolved problem at Gauhati. It was, therefore, decided in February, 1963 to drop this project.

320. Asked why it took 14 months to come to a conclusion about the production of superior kerosene at Gauhati, the Committee were informed that the working of the Kerosene Treating Unit at the Refinery was so erratic that it was difficult to arrive at a firm conclusion till its working was watched for some time. When it was decided to drop the tin filling project, it elicited a claim from the firm amounting to Rs. 7 lakhs, which the firm was stated to have spent for the procurement of machines, fabrication of structures etc. It is, however, observed that the tin factory had actually not been set up by the firm as the land for the purpose was not made available to

them by the I.O.C. Though the firm was told to this effect, the I.O.C. consulted its Solicitor in the matter and they had opined that although there were certain extenuating circumstances on the basis of which the management could refute the claim, it cannot be said that the firm had no claim whatever and the firm was also in a position to involve the I.O.C. in litigation, the result of which was difficult to predict.

321. As regards the Bombay Contract, M/s. Steel Mills Ltd., (a sister concern of M/s. Khemchand Rajkumar) were chosen as contractors on the basis of a competitive tender. The contract was to have been for a period of 5 years. The acceptance of a tender was communicated to the firm in March, 1962. Before the agreement could be executed with the firm, the I.O.C. decided to limit the contract for a period of one year only and not to commit to the firm for a period of 5 years. It was, therefore, decided not to proceed further with the awarding of the contract to the aforesaid firm. The contractor then preferred a claim for Rs. 3 lakhs. He claimed that considerable amount had been spent by the firm over the scheme and that machines had been kept idle and a site had been kept vacant with the intention of supplying the requirements of the I.O.C. This claim was not entertained, though the I.O.C. felt that there was some justification as in fact the contractor had taken some preliminary steps for this business.

322. As stated above, these two claims totalling Rs. 10 lakhs were set against the claim of Rs. 15·65 lakhs of the I.O.C. against the contractor and a compromise was arrived at wherein each party had to pay nothing.

323. *The Committee find that these 3 cases alongwith many others were some of the unfortunate incidents in the early history of the I.O.C. Some of these have resulted from inexperience and the others due to hasty actions without prudent thought and calculation. This can only be regretted and the Committee can only hope that the I.O.C. will benefit from these experiences and avoid similar pitfalls in future.*

Defective Contracts relating to the purchase of 18.5 litre tins—Section II Para 5(iii) Audit Report (Commercial), 1965

324. In response to a tender notice issued by the I.O.C. in May, 1961, for the supply of 18.5 litre tins, quotations were received from two firms only. Both of them quoted Rs. 2·12 per tin, but while the rate of one was *ex*-factory at Kandla subject to the tin plate being supplied by the Company that of the other was 'F.O.R. Kandla' subject to payment by the Company of clearing charges.

325. As a result of negotiations, the first firm reduced the rate to Rs. 2·11 per tin which was accepted in March, 1962, for supplies up to the end of 1965 although the quotations had been invited for supplies up to 31st March, 1962. The firm signed the agreement after more than a year, on 29th April, 1963, and commenced supplies from November, 1963.

326. In the meantime, the Corporation obtained its requirements from the second firm at an enhanced rate of Rs. 2·24 per tin for supplies made during the period from April, 1962, to December, 1962, and Rs. 2·32 per tin from January, 1963.

327. Asked about the delay in the signing of the agreement, with M/s. Gangwal Tin Can and Printing Works, Kandla, the Contractor concerned, the Committee were informed that it was due to the following six reasons:—

(1) The party had to obtain a piece of land in the Industrial Estate, Kandla for setting up of the new factory.

(2) They had to transfer the machinery from Gwalior to Gandhidham.

(3) They were not allowed to register with the Development Wing for obtaining tinplate quota till their factory was established in Gandhidham.

(4) Quota of tin plates was not readily available due to scarcity and import restrictions.

(5) At that time the Tin Plate Company was the only supplier of tin plates in India and they were having large backlog of pending orders.

(6) The party pleaded to include the non-availability of tin plates as a *Force Majuere* condition.

328. It was stated that although the party had in their letter dated the 23rd January, 1962 indicated that they would commence the supply within four months from the date of signing of the agreement, the contract did not provide any specific date for the supply of tins. As such no liquidated damages could be claimed for the belated supply.

329. The Second firm referred to in the Audit para is M/s. New Digvijay Singhji Tin Factory, Jamnagar. The I.O.C. has stated that difference of 0:13 paise etc. between the contracted rate with M/s. Gangwal Tin Can and Printing Works, Kandla, and the actual rates paid to M/s. New Digvijay Singhji Tin Factory, Jamnagar represented the freight charges* from Jamnagar to Kandla. The tins were in fact manufactured in Jamnagar and had to be purchased from there till the factory at Kandla came to be commissioned. The total extra payment came to Rs. 75,000.

330. *The Committee would in this connection, suggest that it might be examined how far it would be more economical for the I.O.C. to set up its own factories for manufacture of tin containers in certain where they are needed instead of making purchases from private firms. The requirements of tins and barrels would be very heavy and if economically viable units can be set up to supply the needs of tins and barrels of the I.O.C., there is no reason why profits on this account should not be retained by the I.O.C. itself.*

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*At the time of factual verification Audit pointed out that this statement made by the I.O.C. does not seem to be correct in view of the fact that the original rate of M/s. New Digvijay Singhji Tin Factory, Jamnagar Rs. 2:12 per tonne F.O.R. Kandla and this rate also included the element of freight charges from Jamnagar to Kandla. Government might look into this matter for any action deemed necessary.

XVII

CONCLUSION

331. The activities of the Marketing Division of the Indian Oil Corporation play an important role in the nation's economy. Within the space of about 7 years, the Division has built up a business almost equal to that of the biggest petroleum marketing company in this country. This has been achieved in spite of several adverse factors. Viewed from this angle, the Division's achievements have been commendable. However, the Committee feel that there is great scope for improvement in the functioning of the Division. Some of the matters noticed by the Committee have been referred to by them in the Report, chief of them being as follows:—

(i) The I.O.C. should gear itself to the task of selling the entire production of the public sector refineries and the entire imports.

(ii) They should introduce a proper cost accounting system and the function-wise costs of various operations should be evaluated with a view to exercise proper managerial control over expenditure.

(iii) There is scope for reduction of stock losses.

(iv) The present pricing policy of ignoring refineries as pricing points is anomalous and requires to be reviewed. The I.O.C. which incurs loss due to under-recovery of freight arising out of the locational disadvantage of inland refineries on account of the pricing policy, should be compensated to the extent of the loss.

(v) Supplies to Government organisations should be improved both in quantity and quality of service. The position about outstandings against Government organisations is extremely unsatisfactory and vigorous steps should be taken to effect improvements.

(vi) The product exchange arrangement with private oil companies is extremely unsatisfactory and should be revised.

(vii) The marketing of kerosene is not satisfactory and this matter should be examined by the Ministry of Petroleum and Chemicals. Imports of kerosene should be the minimum.

(viii) The delay in the completion of the Haldia-Barauni-Kanpur Pipeline Project is most unfortunate.

(ix) The position about outstandings is not very satisfactory, and adequate measures should be taken to collect dues in time. The procedure for payments of supplies made on DGS & D rate contracts requires to be improved considerably.

(x) Several improvements are required in the accounting system.

(xi) More powers should be delegated to Branch Offices.

(xii) There is scope for improvement in the quality and standard of the publicity work.

332. *The Committee have noticed a recent trend for the better in the management and organisation of the Division and hope that the working of the Division will improve with time and that will be possible to reach an efficiency worthy of the high hopes reposed on this organisation in a key sector of the country's economy.*

NEW DELHI; D. N. TIWARY,

March 3, 1967. *Chairman,*

Phalguna 12, 1888 (*S*). *Committee on Public Undertakings.*

APPENDIX

Summary of Conclusions/Recommendations

S. No.	Reference to para No. in the Report	Summary of Conclusions/Recommendations
1	2	3
1	13	The years ahead are going to be far more trying than before for the I.O.C. because the bulk, if not the whole of the additional demand each year will have to be met by them. From the facts before them, the Committee feel that the I.O.C. has not yet geared itself to the colossal task before it. The Committee did not find a clear cut Plan showing how the I.O.C. proposed to market the production from the public sector refineries year by year; how much of various products would be marketed through each Branch in each area; how much would be sold on product exchange basis and how much as outright sale to other companies; also how these products are to be sold and what are the basic requirements needed for this and how best to obtain them. Though the I.O.C. proposed to do its best, the Committee feel that the present Plan is not likely to attain the objective which is to sell all the production of the Refineries and all the imports and not just part of it. Theoretically, the I.O.C. does not make any profit or loss on the products sold through the other oil companies. The profits go to the other oil companies. Apart from that, the I.O.C. loses the benefit by way of reduction in the overheads per kilo litre sold, which would have accrued to it if the I.O.C. sold these products itself. What is the organisation required for selling the available products is the question the I.O.C. should legitimately ask itself. The Corporation has several organisational shortcomings and many

1	2	3
		difficulties and handicaps to face, some of which have been brought out in this report, and there is no room for complacency. It is, therefore, very necessary for the Corporation to list out all its deficiencies *vis-a-vis* the requirements to achieve its objectives and make a realistic assessment of what should be done to make good these deficiencies. Unless this task is taken up urgently and a clear cut line of action chalked out, the Committee are doubtful if the I.O.C. will achieve the success which Government, Parliament and the public expect of it.
2	16	The I.O.C. will have to make considerable headway in establishing new pumps specially in the four major cities of Delhi, Bombay, Calcutta and Madras.
3	19	The Committee hope that the Ministry of Petroleum and Chemicals will take up the matter relating to the obtaining of new sites for retail outlets, with the State Governments at the highest level and explain to them that the bulk of the future increase in sales during the coming years will have to be undertaken by the I.O.C. and that unless facilities are afforded to them, the transport industry in the States will face difficulties. Examples of cooperation extended by some of the more helpful States might be cited and similar facilities sought. The Committee do not set much value to general circular letters addressed to all States which tend to be treated in a routine manner by the Departments concerned in the States. It might be better to take up this matter demi-officially with supporting statistics in respect of each State separately. It is only in this way that the importance of the matter can be brought home to the State Governments.
4	20	The Committee desire that the Ministry of Defence should examine the question of payment of premium for sites leased to I.O.C. for retail outlets, and lay down a reasonable sum to be charged from the I.O.C. pumps as premium. This should be applicable to all the Cantonment Boards.

1	2	3
5	21	As regards instances of lack of cooperation from Central Government Departments *e.g.* Port Trusts, Railways etc. the Committee feel that if efforts by the I.O.C. at the highest level fail, the matter should be brought to the notice of the Ministry of Petroleum and Chemicals who should in turn bring specific instances to the notice of the Ministries concerned and request them for help. For example, the Ministry of Transport should be addressed in the matter of obtaining help from the Port Trusts and the Railway Board in regard to individual Railways.
6	23	The procedure for obtaining clearance from various authorities before a retail outlet is established is very complicated. All this can be simplified. Once the location of a site is approved, submission of applications for all the other sanctions should be permissible simultaneously and it should be possible for the different authorities to give their sanction within, say, a month. The Committee suggest that the Ministry of Petroleum and Chemicals should request the State Governments to streamline the procedure.
7	24	The Committee understand that a Committee has been set up recently by Government to rationalise the growth/proliferation of retail outlets. The Committee hope that as a result of that Committee's report, the I.O.C. will get a fair share of future development in the field. The Ministry of Petroleum and Chemicals should take adequate steps in this direction.
8	3	The I.O.C. should have taken the initiative by offering to take over the installations belonging to the private oil companies at Cochin after clearly explaining their policy in this regard. This the I.O.C. did not do. Instead, storage tanks and other facilities were put up at the Cochin Refinery for storage and despatch of products by rail and road. The Committee understand that these storage tanks were built with imported material and that considerable expenditure has been incurred on them. This unnecessary expenditure could have been easily avoided.
9	33	The Committee suggest that in future, where oil installations and ancillary facilities become surplus to the requirements of the private oil

1	2	3
		companies as a result of business passing into the hands of the I.O.C., Government should ensure that such installations are taken over by the I.O.C. and that the I.O.C. does not duplicate the facilities already existing. No national waste should be allowed. If there is a dispute regarding the price to be paid for such transfer of property, Government should constitute a Committee consisting of a representative each of the I.O.C. and the private oil company concerned and an impartial chairman, acceptable to both the parties. The sale price fixed by such a committee should be binding on both the parties.
10	35-36	The Committee would have expected the I.O.C. like other well managed companies to evaluate their costs all India-wise, Branch-wise and Unit-wise and exercise proper managerial control over expenditure with reference to the norms laid down by the Price Enquiry Committees and those evolved by themselves in the course of working. The Committee were surprised to learn that this was not done. They were given to understand that the accounts of the Corporation are not maintained in a manner capable of revealing the function-wise incidence of expenditure in terms of cost per kilolitre.
		There are defects in the accounting system which have been dealt with elsewhère in this Report. What, however, the Committee fail to understand is why calculations could not be made from the basic figures of expenditure which were available. It was simply a matter of apportioning expenditure under various heads. In what proportion this was to be done for various items was a matter of policy which should have been settled without much difficulty. If expenditure was worked out in this manner it would have been an excellent instrument for managerial control and the Committee are sorry to note that this was not done.
11	38	The Committee hope that the decision to introduce a proper system of cost accounting will not be further delayed. Costs should be worked out month-wise, installation and Depot-wise, District-wise, Branch-wise and All-India-wise and strict control over costs should be ensured.

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		Operational efficiency is the only factor which will enhance the profits of the Marketing Division and the evaluation of costs should be the main guiding factor for the Management in determining the working efficiency of the organisation. To that extent, its importance should be realised and all steps taken to perfect that system.
12	43	The Committee are of the view that a very strict control over operational costs is necessary. If proper cost figures are available in time, the Management could take measures to prevent unnecessary expenditure on uneconomic movements or to reduce it. For a proper and efficient exercise of managerial control over the affairs of the Corporation, it is very necessary for the Management, both at the Head Office and Branch levels, to have complete and exhaustive data on all the aspects of the operations in the right form, both in regard to past and projected operations.
13	44	The I.O.C. should plan ahead and use machines as well as modern scientific methods for calculation of their operational costs. The I.O.C. will perhaps rank as India's biggest company in terms of gross annual turnover, and as such it is necessary to discard rule-of-thumb methods and switch over to modern scientific analysis of problems.
14	45	It is a fundamental principle in the oil industry that handling should be reduced to the minimum mainly to avoid loss by leakage. The Committee wonder how far the I.O.C. has evaluated the cost incidence of this principle and worked out movements on the principle that wherever possible, deliveries should be made direct to the customers from the refineries or main installations. The very heavy incidence of bridging costs also could perhaps have been considerably lower if tank trucks were of bigger dimensions. Similarly, if storage tanks at dealers' outlets or of bulk consumers were of the maximum size possible, complaints of late deliveries and disruption in supplies could be avoided and I.O.C.'s operational costs reduced.

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15	48	An examination of the figures of working results relating to tank-truck utilisation suggests a need for greater control over this matter, and the necessity of taking steps to maximise tank truck utilisation. To what extent the position could be improved, how it can be improved, what the defects are, etc. is for an expert to say. The Committee expect that this matter will receive the necessary attention of the Management early.
16	54	The Corporation has not been able to provide a satisfactory explanation for the incidence of stock losses due to frauds and have merely stated that the percentage of loss due to frauds cannot be separately ascertained, but where in a particular Depot or Installation it is found that the loss of products is abnormally high, detailed investigation is carried out to ascertain the reasons and action has been taken where this has been traced to negligence or fraud. The Committee find it difficult to accept this statement. If losses due to frauds are to be dismissed because of inability to detect, it is a cause for concern because the offender is virtually given a free hand. Some method should be devised to detect frauds.
17	57	The Committee suggest that the I.O.C. should obtain the specifications of the various types of tank wagons in use and prepare calibration tables for them immediately. The Corporation should also take up the matter of recalibration of tank wagons, where necessary, with the Railways. Faulty calibration can also lead to wrong accounting by the depots and indicate gains or losses where none exist. The Committee suggest that the I.O.C. should go into this matter with the Railways to prevent leakage and pilferage of oil products in transit. The Railway Board should lend their support to end this diminution of revenue, because in the ultimate analysis, it is the public money which is lost, whether the I.O.C. bears the loss or the Railways. As such, this matter deserves serious attention of both.
18	59	While the Committee were glad to note the procedures adopted for controlling stock losses and the success achieved in this direction, they

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		feel that there is scope for further reduction of losses. Since the limits of permissible losses have been prescribed by the I.O.C. itself on the basis of experience, it is necessary to watch the performance year by year and review the limit. In fact with greater experience, it should be possible to show a better performance and to this extent the limits should be revised downwards each year till a reasonable figure is reached. Last year, the value of such losses was Rs. 30·22 lakhs. This is a huge amount and when the volume of sales increases, this figure is also likely to increase. These losses have to be brought down and all measures towards this end should be taken. The Committee also recommend that this matter should be brought to the specific notice of the Board of Directors periodically.
19	61	The Committee recommend that the I.O.C. should standardise the service stations both in regard to equipment and installations and buildings. Two or three standard types may be designed and an estimate of costs worked out for each of these types. The service stations put up in future should conform to these standards and costs should be confined within the limits laid down.
20	63	The Committee feel that the I.O.C. should standardise its buildings and service facilities in the filling stations. Three or four standards may be laid for different land areas or locations. Standard costs may be worked out and the Branches directed to keep costs within those standards. Till the I.O.C. is able to afford luxury and prestige filling stations, it would be advisable to give greater attention to economy.
21	67	Judging by the facts made available, the Committee feel that much needs to be done both in regard to the availability of tank wagons and the turn around of wagons. The Railways should make available the minimum number of tank-wagons required at different bases. Estimates of annual requirements should be worked out in consultation with the RIPMC and the decisions taken should be implemented fully by the Railways. In adequacy of tank wagons may lead to serious bottlenecks in the movement of pet-

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		roleum products, which is undesirable in any circumstances, and worse still in times of an emergency. The Committee have not enquired as to the exact nature of the difficulties faced by the Railways in making available the required number of tank wagons and as such they are unable to comment on that aspect. If there are difficulties, they have to be overcome as no exception can be made in regard to the movement of oil products.
22	68	In regard to turn around of wagons, the Committee hope that both the Railways and the RIPMC will keep a close watch and ensure that the position improves. An Efficiency Expert or Consultant could be requested to examine the matter and make suggestions for improvement. If turn around efficiency can be improved even by 10 per cent. the savings and efficiency that can be effected will be considerable.
23	69	The Committee were informed that in order to avoid marshalling of tank wagons at various yards and placing them at various oil sidings, joint oil sidings and single point loadings were being considered. The implications of this suggestion should be worked out and a decision taken at an early date.
24	70	As the Indian Oil Corporation will be the biggest petroleum company in India soon, it should ensure that the tank wagon availability and wagon turn around are satisfactory. A continuous watch should be kept over this at the Head Office of the Marketing Division. Difficulties, if any, should be pointed out to the Railway Board and suggestions for improvement discussed with them or with the concerned Railways. The Ministry of Petroleum and Chemicals will no doubt look into this matter and ensure that movement of petroleum products is not hampered because of inadequacy of wagons.
25	72	The Committee feel that running dry of stocks especially in big cities is likely to create a very adverse impression on the public and would injure the reputation of the I.O.C. There is no justification for this to happen. Every installation and depot has sufficient storage capacity and can provide for a good margin of stocks. If

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		movement operations are efficient, there is no reason why storage tanks should go dry at any place, at any time.
26	73	The Committee recommend that there should be periodical meetings of sales and operational personnel within a Branch and between Branches with a view to exchange ideas and experiences and effect improvements. The General Manager of the Division should also act as the link between Branches and transmit ideas from one unit to the other. The Committee would also suggest that a keen sense of competition should be developed between Branches in the matter of operational efficiency and suitable awards made as incentive to better performance.
27	74-75	The sales and operations programme of the Marketing Division are controlled from the Head Office. The Branches hardly exercise any direct management control except in so far as carrying out the programme dictated by the Head Office. They have hardly any profit responsibility and the costs incurred by them are not evaluated in order to know how cost patterns are behaving. If profit responsibility devolves on them, it is bound to exercise a very salutary effect on the financial management of the Branch and thereby lead to a greater degree of cost control. This might entail a much greater degree of delegation of powers commensurate with the responsibility.
28	76	From an overall assessment made of operations of the I.O.C., the Committee feel that there is scope for much improvement in this regard Suitable incentives could be offered to the personnel actually engaged in operations work for suggestions which help in saving time in operations, increasing efficiency and bringing down costs. The Committee feel that if the rewards are attractive, good suggestions will be forthcoming.
29	82	There is no doubt that the whole pricing structure is so complicated that any departure from the traditional pricing pattern is likely to have several repercussions. This argument, however, cannot adequately justify the present pricing policy because it ignores facts. Having

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		located the refineries in inland areas, it is only proper to carry this policy to its logical conclusion. The alternative is to face, as at present, a wholly incongruous situation which can neither be supported by logic nor by argument. The three inland refineries will produce more than 7 million tonnes of products every year and it would be quite anomalous not to treat them as pricing points. How this should be done with reference to other Refineries and to imports is a matter which has to be worked out by Government.
30	83	The I.O.C. incurs losses every year on account of under recovery of freight. The policy of locating a refinery in an interior location is sound in principle, as it has several virtues, *e.g.* nearness to consuming points thereby saving transport, development of areas surrounding the location etc. To-day, however, Government's pricing policy, runs counter to the policy under-lying inland location. What is worse is that an undertaking set up by Government is burdened with the responsibility of absorbing the entire ill-effects of this policy. Viewed from another angle it is tantamount to saying that because three refineries have been located in interior locations and not on the coast, an annual loss of about Rs. 4 crores will occur (when the Refineries go into full production) and this loss will have to be borne by the public exchequer. The Committee cannot agree with this policy of Government.
31	89	The Committee do not accept the arguments put forward by the Ministry against the grant of any compensation to the I.O.C. for the loss it incurs on the under-recovery of railway freight. In fact they feel there is a case for compensating the IOC because the freight, under-recoveries arise from the fact that the inland refineries have not been fixed as pricing points.
32	90—92	The Committee would make the following suggestion in this regard. Government may levy a uniform surcharge on all products so as to recover from the consumers the total under recovery. This it is stated would amount to about Rs. 2 per tonne. This would imply that the

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		extra freight and other burdens as a result of the location of the inland refineries will be borne by all the consumers on an average basis. Government can then reimburse the actual under-recovery to the marketing companies from the extra collections.
		Many other solutions are possible. What is urgently required is to relieve the IOC of the responsibility of shouldering this very heavy burden. The Ministry of Finance and the Ministry of Petroleum and Chemicals should consider this matter and take immediate action.
33	96	The Committee recommend that the economics of the problem of having uniform prices throughout the country should be worked out in detail and the question examined as to whether it would not be in the interest of the country from the point of all round national development to have such a uniform price for petroleum products at an early date.
34	99	The excise duty on petroleum products is levied on the basis of volume except in the case of L.D.O. and furnace oil where the basis is weight. In the case of furnace oil, however, the product is sold by weight and the excise duty paid is recovered fully. In the case of L.D.O., however, the product is sold by volume.
		There is considerable force in the argument that the excise duty on a product which is sold by volume should be levied on the basis of volume. It appears illogical to use weight as the basis of duty apart from the fact that it involves unnecessary accounting complications in converting the volume into weight. In the case of L.D.O. produced at Gauhati and Barauni, the density is higher, which results in loss to the I.O.C. It is equally possible that in certain cases the density might be lower which would result in loss of revenue to Government. The Committee, therefore, recommend that the basis of excise duty on L.D.O. should be changed from weight to volume. The Ministry of Finance should give this matter their urgent attention.
35	105	It is time that I.O.C. catered to the entire

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		requirements of the DGS&D except for items which the Public Sector Refineries do not produce or are not directly imported by I.O.C. During oral evidence, the Secretary of the Ministry of Petroleum and Chemicals agreed that this was desirable.
36	106	The Committee found that only 50.35 per cent of the total Defence requirements were met by the I.O.C. during 1965-66. The Committee see no reason why this figure should not be raised. It is certainly not due to the I.O.C.'s inability to effect the supplies.
37	107	The Committee found that the Railways obtained a very good proportion of their requirement of petroleum products from the I.O.C. The overall figure was 91.2 per cent of purchases from the I.O.C. In regard to H.S.D. the figure was 94.8 per cent. The Committee hope that the Railways would be able to make all their purchases from the I.O.C.
38	108	The Committee hope that it will be possible for the I.A.C. and Air India to switch over rapidly to the I.O.C. for their supplies. The Committee would suggest that the Managing Director of the Marketing Division should personally negotiate with the General Managers of the two airlines and expedite switch over of the aviation business to the I.O.C. In fact, the I.O.C. should consider transaction of business with the two airlines as a matter of prestige, and make earnest endeavours to achieve it early.
39	113-114	The Committee are not impressed with the performance of the I.O.C. in regard to sales to the public sector undertakings from the reports received from them. The Committee suggest that a Senior Officer in each Branch should visit each of them personally at intervals, ascertain their difficulties and solve them to the satisfaction of the customers. Besides, periodical letters should go out to these undertakings to find out if they are satisfied with the services rendered by the I.O.C. and they should also invite suggestions for improvements. Prompt action should be taken to ensure satisfactory response to the suggestions by the District Offices serving the undertakings.

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40	115	It should be possible for the Central and State undertakings to purchase their entire requirements of petroleum products from the I.O.C. provided they are assured of satisfactory service.
41	116	As regards the complaint of not being able to obtain competent technical advice, the Committee feel that the I.O.C. should have well qualified technical experts, specially on lubricants. Whenever technical advice is required such a person should be sent promptly to tender suitable advice. The sales staff of the I.O.C. should also be thoroughly trained and given occasional refresher courses to keep them abreast of modern developments in product design and utilisation. The Committee saw some of the technical literature on lubricants produced by the I.O.C. but are unable to comment upon their completeness or thoroughness or how far they compared with literature produced by other companies. This is a matter which deserves to be looked into in view of the criticism made by the I.O.C's customers.
42	119-120	The position about outstandings is far from satisfactory. It is true that the I.O.C's accounting procedures were very defective and that this was to some extent responsible for the accumulation of such heavy arrears. This, however, is not the whole of the problem. The Committee are inclined to feel that there is some serious defect in the procedure which makes the public undertakings indifferent in the matter of prompt payment. The top Management of the I.O.C. should give serious thought to this and find out a solution in consultation with the Government of India, the State Governments and the Public Sector Undertakings, Electricity Boards, Transport Undertakings etc.
43	121	The Committee would like to make the following suggestions in regard to prompt collection of outstandings:— (I) As a first step, the Committee feel that a credit limit of 30 days or 45 days as is considered proper, should be fixed for all the Government undertakings. All outstandings beyond this period should

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		carry interest at the usual bank rate. This will have a salutary effect on all accounting officers who will thereby be made responsible for delays in payments.
		(2) The Committee understand that in the Southern Branch, where a Government customer does not pay bills within the prescribed credit limit of 30 days, all further supplies are made only on cash basis. This has helped to freeze accumulation of outstandings and has made the customer conscious of his obligations. The Committee recommend that the other branches may also adopt this procedure.
		(3) Every undertaking may be requested to nominate a senior officer who may be addressed personally by the Branch office in case the undertaking falls into arrears.
		(4) The Financial Controller|Chief Accounts Officer in each Branch should constantly watch the position of collection of dues and take prompt action by personal intervention if necessary, where arrears cross limits laid down. Difficult cases should be reported to the Head Office and the General Manager's or the Managing Director's intervention sought.
		(5) The District Sales Representative should be made responsible for chasing claims. If they report difficulties of procedure which hamper prompt payments, the matter should be taken up by the Branch Office with the Chief Accounts Officers of the undertakings.
		(6) The Committee understand that the Governments of Kerala, Mysore and Andhra Pradesh make advance payments for their requirements. The I.O.C. should try and persuade other State Governments to follow a similar procedure. The Central Government may perhaps give the lead in this matter.

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44	123	As a sequel to the Estimates Committee's recommendations in regard to the sales to Government organisations, the Ministry of Petroleum and Chemicals did write to all the State Governments in July, 1964 requesting them to patronise the I.O.C. The general circular letter does not seem to have had much effect. The I.O.C. should canvass individually with each party and persuade it to patronise them. If persuasion fails at a lower level, then the matter should be tackled at higher levels either by personal talk or by correspondence. Supplies to Government Organisations are one of the primary objectives of the I.O.C. and this matter deserves much greater attention by the Head Office and the Branch Offices than what has been given to it till now.
45	134-135	The Committee are not at all happy over the Product Exchange arrangements with private oil companies which are extremely unfavourable to the I.O.C. To say that the I.O.C. was not in a bargaining position in 1962 is not a satisfactory explanation. The Government of India decided to establish the Refineries at Gauhati and Barauni and it is the Government of India which fixed the prices. Yet it is very strange that they decided that a Government of India Undertaking should bear all the losses on account of this wrong location while the private sector companies who sold most of the products of these Refineries got all the profits on account of such sale. Worse still, this state of affairs is continuing even today when the I.O.C.'s so called lack of bargaining power does not exist. The Committee do not wish to comment further on these inequitable arrangements. These arrangements should be revised forthwith. All exchange of products should be ex-Refineries and the receiving oil companies should bear all incidence of freight, port-price differential and any other expenditure involved.
46	136	As for the incidence of Central Sales Tax, the Committee understand that only the States of Maharashtra, Andhra, Kerala, Gujarat and Assam have agreed to the exemption of the tax. Appeals have been made by the Central Government to the Madras and Bihar States to grant similar

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		exemptions but so far, they have not agreed. The Committee feel that as the location of Refineries in these States has brought about several permanent benefits to these States, they should be generous enough to forego their revenue on this account. Individually taken, the amount paid to each State might not be a big amount, but as it is only one party who is expected to foot the entire expenditure on this account, the burden is extremely heavy. In fact it is very unfair to load the I.O.C. with this tax. The Committee, therefore, suggest that the matter should be taken up by the Ministry of Petroleum & Chemicals with the States concerned at the Chief Minister's level and the States persuaded to forego this revenue If such efforts do not meet with success other means should be devised to compensate the I.O.C.
47	139	The aim of the Government while setting up the I.O.C. was that it should handle atleast 50 per cent of the total imports of deficit petroleum products. This the Corporation has achieved. The Committee wonder whether this policy should not be revised and the I.O.C. made responsible for all the imports except for exceptional cases where it cannot obtain the products easily from abroad. There are three important reasons for this:— (i) Deficit products like Kerosene, H.S.D. and Furnace oil are available from rupee payment areas. (ii) The I.O.C. has been able to obtain certain products from free foreign exchange sources at rates cheaper than even what has been paid to Russia and at far greater discounts on posted F.O.B. prices than what has been fixed by Government for import of products by private oil companies. Since all imports by private oil companies are to be met by release of foreign exchange, savings on this account are of vital importance. (iii) It is only the deficit products which are imported. It might be better if the distribution of these products is kept with a government undertaking in order to control the distribution system.

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48	144	While the Committee cannot place the blame for demurrage incurred wholly on the I.O.C., they cannot view this matter with equanimity. An annual expenditure of Rs. 20.51 lakhs and an unrecoverable incidence of Rs. 1.02p. per tonne on imported oil is something to be viewed seriously. This matter deserves attention at a high level in the Marketing Division and all efforts should be made to reduce the incidence of this avoidable expenditure.
49	145	In the Committee's opinion, one of the major problems that deserves to be tackled by Government relates to facilities at Ports to receive large tankers. The pattern of the world tanker fleet is fast changing and giant tankers upto 150,000 tonnes DWT are the order of the day. Apart from quick movement of products, the incidence on freight is also considerably lower. As this country will have to depend on imports for sometime both for crude and refined products we should build special oil terminals at Ports capable of handling giant tankers.
50	146	The reason of inadequate discharge lines at ports given for incurring demurrage appears to be very strange. The cost of the extra facilities would perhaps be equal to a year's demurrage. This demurrage is paid in foreign currency. The Committee recommend that Ports Trusts should give this matter their urgent attention and provide extra discharge lines wherever inadequacy exists.
51	148	At Port Okha the Burmah-shell receives preferential treatment on account of a special agreement with the Maharaja of Baroda while the I.O.C. tankers receive second priority. The Committee wonder why such an anomaly exists. The legal implications of this Agreement require to be looked into.
52	152	The Committee are not happy about tanker diversions. If the reason is that tanker loadings are not according to indents, it appears to be a serious matter because the I.O.C. might get more products than it requires or it might get less than what it wants which might create market difficulties in the case of deficit products. Also to say that market conditions vary so much with-

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		in 45 days to make estimates go wrong to such an extent as to make tanker diversions necessary appears untenable. If this is a fact, the Committee would not be able to escape the conclusion that estimates are not made realistically, or the persons concerned are not competent.
53	153	The Committee are inclined to think that the I.O.C. is making more imports than is absolutely essential, specially, of Kerosene. The I.O.C. appears to have more Kerosene on its hands than it can sell. The question arises as to how far the I.O.C. is implementing Government's policy of reducing the imports of Kerosene to the barest minimum. The Committee are not convinced that the imports of Kerosene are the minimum required. They suggest that the Government and the Corporation should have a close look at this matter.
54	154	All the imports made so far have been in foreign tankers. The Indian merchant fleet now owns a few tankers and it should be possible for the I.O.C. to make some of the imports in Indian tankers. Apart from the fact that it will save payment to a foreign country whether it is in rupees or free exchange, it will also act as an encouragement to Indian shipping. Since most of the Indian tanker fleet is under a Public Undertaking, dependance should not be much on foreign tankers. Apart from financial considerations, self-reliance in this matter would be advantageous in times of an emergency.
55	158	The Committee would urge the Government and the I.O.C. to make efforts to find foreign markets for the surplus petrol. Even if exports are to be made at a loss, it would still be better than working the Refineries at a reduced capacity and importing the deficit products. If export markets are not found immediately the Cochin Refinery, for example, is likely to run into serious trouble. The Committee would also suggest that the coastal refineries must be encouraged to export their petrol production. The private sector refineries should be able to find foreign markets with the help of their principals abroad.

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56	161	From the facts before them, the Committee cannot but conclude that the trade in Kerosene in this country has many unpleasant aspects. Of all petroleum products, Kerosene is the one commodity which is used by every section of the community from the poor to the rich. Kerosene is mostly used for lighting and as domestic fuel and for a very large section of the people it is a daily necessity. A fair, adequate and efficient distribution of Kerosene is therefore a very important matter and one in which the State or Local Government is vitally interested. The I.O.C. being a public Undertaking has therefore a great responsibility in ensuring that the unethical methods and practices adopted by private parties to gain their own ends do not affect the community.
57	163	Selling difficulties and price cutting result when supply is greater than demand and such a situation in the case of Kerosene was unjustified when this surplus was created by spending large amounts of foreign exchange, on its purchase. When the private oil companies have been proclaiming that the margin of profit allowed to them by Government is low, it is rather strange that undercutting is resorted to by them in one of the items. This might be due to the fact that they have been getting bigger discounts in overseas markets than given out.
		The Committee feel that all future imports of Kerosene should be made exclusively by the I.O.C. Firstly this is available from rupee payment sources. Even where it has to be imported from free foreign exchange sources, the I.O.C. can negotiate for larger discounts than 12 per cent allowed to private oil companies in terms of the W.G.O.P. recommendations. This will save foreign exchange. Secondly, kerosene is an essential commodity and should not be subject to manoeuvrability. The Committee heard that on certain occasions when the I.O.C's supplies ran dry, an artificial scarcity was created by the private oil companies by releasing only limited quantities in the market which resulted in kerosene being sold at exhorbitant prices. Kerosene will remain in short supply for several years to come and will have to be imported inspite

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		of increased production from our Refineries. If the I.O.C. is given the monopoly of imports there is no reason why scarcity should recur.
59	171	The Ministry of Petroleum and Chemicals should examine the kerosene distribution system in consultation with the State Governments and the Oil Companies and formulate a policy whereby the public are provided with the minimum requirements without difficulty and imports are reduced to the minimum. Difficulties as those encountered in Bihar because of restrictions imposed by the Government, should also be overcome by enforcing a uniform practice throughout the country. Though the Secretary of the Ministry of Petroleum and Chemicals stated during evidence that each State should decide for itself what allowances it should allow, the Committee feel that it would be better for the Ministry to decide the matter and issue orders for enforcing uniformity in all the States. Such uniformity can cure several ills that exist today and which are affecting the economy.
60	175	The Committee feel that in all urban and rural areas where regular markets exist, kerosene should be sold loose and not in sealed tins. Use of tins should be restricted to areas, where transport is difficult as in hill areas, for defence units serving in forward areas etc.
61	176	The Committee feel that it should be possible to find a cheap and reliable substitute for tin containers in plastic, polythene or other modern packing material.
62	181	There are a few vital facts which have to be borne in mind in regard to the production of LPG.
		(1) It is a modern type of fuel and economical to use. It saves the housewife a great deal of the chores inherent in the use of conventional domestic fuels like firewood, coal and Kerosene, for there is no grime, smoke and dirt. It has, therefore, a greater attraction and should be easy to sell, specially in urban areas. In view of the difficulty of getting conventional fuels and the need especially to economise on the use of Kerosene, which is imported to a great extent, it is vital to popularise other forms of domestic

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		fuels. LPG being cheaper than say electric hot plates, an all out drive for boosting its sales should be undertaken. The saving in foreign exchange to the extent that LPG can replace superior kerosene as a domestic fuel, will itself be a significant amount. Popularisation of the use of LPG will, therefore, be in the national interest.
		(2) If more LPG is made, the cost of production would come down.
		(3) If LPG is not made, the gases are wasted. At present most of the gases are used as refinery fuels (for which cheaper substitutes can be used) and the rest is just flared.
63	185	The I.O.C. should accept the marketing of LPG as a challenge to its abilities of salesmanship and go ahead with its plans. Due to the pioneering efforts of Burmah Shell and the I.O.C's own efforts in the Eastern Region, L.P.G. has become popular with the public. It is the I.O.C's task now to forge ahead in a vigorous manner. The Committee are unhappy to note that each of the five refineries propose to convert only a small percentage of their potential to LPG. The Committee feel that the I.O.C. should expand its production.
64	186	Apart from LPG for domestic use it would be desirable for the I.O.C. to enter the industrial purposes. The Committee were told that no survey of industrial demand had been made. Its marketing possibilities for the industry should be ascertained and exploited.
65	190	The Committee found that adequate attention had not been paid by the Marketing Division in regard to the procurement of steel plates in time for the storage tanks at Kanpur, Mugalsarai and Patna. Even according to the revised schedule, the pipeline should have been completed by April, 1965 and if the installations were to be completed simultaneously, it would have been necessary to make arrangements for the procurement of steel at least by January, 1964. Instead, the Marketing Division seems to have moved in the matter only in January, 1965. The H.S.L. were unable to make the supplies because the work did not get any top-priority treatment in

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		the matter of steel supplies. This matter was realised only in late November, 1965 and the Ministry of Iron and Steel was approached for the issuance of sanction for high priority allotment of steel. The Iron and Steel Controller issued this sanction within a fortnight of the request by the I.O.C. The Committee feel that such a priority should have been obtained atleast in May, 1965 when it was known that the supplies were likely to be delayed. That this was not done would indicate lack of vigilance on the part of the officers incharge of the Project.
66	193	The Committee cannot help remarking adversely about the I.O.C. and the Railways in the manner in which tht two cases relating to the Kanpur and Allahabad Railway sidings have been handled. The initial selection of the sites both at Kanpur and Allahabad was done with the participation of the Railway authorities and the Railway should not have agreed to the proposals unless they had made a full analysis of all the problems involved in this regard. To have gone back on their original agreement after a considerable lapse of time was regrettable. From the facts made available, it appears that there had been no proper co-ordination between the I.O.C. and the Railways. If only the officials concerned in the I.O.C. had discussed these matters personally with the Railway officials at the proper time and sorted out all the problems, these difficulties and consequential delays would not have arisen. It looks as if this matter was carried on by routine correspondence most of the time, which was unfortunate.
67	194	If the Barauni Refinery had gone into production as scheduled there would have been no end to the difficulties in transporting products because of the delay in the Commissioning of the pipelines. Even as it is, there have been considerable difficulties in the matter of transport because of the shortage of tank wagons in Eastern India. In view of the vital importance of this project and the bearing it had on the completion of the Barauni Refinery, there is no justification for the delay in the completion of the installations and the Railway sidings at the four cities, in time. The Committee hope that greater care will be exercised by the top management in en-

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		suring that the various departments under it work according to schedule. Where the completion of one project is inter-linked with another, synchronisation should be ensured so that the working of the I.O.C. is not hampered.
68	198	The Committee are not happy over the delay in the completion of the Barauni-Haldia pipeline project also. The completion of the pipeline and the installations has been delayed, and there is hardly any purpose in finding excuses. The entire staff engaged for the construction of project have been there since the beginning and they have to be paid, whether usefully employed or not, for the entire period taken in the completion of the project. There have also been considerable difficulties in the movement of products from Barauni to Calcutta for want of adequate number of tank wagons. It is also well known that the I.O.C. has been incurring under recovery of freight for all the products moved from Barauni to Calcutta. If the pipeline had been constructed and products moved to Maurigram by this line considerable financial savings would have accrued to the I.O.C. though not particularly to the Marketing Division. The Marketing Division would have benefited from a quick and unhindered movement of products. In view of these advantages there was no justification for delaying the pipeline project. The Committee hope that it would be possible to complete this pipeline without further delay.
69	199-200	The Committee hope that the Marketing Division will take adequate steps in time to ensure that there is no difficulty in the movement of products from Cochin. The economics of a pipeline to Coimbatore should also be worked out. If this will solve the transport difficulty, early action should be taken to proceed with this project.
		As regards the Cochin-Coimbatore, and the Madras-Bangalore pipelines the Committee were glad to hear that the pipes for the pipelines are now produced by the Hindustan Steel Ltd. Only pumps need to be imported from abroad. This being so, there should not be much difficulty in constructing the pipelines if they are found to be economically feasible.

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70	202	It will be evident from the figures of profitability of the Pipelines Project that the Pipelines will be considerably profitable to the Pipelines Division, especially when the volume of products handled is the maximum possible. However, the Marketing Division does not derive any benefit in costs due to the pipelines. In view of the fact that the Marketing Division incurs considerable loss due to the location of Gauhati and Barauni Refineries, the Committee feel that the rates charged by the Pipelines Division should be less than the railway freight. In short, the financial advantages of the pipelines should be reflected in the accounts of the Marketing Division to some extent even though it might be argued that it is ultimately the Corporation that stands to benefit from this.
71	208	The Committee agree that the actual published accounts do not reflect the actual working of the I.O.C., in so far as the Corporation is obliged to incur under-recoveries of freight etc., for no fault of its own. The Committee have recommended elsewhere, that relief should be given to the I.O.C. in regard to these matters. This, however, does not mean that all is well otherwise with the I.O.C. There are many matters pointed out in other parts of the Report which have to be set right. There is doubtless an encouraging trend in the management of the Marketing Division not only in regard to the administrative changes that have been made but also in regard to policy. There is no reason why the Division should not yield better profits if its affairs are handled energetically and prudently.
72	213	The Committee feel unhappy over the position that on the one hand, money is borrowed from Banks with a view to paying the Refineries Division and heavy interest charges incurred thereon and on the other hand, the bills of the Refineries Division are not cleared in time and heavy interest charges on these outstandings are incurred as a result.
73	215	If only the I.O.C. had realised its dues from the customers in time, it would not have been necessary to resort to such heavy overdrafts and incur such colossal expenditure on interest charges. While these interest charges were being paid by the Marketing Division they were inclined to

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		look upon their debtors with a certain amount of indulgence and allowed them interest free credit. The financial management in the I.O.C. was far from satisfactory. They hope that the recent trends for the better will continue.
74	217	It is understood that the Talukdar Committee had recommended Rs. 20 as a reasonable working capital for every Rs. 100 of sale. The Government modified this figure to about Rs. 18 per Rs. 100 of sale, i.e. 1/6th of sale value. Against this, the I.O.C.'s achievement of Rs. 13 for the year 1965-66 appears to be satisfactory. The Committee hope that every effort will be made to better this figure.
75	226	A suggestion has been made that the D.G.S.&D. should agree to decentralise the payments through their Pay & Accounts Officers at Bombay, Calcutta, Delhi and Madras instead of at Delhi alone. This would save the time in routing the bills through Delhi and also in answering objections raised by Pay & Accounts Officers. The Committee suggest that the D.G.S.&D. should consider this matter urgently in order to decentralise payments preferably with effect from the next financial year.
76	230	The facts which came to the notice of the Committee reveal a disconcerting state of affairs in regard to billing for D.G.S.&D. supplies. The Committee can only draw the attention of the Management to this unsatisfactory state of affairs and suggest that close attention should be paid to this matter both by the Head Office and the Finance & Accounts Officers of the Branches. The Head Office should call for weekly statistics of bills submitted to D.G.S.&D. by the Branches from the Cell at Delhi and try to analyse the causes for delay or incorrect billing and take necessary steps to improve matters. This vigilance should not be relaxed till the Head Office is satisfied that the procedure has attained a certain standard of efficiency. The Accounts Officers of the Branches should be held responsible for this matter.
77	233	The D.G.S.&D. made a suggestion that the I.O.C.'s liaison officer at Delhi should be given greater powers so that he could take decisions on the spot regarding clarifications etc. sought by

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		D.G.S.&D. in regard to various contracts. The I.O.C. stated that this would involve the setting up of a big organisation to attend to these matters which would be a waste. The Committee agree with this view. With the establishment of a teleprinter circuit between the Delhi and Bombay Offices, communication would be swift and it should be possible for the Liaison Officer at Delhi to obtain clarification or decisions from the Head Office within a day.
78	234-35	During the course of their evidence before the Committee, the officers of the I.O.C. made the following suggestions for improvement in regard to billing and payment for D.G.S.&D. supplies:— (1) *Delay in extension of contract by D.G.S.&D.* An obligation should be imposed on the indentor/consignee that they should write to the D.G.S.&D. authorities for extension of contract well in time. Nowadays mere confirmations are made by indentors after the supplies have actually been made, and payments are delayed till the D.G.S.&D. issues extension sanction after receipt of the confirmations. (2) *Amendments to contracts.* The average time taken for issue of Amendments to contracts is between 6 to 8 weeks. In many cases the time taken was 6 to 8 months. This time lag should be reduced. If D.G.S.&D. do not issue the necessary amendments within a prescribed time limit, the Pay and Accounts Officer should be authorised to pay the bill against indemnity to be tendered by the I.O.C. The I.O.C. shall be bound to refund the amount to the P.&A.O. if the necessary amendment is not issued at a later stage. (3) *Changes in Salex Tax* At present the I.O.C. is required to forward a copy of the Gazette notification incorporating the changes in the Sales tax alongwith each request for amendment to the Rate/Running contract. This procedure can be simplified. There is already a Sale Tax Cell in the D.G.S.&D. who

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		should be able to obtain a copy of the relevant Government notification and circulate it to all the Branches concerned in their office. The I.O.C. can merely quote the number and date of such notifications.
		(4) *Supplies from alternate sources*
		The normal source of supply is indicated in a contract but sometimes supplies have to be made from a different source due to non-availability of wagons, products etc. This, however, is to be provided by an amendment to the contract. As this does not affect the price of the product, there should not be any delay in issuing the amendment as soon as a request for it is received, as this is a mere formality.
		(5) *Freight*
		The contract provides for the payment of notional Railway freight from the normal source of supply to destination and on production of proof of cash receipt under which the freight was paid. The payment to Railways is however made through Railway Credit Notes and it becomes difficult for the I.O.C. to produce cash receipts in support of its claims. The Ministry of Finance may be requested to issue the necessary concurrence for passing the bills on the basis of certificate by the I.O.C. that the Railway freight charged in the bills was in fact paid to the Railways.
		(6) *Emergent supplies*
		In some cases supplies are effected without supply orders at the request of indentors/consignees under emergent circumstances. An obligation should be placed on the part of the Indentors/consignees to issue a supply order without delay. This obligation should form part of the normal procedure laid down by the D.G.S.&D.
		The Committee feel that the above suggestions deserve favourable consideration by the D.G.S.&D. They suggest that a Committee of officials of the D.G.S.&D., including the Pay and Accounts Officer, and the I.O.C. should be constituted to go into the whole question of billing and payment, and recommend ways and means

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		of simplifying the entire procedure in order to expedite both billing and payment. Efforts should be made to eliminate all cumbersome and unnecessary requirements and make the procedure streamlined and efficient.
79	236-237	As for other outstandings and the reasons therefor, the facts speak for themselves without the need for any special comment. The Committee can only express regret at things having been allowed to drift in this manner without effective and timely action being taken to put matters straight. Half the I.O.C.'s financial troubles were due to the fact that the matter of collection of outstandings was not given the importance that it deserved. The Committee have made some suggestions in this regard while dealing with the sales to Government organisations. These are the major customers that the I.O.C. has to tackle first. If the Corporation can succeed in obtaining payments from Government parties say within 15 days of presentation of a bill, it would go a long way in solving this problem of heavy outstandings. In fact, the Committee would suggest that all the Branches should aim at reaching the figures of the Southern Branch whose outstandings represent only 17 days' sale. The position of the Eastern Branch is particularly bad and requires, extra effort to stabilise it. The Committee, however, realise that the difficulties of the Eastern Branch are mainly due to the fact that it caters to a difficult and far flung area with myriads of problems of communication and supply. The Head Office should give the Branch all possible assistance by writing to the parties concerned to cooperate in clearing the arrears. The Committee hope that by the end of the financial year the Eastern Branch will catch up with the other Branches. The Committee also suggest that the position of the outstandings should not only be watched once a year but every month by the Branch Office and the Head Office.
80	239	These figures of outstandings each month in the four Branches reveal that the position has been fluctuating from month to month and in a fairly wide range. If proper credit control is

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		exercised, such a fluctuation should not arise. The figures indicate the need for greater control both by the Head Office and the Branch Offices in the matter.
81	242	The Committee do not share the Corporation's complacency that the Accounts of the Division are "Good" now. In the Committee's view a great deal has to be done in regard to Accounts. For one thing, the Manuals drawn up are far from complete and comprehensive, as pointed out by the Company Auditors themselves. The billing system in respect of DGS & D supplies is still in an unsatisfactory state as has been pointed out earlier. Collection of arrears is lagging behind. The mechanisation of accounts has been done only in one Branch and is yet to be introduced elsewhere. These are just some of the shortcomings. Others can be quoted. In view of this, Accounts require the urgent attention of the senior officers concerned in the organisation.
82	244	The Committee wonder why in spite of the acknowledged failure of the Chief Accounts Officer to organise the accounts of the Corporation in a proper and systematic manner, he was kept in employment for so many years. A person with proved efficiency and a good knowledge of the accounting systems in any of the private oil companies in India would have been more suitable for this important post.
83	245	The Committee wonder whether it is a wise policy to bring Accounts Officers of Government to the posts of Accounts Officers in the Branches of I.O.C. for a few years on deputation basis. By the time they get to know intricate problems of commercial accounting, specially of the petroleum industry, and did something practical to improve matters, they would be sent back to their parent services. Further, a deputationist would find it difficult to solve the problem of arrears or of ever increasing sales, like a person trained in commercial practices, in view of the fact that their experience

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		is confined generally to non-commercial accounting in Government Offices.
84	247	The Committee feel that the functions of Financial Controller and Accounts Officer in the Branches should be bifurcated. For the post of Accounts Officers, experienced and qualified persons with sufficient training in dealing with accounts of petroleum Companies should be given preference.
85	251	While the Committee do not wish to comment on the merits or demerits of the agreement, with M|s. Hindustan Organisers they are concerned with the principle involved in the circumstances relating to the extension of the Agreement. Because of a legal flaw, the Corporation is forced to enter into a business deal which it might not have done normally. The Corporation has to enter into various agreements and contracts in the course of its business and every precaution has to be taken to safeguard its interests which might be jeopardised because of some legal flaw in an agreement or contract. This particular case would emphasise the need for subjecting all such documents to a careful and thorough scrutiny by an expert before they are finalised. The Committee hope that the I.O.C. will make adequate arrangements for a well qualified and experienced legal expert to advise it on all such matters.
86	253	The Committee regret to point out that the provision relating to credit limit was not applied in regard to the Agreement with M/s. Hindustan Organisers. It might be worthwhile to enquire if the interest charges were waived deliberately or it was an act of omission on somebody's part.
87	254	The Committee have recommended elsewhere in this report that all payments delayed beyond the stipulated credit limit should attract, interest charges whether the consumer is a Government party, a public undertaking or a private individual. The I.O.C. should lay down this penalty clause in all future agreements for supplies of products and enforce the penalty invariably. Exceptions should be granted only by competent authority and on good reasons. In the case of M/s. Hindustan Organisers, the Committee see no ground for exemptions being

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		made in the collection of interest on late payments. The Committee also recommend that the credit limit should not exceed 45 days *i.e.* the limit which the Refineries Division gives to the Marketing Division for the supply of products.
88	259	The Committee recommend that the Branch Financial Controllers may be given greater authority than now in regard to financial matters. Where financial concurrence is necessary, the Branch Managers may obtain it from the Branch Financial Controller rather than refer cases to the Financial Controller of the Division at the Head Office. Only in exceptional or major cases should a reference be made to the Division's Financial Controller.
89	260	The present policy of retaining most of the powers with the Head Office is neither conducive to efficiency nor in keeping with modern thinking on Management. Therefore, early action should be taken to revise the list of delegated powers.
90	262	The staffing pattern of the Branches does not appear to be uniform. The Committee recommend that the Head Office should work out norms for various categories of staff based on the experience of Branches and the staffing pattern of private companies. These norms should be linked to both volume of business and expenditure on staff compared to total sales value. Such norms should be applied in a uniform manner in all the Branches and constant efforts should be made to increase staff efficiency by comparing inter Branch performance and encouraging a keen sense of competition. The Head Office should also frequently review the position of staff in the Branches and ensure that staff productivity at all levels is maintained at a high level. For this purpose it might be useful to devise a mathematical formula whereby number and expenditure are related to sales and the result expressed as a ratio or a whole figure.
91	263	The performance of the sales staff should also be subject to constant review and figures of sales and expenditure should be compiled district and Branch wise for judging productivity. The

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		Committee also suggest that the Head Office should have an Efficiency Expert who has been specially trained in O&M work with special reference to the petroleum industry. He should be entrusted with the task of devising methods for measuring performance and for increasing productivity and efficiency in the various fields of the I.O.C's. activities i.e. sales, operations, accounts, depot management etc.
92	265	The Committee suggest that a thorough scrutiny of all the posts in the various Branches be made with a view to pick out and eliminate posts like that of the Liaison Officer at Calcutta.
93	268	The Committee are glad to know of the establishment of the Staff College and hope that it will be possible to impart thorough training to all the I.O.C. staff, in the sphere of their work. This is a very important aspect both in regard to increasing the efficiency of the Corporation and also to ensure that servicing of customers is effective. The Committee received complaints that some of the I.O.C. sales staff were not thorough with the technical details of the products being marketed, especially lubricants. This is a lacuna which the staff college should seek to plug. Intensive training should also be given on modern sales methods and sales promotional activities. For this purpose it would also be desirable for the teaching staff of the Staff College to keep abreast of developments in sales and management techniques that are taking place in more advanced countries. These new techniques could be discussed with people who are doing the job, so that they may be applied in a practical way and adapted to Indian conditions. The trained staff could then report their experiences back to the College who can make an assessment of the value of such techniques. In short, the training programmes should act as a two way-traffic both for imparting of knowledge to be carried into the field and obtaining results from the field of the practical application of such knowledge. The Committee would also recommend that refresher courses should be given to persons who have been once trained, so that knowledge of latest or advanced technique can be imparted to them.

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94	269	The Committee recommend that pump attendants should be given a short training on how to conduct themselves with customers who patronise the pumps. They should be given lessons in courtesy and correct behaviour to be adopted and should also be given practical training on the peculiarities of different types of vehicles that are likely to come to a pump and how each is to be served. On the behaviour and efficiency of the pump attendants will depend greatly the impression that the public will carry of the I.O.C. and it is important to ensure that these men are not wanting in courteous behaviour, knowledge of their work and efficiency.
95	270	Another category of staff who should be properly trained is the Accounts Staff. From what the Committee have been able to see, the working of the Accounts Department in most of the Branches has been far from satisfactory and it has been stated that the chief cause has been the lack of adequately trained staff. It is very necessary to ensure that all Accounts staff are thoroughly trained, and their method of work is efficient, methodical and thorough. Unless the billing and collection work is carried out efficiently, the work of the Corporation is bound to suffer, as has happened till now.
96	271	The Committee feel that in an industry like petroleum, where a high degree of specialisation is necessary, a policy of obtaining officers on deputation from Government for a fixed tenure of two or three years would be undesirable. While there would no objection in obtaining men from Government sources it should be on the condition that they would be absorbed in the I.O.C. after a probationary period fixed for that category of post. At the end of that period, if found satisfactory they should be absorbed permanently in the Organisation and should be made to severe their connections with Government. A person who is on deputation and is looking forward to his next promotion in his parent department cannot be expected to give his best in the organisation.
97	277	While the Committee have no objection whatsoever to the grant of advance increments in deserving cases, they cannot help feeling that ad-

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		vance increments are being granted as a matter of course which diminishes the value of such rewards and tends to create jealousies within the organisation. The Committee, therefore, recommend that utmost discretion should be exercised by the Managing Director in the grant of advance increments and only those meriting the highest consideration should be sanctioned. Such rewards besides benefiting the person concerned should also be duly publicised so that the whole organisation may come to know of the recognition of merit by the management. It might, therefore, be useful to publish a list of persons to whom merit increments have been given in the house journal of the Corporation.
98	278	Some of the instances of promotions examined by the Committee led to a doubt whether too rapid promotions were not being given in some cases, than was legitimately due. While it is admitted that in an expanding organisation, many new posts are created, it does not seem right that a person with only a limited experience in a lower post should be promoted to fill a new vacancy in a higher grade before he is fully mature and has gained the technical expertise to qualify himself for higher responsibilities. The Committee agree that merit should be recognised and rewarded but to give two rapid promotions and in addition, to give advance increments on initial fixation of pay in the new scale appears to be incongruous.
99	281-282	The Committee recommend that the Corporation should have a proper and well publicised organisation for dealing with complaints from public. Each Branch manager should be designated by name as vigilance officer and a notice hung up at all the I.O.C. Offices, pumps and Agents' Shops requesting customers with complaints to write to the vigilance officer at the Branch or the Head office giving full particulars of the case about which the complaint is being made. All such complaints received should be acknowledged and where a *prima facie* case seems to exist, enquiries should be conducted. The cases need not merely relate to corruption but also black-marketing by dealers or agents or other corrupt practices adopted by them.

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		An enquiry into a case should be made quickly, and where an allegation has been proved, the case should be processed swiftly and the formalities of procedure gone through without waste of time.
100	284	The Committee feel that the expenditure on air-travel is high and that there is a great scope for reduction. It will be seen that in 1965-66 more than Rs. 34,000 had been spent at the Head Office alone on air-travel by the officials who are not entitled to travel by air. In order to economise, air-travel should be allowed only in very genuine and urgent cases.
101	285	The Committee found that in 1965-66, as against the budget provision of Rs. 10·08 lakhs on telephones, the expenditure was 14·66 lakhs. There appears to be need for greater economy in this expenditure than exercised so far. The Committee understand that there is a move to install teleprinter service between branches. When this is done strict care should be taken to ensure that the number of trunk-calls made are kept to the minimum. The Committee feel that it would be desirable for the senior most officers in each Branch and in the Head Office to examine each month the number of trunk-calls made by each officer and the justification for the same.
102	291	Except perhaps for the Post Office, the I.O.C. is the one Government of India undertaking which will operate throughout the length and breadth of the country and spread its influence upto the remotest village in India. The I.O.C. will therefore be a symbol of the Government of India. Publicity of an institutional nature is, therefore, important in order to build up an image of the I.O.C. in the public mind. The efficiency and quality of service of the I.O.C. will also of course influence the impression that the public will gain of Government institutions. The publicity should, therefore, emphasise this aspect so that the public looks upon the I.O.C. as their friend on whom they can depend for prompt service.
103	292-293	The Committee feel that there is great scope for improvement in the quality and standard, both of the Press advertisements and the outdoor

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		publicity, consisting of hoardings both at retail outlets and elsewhere. The advertisements and hoardings should be catchy as for example those of Air India, and should also emphasise that the I.O.C. belongs to the people. Being a public undertaking, a sense of public participation in its activities should be created. It might be advisable for the I.O.C. to consult a reputed advertising consultant with a view to improve the standard of its advertising.
104	294	The Committee understand that expensive diaries are printed and distributed every year. While diaries and calendars are useful publicity media, there is no room for excessive expenditure on this account, even if the intention is to match the quality of the private oil companies. A look into the circulation list of house journal could result in some economy.
105	295	The Committee found that the house journal had practically little or no news about the three Refineries or the Pipelines Division. If the publication is a house journal of the Corporation then it should legitimately publish news of the Refineries and Pipelines Divisions also in addition to the news of the Marketing Division.
106	296	As for product advertising, the Committee feel that there is scope for better effort in this direction. For example, the Committee received complaints that there was lack of information about the quality of the lubricants marketed by the I.O.C. Attractive folders could perhaps be printed giving full details of the various products marketed and distributed to potential consumers. Similarly as the Committee have pointed out elsewhere in this report, Liquified Petroleum Gas, which the I.O.C. is marketing under the brand name of INDANE requires to be widely publicised not merely from the point of view of the brand, but with an idea to induce the public to change to LPG from Kerosene and other conventional fuels. It would be in the national interest to make people discard Kerosene for LPG.
107	298	The Committee are not very happy about the payment of advance rents for office buildings. While justification has been given for such an abnormal procedure, the chief among them being that advance rents have become an acknowledged practice in Commercial circles, it is regrettable that Government cannot exert its influence to obtain accommodation on more favourable terms.

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108	300	The Committee recommend that where the Life Insurance Corporation of India constructs new buildings which are to be leased for office accommodation, first preference should be given to Public Undertakings, and it is only after their needs have been met, that private firms should be rented accommodation. The rents to be charged from such public undertakings should be based on a formula to be worked out by the Government of India and the L.I.C. and not the market rent. This formula may take into consideration the value of the building and the city where it is located. This will save the necessity of each public undertaking trying to construct a building of its own.
109	301	As an alternative, two or three public undertakings with headquarters in a city may pool their resources and construct a building for themselves. The Central Government should give all assistance in the matter of leasing of suitable sites for such ventures where land belonging to them is available or else the Government should use their good offices to persuade the State Governments to lease out suitable land for this purpose. At any rate, renting of private accommodation at such exorbitant rates and on such unusual terms as 1½ to 2 years advance rent should be discouraged.
110	302	Efforts should be made to locate all the I.O.C. offices in a city under the same roof. Proliferation of offices is not conducive to economy or efficiency.
111	311	In regard to the case of inadequate control over issues of steel to fabrication contractors pointed out in Section II, para 4 of Audit Report (Commercial), 1965, the Committee feel that the I.O.C. did not act properly in not keeping accounts of the steel issued to the contractors. While it is true that the I.O.C. did not lose any money on this, it is well to remember that the steel was imported and since steel was in short supply there was every possibility of diverting it for other uses by showing an excess amount of wastage. Since the Committee did not enquire into the matter it cannot be said that this happened. All that they wish to point out is the possibility of malpractice in the absence of pro-

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		per accounting procedures. The Committee hope that the I.O.C. will be more prudent in such matters in future.
112	323	As regards the cases pointed out in the Audit Report (Commercial) 1965, Section II, paras 5(i) and 5(ii), the Committee find that these 3 cases alongwith many others were some of the unfortunate incidents in the early history of the I.O.C. Some of these have resulted from inexperience and the others due to hasty actions without prudent thought and calculation. This can only be regretted and the Committee can only hope that the I.O.C. will benefit from these experiences and avoid similar pitfalls in future.
113	330	The Committee would suggest that it might be examined how far it would be more economical for the I.O.C. to set up its own factories for manufacture of tin containers in centres where they are needed instead of making purchases from private firms. The requirements of tins and barrels would be very heavy and if economically viable units can be set up to supply the needs of tins and barrels of the I.O.C., there is no reason why profits on this account should not be retained by the I.O.C. itself.
114	332	The Committee have noticed a recent trend for the better in the management and organisation of the Division and hope that the working of the Division will improve with time and that it will be possible to reach an efficiency worthy of the high hopes reposed on this organisation in a key sector of the country's economy.

GMGIPND—LS II—2494 (Ali) LS—13-3-67—1300.