

**ESTIMATES COMMITTEE**  
**(1967-68)**

**FIFTY-FIRST REPORT**

**(FOURTH LOK SABHA)**

**MINISTRY OF PETROLEUM AND CHEMICALS**  
**OIL INDIA LIMITED**



**LOK SABHA SECRETARIAT**  
**NEW DELHI**

*April, 1968/Vaisakha, 1890 (Saka)*

**LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA  
SECRETARIAT PUBLICATIONS**

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
<b>ANDHRA PRADESH</b>					
1.	Andhra University General Cooperative Stores Ltd., Waltair (Visakhapatnam).	8	13.	Deccan Book Stall, Ferguson College Road, Poona-4.	65
<b>RAJASTHAN</b>					
2.	G. R. Lakshmipathy Chetty and Sons, General Merchants and News Agents, Newport, Chandragiri, Chittoor District.	94	14.	Information Centre, Government of Rajasthan, Tripolia, Jaipur City.	38
<b>UTTAR PRADESH</b>					
<b>ASSAM</b>					
3.	Western Book Depot, Pan Bazar, Gauhati.	7	15.	Swastik Industrial Works, 59, Holi Street, Meerut City.	2
<b>BIHAR</b>					
4.	Amar Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur.	37	16.	Law Book Company, Sardar Patel Marg, Allahabad-1.	48
<b>GUJARAT</b>					
5.	Vijay Stores, Station Road, Anand.	35	<b>WEST BENGAL</b>		
6.	The New Order Book Company, Ellis Bridge, Ahmedabad-6.	63	17.	Granthaloka, 5/1, Ambica Mookherjee Road, Belgharia, 24-Parganas.	10
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7.	Modern Book House, Shiv Vilas Palace, Indore City.	13	18.	W. Newman & Company, Ltd., 3, Old Court House Street, Calcutta.	44
<b>MAHARASHTRA</b>					
8.	M/s. Sunderdas Gianchand, 601, Gurgaum Road, near Princess Street, Bombay-2.	6	19.	Firma K. L. Mukhopadhyay, 6/1A, Banchharam Akrur Lane, Calcutta-12.	82
9.	The International Book House (Private) Limited, 9, Ash Lane, Mahatma Gandhi Road, Bombay-1.	22	<b>DELHI</b>		
10.	The International Book Service, Deccan Gymkhana, Poona-4.	26	20.	Jain Book Agency, Connaught Place, New Delhi.	1
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12.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.	60	22.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9
			23.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11
			24.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15
			25.	The English Book Store, 7-L, Connaught Circus, New Delhi.	20
			26.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23

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## ESTIMATES COMMITTEE

(1967-68)

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Shri P. Venkatasubbaiah

### MEMBERS

2. Shri Panna Lal Barupal
3. Shri Onkarlal Berwa
4. Shri Maharaj Singh Bharti
5. Shri Bibhuti Mishra
6. Shri R. K. Birla
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27. Shri Gajraj Singh Rao
28. Shrimati Jayaben Shah
29. Shri Shantilal Shah
30. Shri P. Sivasankaran

(iii)

(iv)

**SECRETARIAT**

**Shri N. N. Mallya—*Joint Secretary.***

**Shri B. B. Tewari—*Deputy Secretary.***

**Shri G. D. Sharma—*Under Secretary.***

## INTRODUCTION

I, the Chairman, Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Fifty-first Report on the Ministry of Petroleum and Chemicals—Oil India Ltd.

2. The Committee took evidence of the representatives of the Ministry of Petroleum and Chemicals on the 22nd, 23rd and 24th January, 1968. The Committee wish to express their thanks to the Secretary and other officers of the Ministry of Petroleum and Chemicals for placing before them the material and information desired in connection with the examination of the estimates.

3. The Report was considered and adopted by the Committee on the 22nd April, 1968.

4. A statement showing analysis of recommendations contained in the Report is also appended to the Report (Appendix VIII).

NEW DELHI-1.

April 30, 1968

*Vaisakha 10, 1890 (Saka).*

P. VENKATASUBBAIAH

*Chairman*

*Estimates Committee*

## INTRODUCTORY

## A. Historical Background

1.1. Oil India Ltd. is a joint venture of Government of India and Burmah Oil Company. It was incorporated on the 18th February, 1959 as Oil India Private Ltd. with Government of India holding 33 1/3% of the shares and the Burmah Oil Co. holding 66 2/3% of the shares. Subsequently by virtue of the Second Supplemental Agreement signed on the 27th July, 1961 the shareholding of Government of India was increased to 50% and that of the Burmah Oil Co. was reduced from 66 2/3% to 50%. On the 28th March, 1961 by virtue of Section 43-A of the Companies Act, 1956 Oil India became a public company and therefore ceased to use the word "Private" in its name. At present Government of India and Burmah Oil Co. are equal partners in Oil India Ltd. The authorised capital of the Company is Rs. 50 crores divided into 5,00,000 equity shares of Rs. 1,000 each and the paid-up capital is Rs. 28 crores contributed equally by Government of India and Burmah Oil Co. each having 1,40,000 equity shares of Rs. 1,000 each.

1.2. The main objects of this Company are : —

- (i) Exploration for oil and natural gas;
- (ii) Production of crude oil and Natural gas; and
- (iii) Transport of crude oil from oilfields to the refineries.

1.3. A brief history giving the circumstances leading to the formation of this Company is given in the following paragraphs.

1.4. In early 80s of the last century, a company known as Assam Railways and Trading Company Limited. (A.R. & T. Co.) which were primarily interested in coal and railway transportation in Upper Assam found themselves interested in oil deposits also. While the A.R. & T. Co's engineers were continuing to build the railway line from Dibrugarh to Margherita, the tracks going through jungles for most of the way, they noticed oil on the ground near one of their camps in the forest. The place where the oil was found became the scene of drilling by the A.R. & T. Co. and the oil was produced from that well which was drilled in 1889 and completed in 1890 at a depth of 662 feet. The name of the place was DIGBOI.

1.5. In 1898, the A.R. & T. Co. decided to form a separate Company to look after their oil interests. The new Company was named "Assam Oil Company Ltd." The Company soon found out that they were not getting enough oil to fully pay for their costs. The 100 wells or so they



completed by 1921 helped them to raise their production to only about 380 barrels per day.

1.6. The Burmah Oil Company Ltd. who had made a success of oil operations in Burma, appeared on the scene at this stage and began to take over the Assam Oil Company progressively in stages. With their technical 'know-how' the next 100 wells drilled in Digboi helped to raise production of crude to about 2,000 barrels per day. This achievement turned Digboi into a commercial oilfield.

1.7. Since no oilfield lasts for ever, the Company continued its search of areas for more oil. On the request of A.O.C. the State Government of Assam granted, for a period of five years, with effect from the 1st May, 1938, a geophysical licence covering an area of 5,320 sq. miles which was subsequently increased to 6,290 sq. miles in February, 1940 for carrying out a survey by geophysical methods. This conferred on the A.O.C. the exclusive priority right to apply for mining concessions in respect of natural petroleum, including natural gas. In the meantime, World War II intervened and the Government imposed a moratorium on oil prospecting and prohibited exploratory drilling. After the war and the attainment of Independence, the validity of the geophysical licence was extended up to 1951 by executive order in favour of the Assam Oil Company.

1.8. In 1951, a location was chosen by the Assam Oil Company at NAHARKATIYA. Drilling began in May, 1952. A year later the drill struck oil.

#### *Government's participation and formation of a Rupee Company*

1.9. The Government of Assam with the approval of Government of India agreed to grant a mining lease in Naharkatiya in January, 1954. Encouraged by this discovery, the Assam Oil Company requested in 1953 for the grant of a prospecting licence for additional areas adjacent to Naharkatiya, namely Naharkatiya Extension, Hugrijan and Moran. At that time the Government stipulated that one of the terms of the said agreement to grant prospecting licences was that the A.O.C. would form a Rupee Company to which the aforesaid prospecting licences to be granted to the Assam Oil Company would be transferred. One of the terms of the said agreement to grant a mining lease was that, in the event of a Rupee Company being formed to work the Naharkatiya Extension prospecting licence area, the said Mining Lease to be granted to the Assam Oil Company would also be transferred to the said Company. Subsequent to the grant of the prospecting licence as exploration was going on, there were further negotiations during the period 1954—58 between the Government of India, the Burmah Oil Company and the Assam Oil Company increasing Government's share to 33 1/3%. As a result, an agreement was reached amongst these three parties according to which a new Rupee Company viz. OIL INDIA (P) LTD. was formed. The

formation of this Rupee Company to explore the oil reserves in Assam was announced in the Lok Sabha by the then Minister of Steel, Mines and Fuel, on the 6th December, 1957. The formal Promotion Agreement in regard to the formation of the said Company was executed on the 14th January, 1958 (Appendix I) and the Company came into being on the 18th February, 1959. In this Company the Government of India had 1/3rd interest on all the areas of Naharkatiya, Hugrijan and Moran (510 sq. miles), in terms of the mining lease for the purpose of searching for, finding and producing crude oil and natural gas.

1.10. Subsequent to 1959, Oil India wanted to be permitted to explore in certain additional areas in NEFA (Ningru) and Assam (Dum Duma) covering an area of about 1,886 sq. miles where the prospects of finding oil were considered bright and the Burmah Oil Company were keen to obtain that area for exploration. In the course of negotiations leading up to the grant of a prospecting licence for these areas, the Government acquired 50% interest in Oil India as a result of Second Supplemental Agreement signed between the parties concerned on the 27th July, 1961 (Appendix II).

### **B. Government's Participation vis-a-vis Industrial Policy Resolution**

#### *Industrial Policy Resolution*

1.11. The Industrial Policy Resolution, 1948 placed 'Mineral Oils' among the list of industries for which the State was made exclusively responsible "for the establishment of new undertakings, except where, in the national interest, the State itself finds it necessary to secure cooperation of private enterprise subject to such control and regulation as the Central Government may prescribe." The Industrial Policy Resolution of 1956 places 'Mineral Oils' in Schedule 'A' Industries, "...the future development of which will be the exclusive responsibility of the State." It, however, "does not preclude the expansion of the existing privately owned units, or the possibility of the State securing the cooperation of private enterprise in the establishment of new units when the national interests so require". It has, however, been stipulated that "Whenever cooperation with private enterprise is necessary, the State will ensure either through majority participation in the capital or otherwise that it has the requisite powers to guide the policy and control the operations of the undertaking."

1.12. Asked about the considerations which led the Government of India to enter into an agreement with the Burmah Oil Company to form a separate company viz. Oil India Limited and whether the same was in consonance with the Industrial Policy Resolutions of 1948 and 1956 and why the oil exploration work was not entrusted to the Oil and Natural Gas Commission, the Ministry in a written reply have informed the Committee that the Assam Oil Co. had been carrying on exploration work in Assam before the commencement of the Second World War. The prospecting licence for

Naharkatiya was granted to Assam Oil Co. in 1948 and subsequently a mining lease was granted in January, 1954.

1.13. The Industrial Policy Resolution of 1948 stipulated that the establishment of Schedule 'A' industries should be the exclusive responsibility of the State without, however, precluding the possibility of securing the co-operation of private enterprise if it was in the national interest. Besides, during the period 1954—58 when negotiations were being carried by Government with the Assam Oil Co. for the formation of a Rupee Company, there was no Government organisation which was technically competent or had the resources to deal with oil exploration in Assam and capable of building a pipeline from Naharkatiya to Barauni. Keeping in view the magnitude of the investment and the speed with which self-sufficiency in oil had to be achieved, Government decided to form a joint venture with Assam Oil Company.

1.14. The O.N.G.C. was set up as a small Directorate in 1955 and was converted into a Commission four years later, by which time Oil India Ltd. had already been incorporated. It may also be noted that as Assam Oil Co. was granted a mining lease in January, 1954 over Naharkatiya, that area could not have been leased to the O.N.G.C. or any one else. The only alternative was either to allow Assam Oil Company to mine oil in that area all by itself or to enter into a collaboration whereby Government would obtain substantial interest in the joint venture. Naturally, the Government opted for the second alternative.

1.15. Elucidating the position further the representative of the Ministry of Petroleum and Chemicals informed the Committee during evidence that in 1938 the Assam Government had given a geophysical licence to the Assam Oil Company on the condition that the Company would be granted prospecting licence over that part of the areas in which geophysical work might have been carried out by them and, therefore, it involved a contractual obligation *i.e.* the holder of the geophysical licence was entitled on request to prospecting licence.

1.16. Regarding the grant of a prospecting licence over an additional area of 1,886 sq. miles in Assam and NEFA to Oil India Ltd. in 1961 it has been stated during evidence that "... In December, 1959 the Government of India had gone out to various International oil companies with proposals for enlisting their collaboration and cooperation in intensifying the search for oil in the country. The Burmah Oil Co. was one of those who were interested in acquiring certain additional areas for exploration purposes—1,800 odd sq. miles . . . . . In view of Burmah Oil Co.'s interest in this additional area in Dum Duma (Assam) and in Ningru in (NEFA), the Government of India took this opportunity to negotiate for increasing the Government's share in this Company from 33 1/3% to 50%, so that in 1961, an agreement was reached under which the Government acquired

a 50% share in Oil India, and Oil India was given an additional area of about 1,800 sq. miles for exploration purposes.”

1.17. In reply to a specific question whether the grant of a prospecting licence over this area to Oil India Ltd., was in accordance of Industrial Policy Resolution, 1956, the Secretary, Ministry of Petroleum and Chemicals stated that in his opinion it was not in conflict with the Industrial Policy Resolution.

1.18. The Committee note that Government secured equity participation of 33-1/3% in Oil India Ltd. in 1958 which was subsequently increased to 50% in 1961 at the time of granting Petroleum Exploration Licences over an additional area of 1886 sq. miles to that Company. The Committee consider that in terms of Industrial Policy Resolutions of 1948 and 1956, Government should have insisted upon securing majority participation with private enterprise in Oil India i.e. 51% instead of the existing 50% share as ‘Mineral Oils’ are included in Schedule ‘A’ industries in the Industrial Policy Resolution, 1956.

1.19. In the opinion of the Committee, a geophysical licence held by the Assam Oil Company in pre-independence days did not automatically entitle them to a prospecting licence. After the attainment of Independence such licensing or change in type of license was subject to the provisions of the Industrial Policy Resolutions 1948 and 1956, which enjoined majority participation by Government or other measures so that Government had the requisite powers to guide the policy and control the operations of undertakings in such ventures. The Committee are unable to find any justification for the grant of exploratory licence over an additional area of 1886 sq. miles in Assam and NEFA—which is stated to be a promising area—to Oil India Ltd. in 1961 merely on the ground that it secured 50% participation in the Company. This is all the more regrettable as the Oil and Natural Gas Commission had been set up by then and had acquired sufficient know-how and experience in exploration and had even struck oil at Ankleshwar. The area in question should have been earmarked for exploration by O.N.G.C. rather than given to Oil India Ltd. Further the oil produced in that area was meant to be used by public sector refineries at Gauhati and Barauni. It was therefore only appropriate that production of this crude should have been in the public sector. If the cooperation of private enterprise was still considered necessary it should have been on the basis of majority participation and control of the undertaking by Government as specifically required in the Industrial Policy Resolution, 1956. The Committee suggest that even now Government should examine the possibilities of securing majority participation in Oil India Ltd.

## II

### EXPLORATION AND PRODUCTION

2.1. At present the Oil India Ltd. holds mining leases over an area of 510 sq. miles and exploration licences over an area of 761 sq. miles as per details given below :

#### *Mining Leases Areas*

	Sq. miles
Naharkatiya .. .. .	0.55
Naharkatiya Extension .. .. .	64.00
Hugrijan .. .. .	280.00
Moran .. .. .	165.80
	<hr/>
	510.35

#### *Exploration Licences Area*

Dum Duma ..	548.00
Ningru ..	213.00
	<hr/>
	761.00

2.2. Mining lease over Naharkatiya (0.55 sq. miles) was granted to Assam Oil Company on the 21st January, 1954. Mining leases over Naharkatiya Extension (64 sq. miles), Hugrijan (280 sq. miles) and Moran (165.80 sq. miles) were granted to Oil India Ltd. on the 10th January, 1961. The mining lease over Naharkatiya area was subsequently transferred by Assam Oil Company to Oil India Ltd.

2.3. It has been stated in the Eighth Annual Report of Oil India Ltd. that the mining lease over Naharkatiya extension area is for a period of 30 years and over Hugrijan and Moran areas for 20 years.

2.4. As regards exploratory licences, it has been stated that the Oil India Ltd. applied in September, 1961 to the Government of Assam for a petroleum exploration licence over Dum Duma (Assam) covering an area of about 1291 sq. miles and over Ningru (NEFA) covering an area of about 595 sq. miles. Letters of grant of licences for the Dum Duma area and the Ningru area were given with effect from the 16th January, 1963 and 27th November, 1963 respectively.

#### **A. Delay in execution of M/L/PEL Deeds**

2.5. Formal mining leases and formal petroleum exploration licences for these areas are still stated to be under discussion with the Government

and have not yet been executed. Meanwhile these areas continue to be operated under letters of grant of mining leases and letters of grant of petroleum exploration licences.

2.6. The present position regarding the execution of formal deeds is given below :

(i) *Mining Leases*

(a) *Naharkatiya* : The formal mining lease deed was executed on the 12th January, 1961 and registered on the 1st May, 1961. Draft rectification deed for the royalty clause was approved by the Ministry of Petroleum and Chemicals, New Delhi on the 14th March, 1967. The matter is now pending with the State Government for execution of the document.

(b) *Naharkatiya Extension/Hugrijan/Moran*: The final draft mining lease deeds were approved by the Ministry of Petroleum and Chemicals, New Delhi on the 14th March, 1967. The matter is now pending with the State Government for execution of the documents.

(ii) *Exploration Licences*

(a) *Ningru Petroleum Exploration Licence* : The matter is pending with the Central Government for finalisation of the outstanding clauses 23 and 26 (Part II) of the draft deed.

(b) *Dum Duma Petroleum Exploration Licence*: It is expected that once the Ningru deed is finalised, the Dum Duma deed will be based on the same lines.

2.7. Explaining the reasons for delay in execution of these licences and leases, the Secretary of the Ministry stated during evidence that the leases are really to be executed between the State Government and the lessee. In this case the Assam Government has delayed or deferred the execution of certain leases primarily with an eye to the problem of royalty and how exactly provision could be written into the lease for variations in royalty rates from time to time. He further stated "We have recently decided to take some enabling power to enforce compulsory modifications of leases in the event that royalty rates are varied from time to time. This would overcome one of the factors that have been responsible for delays. But the delay in execution of these leases or licences has not had any other prejudicial effect on finance or otherwise." To achieve this objective the Government is contemplating to bring forth some legislation.

2.8. The Committee note that the letter of grant of mining lease over Naharkatiya was given in January, 1954 and these over Naharkatiya Extension, Hugrijan and Moran were given in January, 1961. Similarly the letters of grant of exploration licences over the Dum Duma and Ningru areas were given in January, 1963 and November, 1963 respectively and in

terms of clause 5 of the Second Supplemental Agreement will be valid for a term of six years i.e. till January 1969 and November, 1969. They note that these areas are still being operated under letters of grant of mining leases and exploration licences. The Committee are concerned at the inordinate delay in the execution of formal mining lease deeds and petroleum exploration licences for these areas. They are not convinced by the reasons given for the delays in executing the formal deeds. It appears that serious efforts have not been made to resolve the difficulties in the way of finalisation of these deeds because the non-execution of the leases and licences is stated to have had no prejudicial effect on finance or otherwise. The Committee consider that there should not be a long time-lag in the giving of letters of grant and the execution of formal deeds. The Committee urge that Government should take effective measures to resolve the difficulties in the way of finalisation of these leases and licences and that the same should be executed without further delay.

2.9. The Committee further note that there has also been delay in the giving of letters of grant of exploration licences for the Dum Duma and Ningru areas. Although the application for these areas was made by the Oil India Ltd. in September, 1961 the letters of grant were given in January and November, 1963 respectively. Since according to the Second Supplemental Agreement of July, 1961 the term of the exploration licences over these areas was fixed at the maximum of 6 years, the delay in the issue of letters of grant of licences has naturally affected the progress of exploration in these areas.

2.10. The Committee also note that mining lease over Naharkatiya Extension Area has been given for 30 years while the same over Hugrijan and Moran has been given for 20 years only. According to Rule 12 of the Petroleum and Natural Gas Rules, 1959, the term of a lease is ordinarily 20 years. The Committee would like to be informed of the reasons of giving the mining lease over Naharkatiya for a period exceeding 20 years.

### B. Exploration Licences

2.11. Clause 5 of the Second Supplemental Agreement, 1961 regarding the Exploration Licences over 1886 sq. miles reads as follows :

“Oil India will apply for and on application will be granted by the appropriate authority petroleum exploration licences covering the area of approximately 1886 sq. miles shown on the map attached hereto (hereinafter referred to as “Area A”) such licences to be for the term

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\*At the time of factual verification, the Ministry have stated that the P.L. over Naharkatiya Extension was granted in February, 1954 under the Petroleum Concessions Rules, 1949 which originally provided for a 30-year Mining lease. Subsequently, Rule 51 of the P.C. Rules was amended in March, 1955 reducing this period to 20 years. As Hugrijan and Moran P. Ls. were granted in August, 1955 (i.e. after the amendment of Rule 51) the M.L. over these areas was given for a period of 20 years only.

of six years and subject to the condition that Oil India will surrender seventy-five per cent of Area A (but reduced by any area or areas in respect of which a petroleum mining lease or mining leases shall have been applied for by Oil India as hereinafter provided) within four years from the commencement of the term of the last licence issued and the remaining twenty-five per cent of Area A (less any area or areas in respect of which a petroleum mining lease or mining leases shall have been applied for by Oil India as hereinafter provided) within six years from the commencement of the term of the last licence issued."

2.12. Particulars regarding the giving of letters of grant for exploration licences in Dum Duma and Ningru areas and the relinquishment of the areas, are given in the following table :

	Total Area (sq. miles)	Date of grant of letter of prospecting Lic.	Area relinquished (sq. miles)	Effective from	Balance area in hand for exploration (sq. miles)
Dum Duma PEL	1,291	16-1-63	469 274	16-1-66 16-1-67	548
Ningru PEL	595	27-11-63	248 134	27-11-65 27-11-66	213
	1,886		1,125		761

2.13. It will be seen that out of the total area of 1886 sq. miles, an area of 1125 sq. miles has since been relinquished by Oil India Ltd. leaving an area of 761 sq. miles (Dum Duma 548 sq. miles and Ningru 213 sq. miles) still with them.

2.14. According to the Second Supplemental Agreement the Oil India Ltd. should have surrendered by 16th January, 1967, 968 sq. miles in the Dum Duma area and by 27th November, 1967, 446 sq. miles in the Ningru area leaving a balance of 323 sq. miles in the Dum Duma area and 149 sq. miles in the Ningru area i.e. a total of only 472 sq. miles. Against this the area held by the Oil India Ltd. is still 761 sq. miles. It indicates that\*

\*At the time of factual verification the Ministry have stated that under Clause 5 of the Second Supplemental Agreement the exploration licence (referred to as area 'A') covers an area of 1886 sq. miles. This area is not divided into Dum Duma and Ningru areas but is referred to as area 'A' of 1886 sq. miles. 75% of this area is to be surrendered "within 4 years from the commencement of the term of the last licence issued." The last licence was issued on 27-11-1963. Therefore, Oil India Limited is required under Clause 5 of the Second Supplemental Agreement to surrender an area of 1414 sq. miles by 27-11-1967. In addition to the areas mentioned in para 2.12 of the Report, an area of 290 sq. miles was relinquished by Oil India Limited on 26-11-1967, thereby reducing the balance left with Oil India Limited to only 471 sq. miles as on 27-11-1967 which is in accordance with Clause 5 of the Second Supplemental Agreement.



Government has not been vigilant in getting the terms of the Second Supplemental Agreement implemented in this regard. Viewed against the slow progress in the work of exploration and prospecting *in these areas* by Oil India Ltd. (referred to in para 2.23) and the need to establish large reserves of petroleum in the country, the Committee would like the Government to keep a close watch over the progress of exploration and prospecting by Oil India in these areas and to have them relinquished in accordance with the agreement so that these "promising areas" could be explored by O.N.G.C. or other suitable organisations to meet the country's needs.

### C. Progress in Prospecting and Exploration

2.15. Clause 18 of the Second Supplemental Agreement of July, 1961 provides for the preparation of an immediate programme of prospecting in the Dum Duma and Ningru areas in the following words :

"The Burmah Oil Company will submit to Oil India an immediate programme costing approximately Rs. 2,00,00,000 covering two years prospecting in Area A involving a minimum of six party months of seismic survey and six test wells. It is estimated that the first well could commence drilling within six months from the date when the petroleum exploration licences referred to in Clause 5 hereof are granted to Oil India."

2.16. In accordance with the provision of this clause, three programmes for drilling of exploratory wells in these areas are stated to have been submitted since 1963. Details of these programmes, amount involved in each programme and the progress made in regard to each programme are indicated below :

*Oil Exploration Programme—Targets and Achievements*

	PHASE I			PHASE II			PHASE III			
	Target	Estimated cost Rs. lakhs	Achievements 1963-65	Cost Rs. lakhs	Target	Estimated cost Rs. lakhs	Achievements 1965-67	Cost Rs. lakhs	Target 1968-69	Estimated cost Rs. lakhs
Geological/ Seismic work	upto 15½ party months	216	1410 line miles	58.24						
Drilling	Prepare/ drill 7 wells		5½ wells (74,636 ft.)	175.82	3½ wells	107	3 wells (46,821 ft.)	101.15	6 wells (60,000 ft.)	230* (Rs. 36 lakhs in foreign exchange balance in Rs.)

\* Plus cost of equipment estimated at 43 lakhs (Rs. 36 lakhs in foreign exchange).

2.17. It has been stated that the programme was submitted by Burmah Oil Company pursuant to Clause 18 of the Second Supplemental Agreement in 1961 and that the delay in implementation of the programme is due to the delay in the granting of petroleum exploration licences in 1963.

2.18. As regards the results of drilling in the exploration licence areas, it has been stated that out of the  $8\frac{1}{2}$  wells drilled so far, only one well has found some minor commercial oil accumulation and one well has some minor commercial gas/condensate accumulation; one well is under test.

2.19. The Ministry have stated in a written reply that no final conclusion can be drawn about the possibility of finding oil fields in Dum Duma and in Ningru areas till the second phase of the exploration is completed. Drilling has yet to be carried out on other structures within the 761 sq. miles still held by the Oil India Ltd.

2.20. Justifying the achievement on the part of the Oil India Ltd. the Secretary to the Ministry of Petroleum and Chemicals stated: "As regards the exploration wells which have been drilled during a period of time, I would say that the exploration well takes a long time. Oil India also has been working with limited number of rigs and only one of the rigs has been deployed for exploration. The others have been used for the developmental drilling in the Naharkatiya, Moran and other areas. Within this frame, I think the drilling of nine exploration wells with one rig in six years is, in my opinion, satisfactory."

2.21. When asked why more equipment could not be deployed, the witness informed the Committee during evidence that "once Oil India is in business by producing oil, the exploratory expenditure is written to the revenue account all of which goes into the computation of this 9 to 13%. That includes the subsidies paid, if any. There is, therefore, need that they go about this with a certain degree of prudence." He further stated "you could, of course, go on spending easily. One of the consequences of that would have been to inflate the current expenditure to be recouped out of the production because that is the scheme of accounting... what size of exploration programmes should be carried on and what money should be spent are matters of real relevance in dealing with the question of the year to year expenditure and the problem of making up the shortfalls as also the guaranteed return." He also informed the Committee that the Government alone was not responsible in slowing down the exploration programme but there was another party, namely, the Burmah Oil Company whose agreement is also necessary for the expenditure of money.

2.22. The Petroleum Exploration Licence for this 1886 sq. miles was given to the Oil India Ltd. in 1963 and is due to expire by 1969. So far, the Secretary informed the Committee, 9 wells have been drilled with only partial results. There was, however, a hope that the Company will find

oil and that the result was going to be a satisfactory one. In case the company fail to achieve the objective, they will have to surrender the area in 1969 and Government will be under no obligation to grant lease to the Oil India even if an application is received to that effect.

2.23. The Committee observe that even after seven years of the signing of the Second Supplemental Agreement and five years after the giving of letters of grant for prospecting, no reserves of oil have been found in the Dum Duma and Ningru areas which were stated to be very "promising areas" and for which Burmah Oil Company was very anxious to take prospecting licences. The drilling of 8½ wells in these areas during these years speaks for itself and is by no means a satisfactory achievement particularly for an experienced organisation like Oil India Ltd. It thus appears that the Oil India Ltd. have mainly concentrated their efforts in the proved areas for the production of crude. It leaves one with the impression that no serious efforts to explore oil in these new areas have been made. Clause 18 of the Second Supplemental Agreement (1961) gives the impression that at that time the prospecting programme in this area was considered as urgent. The Burmah Oil Company was required under its terms to submit an *immediate* programme costing approximately Rs. 2 crores covering 2 years for prospecting in these areas. But when it came to action, this immediate programme was delayed by about 2 years on account of the delay in giving the letters of grant for exploration licences. Even thereafter, the progress of exploration in these new areas has been very slow. Due to various factors only one rig was deployed by Oil India Ltd. in these two areas. It may be that Oil India Ltd. is in no hurry to prove more reserves of oil in this area as they are already in a position to meet their commitment to supply 3 million tonnes of oil annually to the Gauhati, Barauni and Digboi refineries from their proved reserves. When a company is assured a guaranteed return of 9 to 13 per cent on their equity capital there is no incentive left to intensify exploration efforts immediately.

2.24. The Committee consider that in order to reduce the wide gap between the demand and supply of crude in the country as well as the need to meet the additional requirements of the Barauni and Haldia refineries, it is imperative that oil potentiality of these areas is assessed urgently by accelerating and intensifying the exploration programme. If Oil India Ltd. is unable to step up their exploration programme on account of their various limitations, Government should seek the relinquishment of these areas so that the exploration work in these promising areas may be entrusted to the Oil and Natural Gas Commission.

#### D. Progress of drilling in Mining Lease Areas

2.25. Since its incorporation in February, 1959, Oil India Ltd. has drilled several outsteps/extension wells to prove the limits of the established productive areas of Naharkatiya, Hugrijan and Moran.

2.26. As on the 31st August, 1967 total number of wells drilling by Oil India Ltd. in Mining Lease areas is 249, of which 50 were taken over from Assam Oil Company.

2.27. It has been stated that in the mining lease areas, the following drilling programme was planned during the period 1961 to 1965 (Third Plan period) :

	Number of wells	
	<i>Planned</i>	<i>Actual</i>
Mining Leases Areas .. .. .	134½	126

2.28. The Ministry have stated that shortfall by about 6% of the target was mainly due to unexpected drilling difficulties in some of the deviated wells, unusual floods and Chinese hostilities in 1962.

2.29. The target is expected to be achieved in the Fourth Plan period, provisional details of which are also given below :

	Dev.	Inj.	Expl.		Total
			M/L	PEL	
1966 ..	23	—	—	2	25
1967 ..	12	3	2	2	19
1968 ..	10	5	1	2	18
1969 ..	10	6	—	2	18
1970 ..	10	6	2	—	18
	65	20	5	8	98

2.30. The Committee are happy to note that targets for drilling of wells in the mining lease areas, have been mostly achieved by Oil India Ltd. except for shortfall to the extent of 6% which is expected to be made good during the period 1966—1970.

### E. Improved Drilling Techniques

2.31. Oil India Ltd. is working with only four rigs—two of which are stated to be twenty years old and two thirteen years old. Oil India Ltd. has taken following steps to increase the operational time and decrease the idle time of rigs :

- (i) Geological methods of obtaining sub-surface information were improved so that a very small demand was made on the drilling outfits' time. Regular coring in the conventional way,

formation testing, etc. were considerably reduced and correspondingly the capacity of the staff to interpret drill-cutting evidence and geophysical well-bore surveys were improved to the point where they furnished almost though not quite the same amount of information.

- (ii) Freed from geological demands of taking frequent conventional cores, drillstem tests etc., the drilling, engineering and transportation departments could concentrate on devising ways and means of improving the general mechanics of drilling to the point where
- (1) each bit was made to drill for a longer period at a faster rate, and
  - (2) there was a drastic reduction in the idle time the outfit spent in moving from one location to another.
  - (3) drilling crew effort was effectively used in such a way that when one rig was moving, the crew effort was utilised in another rig.

2.32. Oil India Ltd. has also adopted specialised drilling techniques developed elsewhere to local conditions.

Mud engineering has evolved to a high degree of efficiency. Suitable local clays were discovered which permitted the making of mud (indispensable in oil-well drilling) without much chemical treatment. Apart from reducing the mud cost to less than 2% of the total well cost, the new mud policy satisfied the logistics of well completion schedules.

A standard hydraulics policy for optimum use of rig potential has been devised. The objective is to get a maximum economic penetration by the bit and this has been achieved by the introduction of jet drilling with maximum horse-power delivered at the bit.

For drilling of inaccessible locations, the techniques of deviation drilling has been employed.

With sub-surface conditions known and producing horizons defined, it has been possible to :

- modify casing policies to eliminate trouble strings and to design casing strings as light as possible.
- simplify well-head/blow out preventor hook-ups and improve on well-head fittings.
- standardise on types of bits, wire lines etc. so as to simplify stores procedures.

2.33. It is stated that the development drilling in Oil India's mining leases is marked by an emphasis on applying specialised drilling techniques

which was introduced by Oil India Ltd. in 1962-63 with the object of developing the field economically and speedily. These are popularly known as— (i) dual completion wells which produce oil simultaneously from two separate oil horizons in the same well and (ii) deviation wells.

**2.34. The Committee commend the efforts of Oil India Ltd. in successfully adopting some of the drilling techniques especially the technique of deviation drilling of inaccessible locations and dual completion drilling with a view to producing oil simultaneously from two separate oil horizons in the same well. They are also happy that the Company has taken effective measures to increase the operational time of rigs.**

#### F. Production of Crude

2.35. The Third Plan envisaged that Oil India Ltd. would be in a position to produce about 2.75 million tonnes crude per annum from its oil-fields by the end of the Plan period. This target was within reach, but actual production in 1965-66 was lower because the Barauni refinery was not able to operate at its designed 2 million tonnes capacity during the year. The actual production of crude by Oil India Ltd. in 1965-66 was only 1.89 million tonnes.

2.36. It has been stated that the production potential of Oil India Ltd. is 3.00 million tonnes per annum and field potential has been built up to a point where it can deliver this quantity to the refineries. During August, 1967 the oil-fields were on their rated capacity of 3.00 million tonnes per annum and this rate can be maintained provided the refineries continue to take oil at this offtake rate.

2.37. The potential availability of crude oil in Oil India's fields as on the 1st January, 1967 is stated to be as under :

	Million tonnes
Cumulative production	.. 7.9
Proved reserves	.. 35.4
Indicated reserves	.. 11.2
	<hr/>
TOTAL	54.5
	<hr/>

2.38. It has been stated that with these reserves and with pressure maintenance scheme, the Company is instituting now, it is expected that oil will continue to be produced for the next 15-20 years (although at progressively declining rate).

2.39. During evidence the Secretary of the Ministry also informed the Committee that the present production capacity of crude oil per annum of the Oil India Ltd. is 3 million tonnes as against a quarter million tonnes of

actual production and one million tonnes capacity of the Assam Oil Company immediately before the formation of Oil India Ltd. in 1959.

2.40. The Committee are glad that the Oil India Ltd. has been in a position to supply crude at the stipulated quantity to the Gauhati and Barauni refineries. They regret that the shortfall in production has been due to the inability of these refineries to operate at their rated capacities. The Committee have dealt with this matter in para 2.52 of this report.

### G. Supply of Crude to the Refineries

2.41. Based on the indigenous availability annually of 2.75 million tonnes of crude oil in Assam area the establishment of two refineries in the public sector with a total throughput capacity of the same order was included in the Second Plan towards the end of 1958. The first of these two refineries with a capacity of 0.75 million tonnes, was established at Nunmati (near Gauhati) in Assam. The second with a capacity of 2 million tonnes was established at Barauni in Bihar.

2.42. According to Clause 7 of the Second Supplemental Agreement, Oil India Ltd. is to supply 2.75 million tonnes of crude to the Indian Oil Corporation and thereafter, to supply up to a maximum of 435,000 tonnes per annum to Assam Oil Company "to the extent that it cannot be economically met from Assam Oil Company's leased areas".

#### *Gauhati Refinery*

The Gauhati refinery was originally envisaged to go on stream in the last quarter of 1961 but trial runs started in October, 1961 and Refinery was commissioned on 1-1-1962. Though the expected full throughput of crude oil was 0.75 million tons per annum, they have taken the following quantities :—

	(In million tonnes)						
	1961	1962	1963	1964	1965	1966	1967
Anticipated	—	0.59	0.75	0.75	0.75	0.75	0.75
Actuals	*0.05	0.19	0.46	0.76	0.79	0.72	0.51
						(up to 31-8-67)	

\*By tank wagons.

#### *Barauni Refinery*

According to the initial estimates provided to Oil India Ltd. by Government/IOC the first phase of the Refinery was to have been ready for trial runs in October, 1962 and the second phase by June 1963. Subsequently these estimated dates were revised. The first phase was com-



pleted for testing in June 1964, when crude oil supplies through the pipeline commenced. Supplies taken by the refinery are as follows :—

(In million tonnes)

		1963	1964	1965	1966	1967
Anticipated	..	1.095	2.0	2.0	2.0	2.0
Actuals	..	—	0.17	0.60	1.05	0.99
					(up to 31-8-67)	

*Digboi Refinery (throughputs)*

(In million tonnes)

	1961	1962	1963	1964	1965	1966	1967
Anticipated	0.27	0.29	0.29	0.25	0.25	0.25	0.25
Actuals	0.27	0.29	0.30	0.32	0.35	0.36	0.27
						(up to 31-8-67)	

*Total Refinery Supply Pattern*

(In million tonnes)

	1961	1962	1963	1964	1965	1966	1967
Anticipated	0.27	0.882	2.135	3.0	3.0	3.0	3.0
Actuals	0.32	0.48	0.76	1.25	1.74	2.13	1.77
						(up to 31-8-67)	

2.43. It has been stated that Gauhati Refinery experienced some teething troubles and full throughput could not be realised during the years 1962/63. From the year 1964 onwards the throughput of Gauhati Refinery has been satisfactory. The offtake of the Barauni Refinery has been irregular. Regular offtake rate of 2.0 million tonnes per year has not been realised, though the Refinery has started taking at nearly this rate recently. So far as Digboi refinery is concerned there has been no default.

2.44. Asked whether there had been any delay on the part of Oil India Ltd. to supply crude to the refineries, it was stated that there had been no delay or default in the supply of crude by Oil India Ltd. to the Refineries as per the terms of the agreement except that there was a slight delay in the commissioning of the pipeline upto Gauhati to meet requirements during trial runs of the Refinery. Supplies were then made by tank wagon delivery, amounting to 82,000 tonnes and the extra freight amounting to Rs. 24 lakhs was borne by Oil India Ltd.

2.45. During the Fourth Plan period the following quantities of crude oil are expected to be delivered by Oil India Ltd. to the refineries at Barauni, Gauhati and Digboi.

	(In mil. tonnes)				
	1966*	1967	1968	1969	1970
Crude Oil Production.. ..	2.14	2.75*	3.00	3.00	3.00
<i>Deliveries</i>		(approximate figures)			
Gauhati	0.72	0.76	0.75	0.75	0.75
Barauni	1.05	1.60	2.00	2.00	2.00
Digboi	0.36	0.39	0.25	0.25	0.25
	2.13	2.75	3.00	3.00	3.00

\*Figures under this column are actual.

2.46. The reasons for marginally higher offtake of crude oil by Digboi Refinery during 1966 and that expected in 1967 are attributable to :

- (a) Low offtake of crude oil by Barauni refinery; and
- (b) Supply of crude oil by O.N.G.C. to the Government refineries.

It has been stated that Digboi Refinery will require around 0.4 million tons per annum of Oil India crude from 1968 onwards. The question of how this quantity will be supplied, is still under consideration.

2.47. It will be seen from the statements given above that the actual offtake of crude oil by the Government refineries has been very low. The offtake of Gauhati Refinery during 1962 and 1963 was 0.65 million tonnes as against anticipated offtake of 1.34 million tonnes. The offtake of Barauni refinery during the period from 1963 to 1966 was 1.82 million tonnes against 7.095 million tonnes anticipated.

2.48. Asked whether it was not possible for the Government of India to foresee in 1961 that offtake of crude by Government refineries would be low in the initial years, the Secretary of the Ministry informed the Committee during the course of evidence that when the negotiations in respect of conclusion of Second Supplemental Agreement were going on, Government did obtain in writing from the Indian Refineries an estimate of the commencement of operations in 1962 at various times in Gauhati and Barauni. He further stated that Gauhati had already started its trial runs in October 1961. The Government, therefore, did not know that the refinery which was expected to commence its operations at the end of 1961, would have some serious teething trouble in the first year and a half or so which would result in its working much below its capacity. Government never anticipated that the refinery at Gauhati "would end up with a lot of difficulties."

2.49. In regard to Barauni refinery the witness informed the Committee 'Even as late as May, 1961 the Russian advisers had said that the refinery could be started—the first phase—by the end of 1962. The refinery in which there was Russian collaboration was also commissioned by the end of 1962 but it had a lot of troubles which lasted for about a year and a half.'

2.50. Asked about the exact dates when the construction works of Gauhati and Barauni refineries were started, when these were expected to go into operation, when the Government became aware of non-fulfilment of these estimated schedules and when did the Government intimate the revised dates to the Oil India Ltd., the Ministry have stated that the technical designs for the Gauhati refinery were approved in October, 1959. Site preparation commenced and the first consignment of equipment arrived in January, 1960. As for the Barauni Refinery, the construction work started in July, 1960, when the construction of the roads commenced after the site had been selected and land acquired. Originally, the first phase of the Barauni refinery was expected to be on trial runs in October, 1962 and the second phase by April, 1963 and the Gauhati Refinery was expected to commence operation during the last quarter of 1961. It would therefore, be seen that at the time of signing of the Second Supplemental Agreement in July, 1961, it was expected that the Gauhati Refinery would be working from 1st January, 1962 and the Barauni Refinery (1 million tonne unit) during the last quarter of 1962. Hence, it was not known at that time that the offtake of the refineries would be very much below the optimum offtake of 2.75 metric tonne per annum for several years. It was assumed that for a year or two, a small retrospective adjustment might become necessary.

2.51. On the 9th December, 1961, the Indian Refineries Ltd. advised the Government of India and the Oil India Ltd. that the Barauni Refinery would be ready to receive crude for trial runs during December, 1962. Thereafter, the completion date was however postponed several times and the actual commissioning of the 1 million tonne unit took place in July, 1964.

**2.52. The Committee regret to note that on account of the teething troubles of the Gauhati Refinery and the inordinate delay in the commissioning of the Barauni Refinery, the offtake of crude from Oil India Ltd. was reduced considerably during the years 1962 to 1966 which resulted in the payment of heavy subsidies to the Oil India Limited which have been referred to in para 3.40 of the report. It is unfortunate that the initial difficulties in the commissioning of the refineries which were new industries in the public sector, were not anticipated by Government at the time of entering into the Second Supplemental Agreement. The Committee are surprised that neither the Indian Refineries Limited which was responsible for the com-**

missioning of the Barauni Refinery nor the Administrative Ministry concerned became aware of the delays of about 2 years in the commissioning of the first phase of the Barauni Refinery, in July, 1961 when the Second Supplemental Agreement was entered into. Considering that practically all public sector projects have experienced delays in commissioning and suffered from teething troubles, the optimism of the Government that the public sector refineries at Gauhati and Barauni would start functioning and achieve their rated capacity on schedule, was hardly justified. The Committee feel that this is no hindsight. It has been the general experience of Government that delays occur in the setting up of public sector projects. Government could have been more careful in assuming that the refineries would be commissioned in time and would be in a position to take supplies of crude at the stipulated rates. This aspect has assumed particular importance in this case as the delays in commissioning of the refineries have resulted in payment of heavy subsidies to the Oil India Limited, which could have been avoided.

#### H. Need for Augmenting supply of crude

2.53. According to the present programme of crude oil production by Oil India Ltd., the Barauni Refinery is to be supplied 2 million tonnes of crude per year. The Government have decided to increase the capacity of Refinery to 3 million tonnes.

2.54. When asked as to how the additional requirement of one million tonnes of crude of the Barauni Refinery is proposed to be met the Secretary of the Ministry informed the Committee during evidence that this will be met to the extent possible by increased supplies from ONGC's oilfields in Assam or Oil India, as the case may be. He further stated that it was not possible at present for Oil India Ltd. to produce over 3 million tonnes per annum as the reserve available with them do not permit to produce beyond that extent. ONGC may, however, be in a position to supply some crude from its oil fields in Assam to the Barauni Refinery. And to the extent of shortfall the Barauni Refinery either must operate at a lower than 3 million tonnes capacity or import crude. This year the Refinery may operate at the level of 2½ million tonnes from which the additional requirement of ½ million tonnes of crude is likely to be met from Rudrasagar and Lakwa oil fields of ONGC in Assam. In the year 1960-70 when the Refinery may operate at its full capacity of 3 million tonnes Government may have to import certain quantity of crude. However by 1970-71 when it is expected that the above mentioned oil fields of ONGC are likely to produce about 1½ million tonnes of crude the additional requirement of one million tonnes of Barauni can be met.

2.55. The Committee have already recommended intensification of exploration work in Dum Duma and Ningru areas in Assam and NEFA where the prospects of finding oil are considered to be bright. They hope that

with determined efforts it would be possible to find reserves of oil in these areas which would enable additional crude supplies to be made to the Barauni Refinery. The Committee urge that in the mean time Oil India Ltd. and ONGC together should make concerted efforts to increase their output of crude so as to meet the full requirements of 3 million tonnes of crude for Barauni Refinery by indigenous supplies.

### I. Crude Conditioning Plants

2.56. The crude oil from Nahorkatiya and Moran contains high percentage of paraffin wax and becomes almost solid during winter months. In order to make the viscous crude oil pumpable, the Crude Conditioning Plants at Nahorkatiya and Moran were set up in April, 1963 and February, 1964 respectively. These plants which cost the Company about 2 crores of rupees are stated to be first of their kind in the World.

2.57. The Crude Conditioning Plant subjects the crude to a controlled heating and cooling process by which the crude is made pumpable through a buried pipeline even under extreme winter condition.

2.58. The Ministry have in a written note, stated that these plants were necessary for making it possible to pump oil to the refineries from the oilfields.

2.59. Prior to supplies to Indian Oil Corporation, crude oil was being supplied to Digboi Refinery only which is about 38 Km. away.

2.60. Asked about the economies of these plants, it has been stated that there are alternative methods by which the same result can be achieved, but the question of economics comes in. The Assam Oil Company, transports its waxy crude from the field to the refinery over a distance of nearly 10 miles by heating the entire length of line by steam during winter months. A similar process was used by a major oil company a few years back in Sumatra. The total length of this pipeline is only 145 Km. and the entire crude oil line is heated by another line running underneath carrying hot water. In addition to the cost of the duplicate line which is only one size smaller than the crude oil line, the distance between two pump stations is only about 32 Km. compared to 128/145 Km. in case of Oil India Ltd. Also, arrangements have been made for producing hot water at intermediate points. If Oil India Ltd. had adopted this method here for their pipeline, it would have probably put up their pipeline project cost by 40-50 per cent (*i.e.* 18-21 crores).

2.61. More recently another major oil company also working in the Far East has solved the same problem in a different way, namely, by emulsifying the crude oil in the field with excess of water, transporting it through the pipeline and breaking the emulsion at the other end. Here for trans-

porting 2 million tons of crude per year which would be ultimately extended to 3 million tons this company has used a 20" pipeline against 16" and 14". Also the distance between two pump stations is only 58 Km. Besides this, there is quite a big installations of tankage etc. at either end of the pipeline for making and breaking emulsion. If Oil India tried to adopt the same method, their Pipeline Project cost would have probably gone up by 20-25 per cent (*i.e.* 9 to 11 crores). Against this, the cost of the two crude conditioning plants one at Nahorkatiya and the other at Moran come to only about 5 per cent of the total project cost of the pipeline.

**2.62. The Committee are happy to note that the Crude Conditioning Plants of the Oil India Ltd. are the first of their kind in the World and have been in operation for the last four successive cold weather period without giving any trouble.**

### **J. Pipeline Project**

2.63. In terms of clause 12 of the Promotion Agreement, 1958, Oil India Ltd. was required to arrange for the construction in two stages and operation of a pipeline or such other facilities as the Company considered necessary for the transport of the crude oil produced by it to the Government refineries at Gauhati in Assam and at Barauni in Bihar.

2.64. To achieve this object the Burmah Oil Company, (Pipelines) Ltd. had been entrusted with the construction of the project on the terms and conditions laid down in the Agreement dated the 29th October, 1959 between the Government of India and the Burmah Oil Company Ltd. appointing the Burmah Oil Company, (Pipelines) Ltd.

#### **(i) Pipeline Finance**

2.65. The total cost of this project was expected to be about Rs. 45 crores. It had been agreed between the shareholders to raise the necessary rupee finance by means of long-term borrowings.

2.66. The rupee component of the pipeline was financed from the issue of debentures in the Indian market and Government purchased debentures worth Rs. 12.5 crores. Government also provided £ 3 million in foreign exchange for the construction of the pipeline. The balance of the foreign exchange viz. £ 10.25 million was arranged by Burmah Oil Company through the Bank of Scotland which gave a loan to Oil India Ltd. which was under-written by Burmah Oil Company.

2.67. The following are the details regarding date when the construction work was started, original date when the project was to be completed and

the date when the project was actually completed, stipulated date of commissioning the project and its actual date :

*Date when the construction started*

—	Nahorkatiya	Barauni	in November, 1960
	Nahorkatiya	Digboi	in October/November, 1953 (completed on 18-11-54).

Pipeline	Scheduled date of completion	Date on which actually completed	Stipulated date of commissioning	Date on which Pumping to the Refineries through pipeline commenced
16" Sector	End of 1961	Dec.	7-3-1962	26-4-62 30-6-64
14" Sector	End of 1962	Dec.	11-2-1963	There was no stipulated date of commissioning as it depended solely on the readiness of the Refinery to receive crude.

2.68. Giving the reasons for delay in the completion the Ministry have stated in a written note as follows :—

“The reasons for delay in the completion of the 16" Sector of the Pipeline were :

- (i) Exceptionally heavy and unseasonal rainfall in 1961.
- (ii) Transportation difficulties on account of unusual floods on the river Brahmaputra.
- (iii) Deficient rail transport facilities.

The delay in the completion of 14" Sector was due to late delivery of pipes by Hindustan Steel Limited.”

(ii) *Operational and Maintenance Expenditure*

2.69. The actual expenditure on the operation and maintenance of the pipeline system during the last three years is as under :—

Year	Total Expenditure Rs. in lakhs	P/L OIL Rs. in lakhs	I.O.C. (Debit) Rs. in lakhs
1964 .. ..	174.32	*172.0	2.32 (Pipeline commissioned from Oct. 1964-3 months charge)
1965	123.26	115.0	8.26
1966	127.96	116.0	11.96 (Provision for Rly. Security armed guards expenditure estimated for Oct. 1964 to Dec. 1966 3.35 lakhs)

\*Includes cost of normal operations and also the cost of Guarantee team under terms of Pipeline construction contract. B.O.C. (PL) wound up their constructions during 1964.

2.70. In reply to a specific question the Ministry have stated that no complaints have been received about the defective functioning of crude oil pipeline system of the Oil India Ltd. However the Company repaired some leaks, which were to be expected in pipeline operating without in any way affecting the flow of oil and with the loss of only a very small quantity.

2.71. The Committee are glad to learn that the pipeline project of the Oil India Ltd. is one of the most modern pipelines of its kind in the World and that the design has proved its worth in practice.

#### K. Production of Natural Gas and its disposal

2.72. The potential availability of gas (proved and indicated) in Oil India Ltd.'s fields as on 1st January, 1967 is as follows :

Gas (Proved and indicated)	1-1-67 Thousand million cft. (Thousand million cu. metres)
Associated .. .. .	1,046 (30)
Non associated	264 (7.5)
<b>TOTAL</b>	<b>1,310 (37.5)</b>

2.73. It has been stated that gas production varies with the production of crude oil. For a production rate of 8,300 tonnes of crude per day, gas production will be about 67 million cubic feet.

2.74. The disposal of gas is, on an average, as follows :—

	million cft/day
Assam Oil Company .. .. .	7.0
Assam State Electricity Board ..	4.3
Tingri Gas Grid ..	1.0
Small Consumers ..	0.2
	<hr/> 12.5
Oilfield operations ..	6.0
Returned to reservoir ..	2.5
	<hr/> 21.0

The balance of 46 million cft/day gas is being flared daily.



2.75. So far the following agreements with other parties for the supply of different quantities of gas have been executed :

	<i>Duration of Agreement</i>	<i>Quantities of Gas</i>
(i) Tingri Gas	.. 5 years (1-7-65— 30-6-70)	During Tea season up to max. of 50 MMCFT per month. During Tea off-season up to max. of 15 MMCFT per month.
(ii) Nahorkatiya Brick Works	.. 10 years 1-10-64 to 30-9-73)	0.21 MMCFT/day 1st June to 30th November) 0.11 MMCFT/day (1st Dec. to 31st May)

2.76. Agreements in respect of the following parties are yet to be executed :

<i>Name of party</i>		<i>Quantity reserved</i>	<i>Actual Cfr.</i>
Assam State Electricity Board	for	18 MMCFTD	4.3 cu.ft.
F.C.I	for	8 MMCFTD	—
AGC	for	10 MMCFTD	—
Assam Oil Company	for	8 MMCFTD	7

F.C.I. have requested for additional 25 MMCFTD from 1970 onwards. It is proposed to meet this quantity from

NHK 14 MMCFTD  
Moran 11 MMCFTD

#### (i) *Future Targets*

2.77. The gas-oil ratio is not constant figure. It varies with time. Hence the present gas production of 67 million cft/day could be expected to rise to about 87 million cft/day, around 1971.

#### (ii) *Cost of Production of Gas*

2.78. The Committee have been informed that the cost of net production of gas for 1966 was Rs. 17.54 per 1,000 cu. metres and the price charged for gas sold was as under :—

<i>Party</i>	<i>Per 1,000 cu. metres</i>
Assam Oil Co.	Rs. 17.54
Tingri Gas Grid/ Brick Kiln	52.62
Assam State Elec. Board	8.77
Fertilizer Corp. of India	42.10

2.79. It has been stated that the cost of production (excluding return on capital) of Ankleshwar and Cambay gas has been worked out by

Prof. V. K. R. V. Rao, arbitrator on gas pricing, at Rs. 36.73 and Rs. 42.88 per 1,000 cubic metres respectively.

2.80. The selling price of Oil and Natural Gas Commission gas in Gujarat has been fixed by the arbitrator at Rs. 56 per 1,000 cu. metres.

2.81. Asked about the reasons for variations in the prices of gas, charged by the Oil India Ltd. from various customers, it has been stated that these prices are as negotiated between the Company and the consumers. It has further been stated that as soon as the supply to the Fertilizer Corporation commences, the Assam Oil Company will also be charged the same price as charged to the Fertilizer Corporation. The idea is to bring the price charged from A.O.C. more or less on par with the Government consumer *i.e.* the Fertiliser Corporation.

2.82. The Committee note that the cost of production of gas in Oil India Ltd. is Rs. 17.54 per 1000 cubic metres while the same for the Ankleshwar and Cambay gas of the ONGC has been worked out at Rs. 36.73 and Rs. 42.88 per 1000 cubic metres respectively. The Committee are concerned at this wide disparity in the cost of production of gas by the two organisations. They would like the Government to examine whether the elements of cost are worked out on the same basis in the two organisations and if not, to ensure that there is uniformity in working out the cost of production in both these organisations.

2.83. The Committee are surprised that the Oil India Ltd. is supplying gas to the Assam State Electricity Board at 50% of its cost of production and at the actual cost of production to the Assam Oil Company. The Committee see no reason why gas should be sold at a loss to the Assam State Electricity Board and at cost price to the Assam Oil Company. Considering that Government had to pay subsidy amounting to over Rs. 18 crores to the Oil India Limited to make up the guaranteed net return to the Company the sale of gas at half the cost price to the Assam State Electricity Board and at cost price to the Assam, Oil Company is unbusiness like. The Committee note that the sale price to the Assam Oil Company will be brought on par with that of Fertilizer Corporation of India as soon as the supplies are commenced to the latter. They urge that the question of revising the sale price of gas to Assam State Electricity Board may also be examined.

### (iii) Flaring of Gas

2.84. The quantity of gas that is flared depends on the quantity of oil that is produced. The quantity presently flared is of the order of 46 million cubic feet per day. It has been stated that the Company has little control over the flaring and the proper utilisation of the gas depends almost entirely on the satisfactory operation of the projects to which the gas was committed many years ago.

2.85. As regards value of the gas that is flared every day it has been stated that if Oil India Ltd. could sell the gas to consumers at say, Re. 1/- per 1000 cu. ft. the value would be Rs. 46,000/- per day, but since this is not so, the gas itself is valueless, but it still costs the company about Rs. 7,500/- per day to produce it, even though it is then flared.

2.86. As to the reasons for flaring the gas it has been stated that low pressure gas has to be flared in any case as it is not economical to utilise it. As regards high pressure gas, flaring is necessitated as the projects/organisations for which the gas is committed are not lifting the quantity allotted to them.

2.87. Regarding the steps taken to minimise flaring of gas, it has been stated that out of the 1.02 million cu. metres per day committed to Assam State Electricity Board/Fertilizer Corporation of India/Assam Gas Co., only 0.12 million cu. metres per day is presently being taken by Assam State Electricity Board. As soon as the other parties lift the quotas allotted to them in full, flaring of high pressure gas will be reduced considerably. After the proposed expansion of the Namrup Fertilizer Plant comes into effect, there would be no flaring of high pressure gas at all.

**2.88. The Committee urge that all possible avenues should be explored by Oil India Limited for the utilization and sale of the surplus gas which is being flared at present.**

### III

#### FINANCIAL MATTERS

##### A. Capital—Equity and Loans

3.1. Clause 4 of the Promotion Agreement of January, 1958 provides :

- (a) "The initial authorised capital of the Company shall be Rs. 50 crores divided into 5,00,000 equity shares of Rs. 1,000 each. Unless otherwise agreed, all of such shares as may be issued from time to time shall be issued for cash at par, and two-thirds thereof will be applied for and allotted to the Burmah Oil Company and/or its nominee or nominees and one-third thereof will be applied for and allotted to the Government of India and/or its nominee or nominees.
- (b) Within one month from the date of registration of the Company the Government of India and the Burmah Oil Company shall subscribe and pay in cash for and the Company shall issue sufficient shares out of the initial authorised capital to pay to the Assam Oil Company all sums payable to the Assam Oil Company under clause 7 hereof and to provide for the Company's immediate requirements of working capital."

3.2. In pursuance of increase in Government of India's shareholding from 33 1/3% to 50% in Oil India Ltd., the following provisions in regard to equity share ratio and capital were included in the Second Supplemental Agreement of July, 1961 :

"3. The Government of India's holding of equity shares in Oil India will be increased and the holding of The Burmah Oil Company reduced within the period and in the manner hereinafter provided so as to secure that the Government of India and The Burmah Oil Company each holds fifty per cent of the total issued equity share capital of Oil India.

4(A). In order to equalise the equity shareholdings in Oil India of the Government of India and The Burmah Oil Company and to meet the present estimated requirements of Oil India of an issued equity share capital of Rs. 28,00,00,000/- the parties hitherto will procure that within two months from the date hereof :

- (a) Oil India will issue 40,000 additional equity shares of Rs. 1000/- each to the Government of India for payment in cash at par.
- (b) The Burmah Oil Company will sell and transfer to the Government of India 20,000 equity shares of Rs. 1000/- each in the capital of Oil India for cash at par.

(B) It is hereby agreed that the Government of India will permit The Burmah Oil Company to repatriate to the United Kingdom the proceeds of sale of such shares but the actual ways and means of repatriation shall be as agreed hereafter between the Government of India and The Burmah Oil Company.

(C) The Burmah Oil Company has incurred or will incur expenditure on imports covered by licences to the value of approximately Rs. 2,38,00,000/- (of which licences for approximately Rs. 1,38,00,000 have been issued and a licence for approximately 1,00,00,000/- for crude conditioning plant has been applied for) which licences are endorsed to the effect that payment thereunder will rank as a part of The Burmah Oil Company's subscription for shares in Oil India. Since however the Government of India prefers that the issued share capital of Oil India should not be increased for the time being above Rs. 28,00,00,000/- it is therefore agreed that the Government of India will provide the required foreign exchange by the issue of fresh licences of equivalent value with exchange control copies entitling Oil India or Assam Oil Company (as the case may be) to remit the amount payable thereunder to The Burmah Oil Company or the suppliers (as the case may be) and will cancel the former licences endorsed as aforesaid.

(D) If in the opinion of the Board of Directors of Oil India any additional capital facilities are required by that Company other than the pipeline facilities from Naharkatiya to Barauni at present under construction such additional facilities will be met so far as possible out of funds set aside as depreciation or development rebate but insofar as such funds are in the opinion of the Board of Directors of Oil India insufficient the additional capital facilities will be contributed as to fifty per cent thereof by The Burmah Oil Company unless otherwise mutually agreed between them."

(i) *Investment in the share capital of the Oil India Ltd.*

3.3. The paid-up share capital of Oil India Ltd. is Rs. 28 crores, of which shares of the value of Rs. 14 crores each are held by The Burmah Oil Company and Government of India. The details of Government of India's investment in the share capital of the Company is as under :

Year	Rs.
1958-59	4 crores
1959-60	2 crores
1960-61	2 crores
1961-62	4 crores
1962-63	50 lakhs
1963-64	50 lakhs
1964-65	50 lakhs
1965-66	50 lakhs
<b>TOTAL</b>	<b>14 crores</b>

3.4. The amount of secured and unsecured loans, raised by Oil India Ltd. as at the end of December 1964, December 1965 and December 1966 was as under :

	<i>Rs. in crores</i>		
	December 1964	December 1965	December 1966
<b>Secured Loans</b>			
(i) 6½% Debenture stock 1968/71	30.00	30.00	30.00
(ii) Cash credit with State Bank of India ..	10.66	10.99	7.50
<b>Unsecured Loans</b>			
(i) Loan from Bank of Scotland .. .. .	13.69	11.91	15.85
(ii) Loan from Govt. of India under U.K./I.O.C. credit against 1959 .. .. .	4.01	3.01	2.00
(iii) Loan from Govt. of India towards exploration expenditure .. .. .	—	—	.43
	58.36	55.91	55.78

It will be seen that the equity loan ratio in Oil India has been about 1 : 2.

3.5. The loans were raised and debentures were issued to finance the pipeline project. The Government of India purchased debentures worth Rs. 12.5 crores for this purpose and provided 3 million pounds in foreign exchange for the construction of pipeline. The Burmah Oil Company arranged loan for 10.25 million pounds through Bank of Scotland.

3.6. Besides, Government of India who purchased debentures worth 12.5 crores of rupees the following other parties have purchased debentures worth the amount shown against them :

	<i>Rs.</i>
1. Life Insurance Corporation of India .. .. .	7,26,15,000
2. State Bank of India .. .. .	3,00,00,000
3. Unit Trust of India .. .. .	2,00,50,000
4. Industrial Finance Corporation of India .. .. .	2,44,25,000
5. Trustee of the Port of Bombay .. .. .	89,70,000
6. Industrial Credit and Investment Corporation of India Limited ..	60,80,000
7. Oriental Fire & General Insurance Co. Ltd. .. .. .	35,00,000
8. Export Credit & Guarantee Corporation Ltd. .. .. .	10,00,000
9. Indian Guarantee & General Insurance Co. Ltd. .. .. .	10,00,000
10. State Bank of Patiala .. .. .	10,00,000
11. State Bank of Travancore .. .. .	10,00,000
12. Individual Smallholders .. .. .	53,60,000
<b>TOTAL</b> ..	<b>17,50,00,000</b>

3.7. Oil India Ltd. incurred an expenditure of Rs. 99,54,911/- on account of preliminary expenses, debenture issue expenses and sterling loan raising expenses. Break up of this expenditure is indicated below :

<i>Preliminary Expenses</i>		<i>Total</i>
	<i>Rs.</i>	<i>Rs.</i>
1959	2,82,021	
1960	—	
1961	12,000	2,94,021
<hr/>		
<i>Debenture Issue Expenses</i>		
<i>(Issue 30 crores)</i>		
1962 .. ..	69,46,095	
1963 .. ..	1,34,778	70,80,873
<hr/>		
		<i>Rs. lacs</i>
1% under-writing commission + $\frac{1}{2}$ % brokerage		
Rs. 17.50 crores .. .. .		35.00
Stamp Duty .. .. .		23.00
Bank's Commission .. .. .		4.00
Sundries including legal, advertising, printing, etc.		9.00
		<hr/>
		71.00
<i>Sterling Loan Raising Expenses</i>		<i>£</i>
Stamp Duty .. .. .		13,125
Under -writing commission } ..		113,400
Brokerage & Broker's fees }		
Banker's expenses .. .. .		25,000
Miscellaneous .. .. .		42,000
		<hr/>
		193,525
		<hr/>
		25,80,017
		<hr/>
		99,54,911
		<hr/>

3.8. In a written reply the Ministry of Petroleum and Chemicals have stated that the expenditure is not high and is within the normal ratio of floating such debentures on the market.

### (ii) *Equity Capital and Loan Ratio*

3.9. Asked about the equity loan ratio in the Oil India Ltd., the Secretary of the Ministry informed the Committee during evidence "I think there is generally an established relationship between equity capital and the loan capital that is utilised. As far as possible, the choice would be towards raising loan money because the loan capital is generally cheaper, apart from, of course, the fact that in any well-organised company there must be a certain minimum of equity investment. In India we have believed that a ratio of 1 : 1½ or 1 : 2 or even 1 : 2½ between equity and debt is acceptable." It was added that in respect of Oil India Ltd. the present ratio maintained between equity and loan is 1 : 2. Earlier it was 1 : 1½

when the Second Supplemental Agreement was entered into and the issue of subscribed capital of Rs. 28 crores was established, the expectation was that the debt equity ratio would be  $1\frac{1}{2} : 1$ — $1\frac{1}{2}$  of debt and one of equity. Subsequently there have been some additional borrowings and now it is  $1 : 2$ . There is of course another added consideration against increase of equity, to the extent that equity is increased the requirement of a guaranteed return on that equity comes into operation. Therefore, for that reason increase in equity is not likely to be countenanced. Whenever in the subsequent period the question has arisen as to how additional funds should be found, Government's view has been that this should be found by way of increased borrowing so as not to attract the condition of the guaranteed return on equity.

3.10. Although the borrowing ratio of Oil India is comparatively on the higher side yet it would reduce the burden on the company as oil has already been discovered and profitable operation is expected. When questioned as to why borrowing has been resorted to instead of increasing the equity capital of the company to finance capital expenditure, the witness stated that firstly the loan capital both in terms of foreign exchange and rupee account is generally cheaper and secondly the requirements of guaranteed return of 9 to 13% on the equity weighed against the proposition of increase in the equity capital.

3.11. The witness categorically denied that raising of loans in the proportion of  $1 : 2$  has resulted in the increased cost of crude oil on account of payment of interest and repayment of loan instalments. Had the loans not been raised the witness added, the company would have had to raise equity and equity would certainly have imposed more onerous burdens because of the payment of guaranteed returns of dividends.

3.12. The witness further refuted the contention that this high ratio of borrowing has resulted in unduly increasing the value of assets and shares of the company. In this connection he stated that it was the return which really determined the value of holdings from time to time in relation to the Bank rate and the Government borrowing rate.

3.13. The Committee note that the equity and loan ratio in the Oil India Ltd. is  $1 : 2$ . They understand that for public undertakings, Government in 1960, decided on the equity loan ratio as  $1 : 1$ . The Committee consider that the question of deciding equity and loan ratio in Oil India Ltd. is very important as among other things, it has a bearing on the payment of guaranteed return of 9 to 13% on the equity capital. Since the increase in the loan capital also involves payment of interest and repayment of loan instalments which are also charged to revenue account and since most of the loan capital of Oil India Ltd. has been provided by Government or governmental agencies, the Committee would urge that the economics of increasing loan capital or equity capital of this company, a



proper ratio between the two and their long-term and short-term impact on the price of crude oil as well as on the payment of guaranteed dividend should be thoroughly examined by Government and a suitable equity loan ratio determined in consultation with the Burmah Oil Company at an early date.

**B. Assets and Liabilities of Assam Oil Co. taken over  
by Oil India Ltd.**

3.14. Clause 6 of the Promotion Agreement 1958 provides : "The Assam Oil Company shall subject to payment by the Company (Oil India) of all expenses of and incidental thereto also transfer to and/or assign in favour of the company free from all encumbrances created by itself all its assets and properties held by it within and for the purpose of operating in the said Area and the Mining Lease Area also such of its other assets outside the Said Areas and the Mining Lease Area which are used or intended to be used exclusively for the purpose of the operations in the Said Areas or the Mining Lease Area, determined as provided in Clause 7 (2) hereof. The Company (Oil India Limited) shall accept such title as the Assam Oil Company has to the assets and properties hereby agreed to be transferred or assigned."

3.15. Clause 7(1)(2) and (3) *ibid* provides :

"7. (1) The Company shall pay to and reimburse the Assam Oil Company the following sums, that is to say :

- (a) All costs of or in connection with the surveys and explorations under the geophysical licence relating to the Said Areas excluding assets transferred as hereinbefore provided.
- (b) All costs of prospecting and exploring operations in the Said Areas till the date of the transfer excluding assets transferred as hereinbefore provided.
- (c) The cost of the assets and properties transferred to the Company at cost less any depreciation allowance and any development rebate allowed to the Assam Oil Company, or to which the Assam Oil Company may be entitled at the date of transfer, under clauses (vi), (via) and (vib) of sub-section (2) of Section 10 of the Indian Income Tax Act.

Provided that :

- (i) the costs included in the assessment were such as could have been reasonably incurred in the execution of the operation mentioned in sub-clauses (a) and (b) of this clause.

- (ii) such costs of the aforesaid operations referred to in sub-clauses (a) and (b) above as have been already charged to the working expenses of the Assam Oil Company shall not be included in the assessment if they have been allowed as deductions in computing the taxable profits in India of the Assam Oil Company.

(2) The assets to be transferred shall be determined and the sums due under sub-clause (1) shall be assessed prior to the registration of the Company by a Committee consisting of four persons, two to be appointed by the Government of India and two to be appointed by the Assam Oil Company. The Committee may inspect the assets to be transferred and also the accounts of the Assam Oil Company as far as relating to the costs to be paid and the assets to be transferred and the Assam Oil Company shall furnish all necessary facilities to the said Committee for the purpose of the assessment.

(3) The payments and reimbursements to be made to the Assam Oil Company under this Clause shall be paid in cash within one month after the first issue of capital by the Company."

3.16. It has been stated that a sum of Rs. 13.14 crores was paid by Oil India Ltd. to Assam Oil Company for the assets and properties and the costs referred to above. The details are given below :

	(Rs. Lakhs)
(i) Field Development expenditure .. .. .	749.06
(ii) Fixed Assets .. .. .	313.23
(iii) Stores Stock .. .. .	201.30
(iv) Prepaid expenses, security deposits and imprest cash	3.60
(v) Preliminary expenditure .. .. .	2.22
	1,214.41
Liabilities	Nil

The amounts payable to the Assam Oil Company were determined/ fixed as per the recommendations of the Assessment Committees which were set up in accordance with the Promotion Agreement between the Government of India and The Burmah Oil Company.

The members of the Assessment Committees were :

- |  |   |                                  |
|--|---|----------------------------------|
| (i) Shri S. P. Nautial .. .. .                     | } | Representing Government of India |
| (ii) Shri N. Krishnan, Chief Cost Accounts Officer |   |                                  |
| (iii) Shri K. B. Kanuga .. .. .                    | } | Representing B.O.C.              |
| * (iv) Mr. G.N.S. Robertson                        |   |                                  |

\*Mr. Robertson was replaced by Mr. H. Shepherd in the Second Assessment Committee.

3.17. In reply to a specific query as to what measures were adopted to ensure that value of such assets and properties were not over assessed, the Ministry have stated in a written reply that the Assessment Committees had the audited accounts before them and the books of the company. The Committee inspected the assets to be transferred as well as the relative accounts of the Assam Oil Company for the relevant period. The association of the Chief Accounts Officer of the Ministry of Finance on the Committees was meant to ensure that the assets and properties etc. were assessed in a proper manner.

3.18. The Assessment Committees also inspected the godowns, stores yard, records and accounts maintained by the Assam Oil Company. Regarding physical verification of the assets the Ministry have stated "Physical stocks of a number of items were checked with records. The Committee was satisfied that the methods of store keeping used by Assam Oil Company were satisfactory."

### C. Cost of Production of Crude

3.19. In order to determine the cost of production of crude oil by Oil India Limited, various factors like the cost of development of oil fields, magnitude of exploration work to be undertaken in order to maintain the potential of an oil field etc., are stated to be taken into account and all this expenditure has to be borne by the proved reserves of crude oil underground.

3.20. The provisional cost of crude oil up to the year 1983, consisting of seven elements viz.

- (1) Drilling expenditure;
- (2) Production expenditure;
- (3) Amortisation of exploration expenditure and development drilling expenditure incurred in earlier year;
- (4) Interest;
- (5) Miscellaneous expenses;
- (6) Depreciation/Development Rebate;
- (7) Royalty

based on certain assumptions *e.g.*, secondary recovery schemes/infiller drilling etc. has estimated by Oil India Ltd. at about Rs. 40 per tonne. This is stated to be a very very rough estimated, built up on certain envisaged development drilling and production programmes including the secondary recovery, exploration drilling etc., to be undertaken by the Company from 1968 to 1983.

3.21. Comparing the cost of production of crude oil by the Oil India Ltd. with that of the ONGC, the Ministry have informed the Committee in a written note as under :

The cost of Ankleshwar crude oil comprising 9 elements viz.

- (1) Operational cost of production;
- (2) Royalty;
- (3) Depletion of the field;
- (4) Field exploration expenses;
- (5) Amortisation of the expenditure on exploration in other areas;
- (6) Cost of transportation to the point of delivery;
- (7) Sales Tax;
- (8) Handling charges; and
- (9) Octroi duty.

comes to Rs. 57.15 per tonne in 1967.

3.22. It has been stated that while the cost of production of crude by Oil India Ltd. has been worked out on a discounted basis over a period of 15 years, the cost of production in ONGC has been worked out on an annual basis. It has further been stated by Government that the cost of production of ONGC compares very favourably with that of Oil India Limited.

3.23. In formula (B) given in clause 9 of the Second Supplemental Agreement of July 1961, the cost of (i) finding, (ii) production and (iii) transport of crude oil by Oil India Ltd. has been assumed at Rs. 48 per tonne. When asked to give break-up of this estimated cost into each of the three elements, the Secretary of the Ministry informed the Committee during evidence that the break-up was not officially available in any document with the Government of India. However, the break-up given by the Oil India to the Government of India is as follows :

Finding	Rs. 11.40 per tonne
Production	Rs. 8.00 per tonne
Royalty	Rs. 4.60 per tonne
Transportation	Rs. 24.00 per tonne
	<hr/>
	Rs. 48.00 per tonne

3.24. It will be seen that the above break-up includes an element of royalty which was not indicated in the formula given in clause 9 (B) of the Second Supplemental agreement.

*Price of Crude charged from the Refineries*

3.25. The price of crude supplied by Oil India Ltd. to the Assam Oil Company and the public sector refineries at Gauhati and Barauni, during the years 1962 to 1966 has been at the following rates per tonne.

Year	Price charged per tonne to both A.O.C. and public sector refineries
	Rs.
1962 . . . . .	108.92
1963 . . . . .	152.42
1964 . . . . .	126.44
1965 . . . . .	112.37
1966 . . . . .	100.96
1967 . . . . .	97.50 (Approx.)

3.26. The Committee note that while the cost of production of crude has been estimated by Oil India Ltd. on a discounted basis over a period of 15 years, the same in ONGC has been worked out on an annual basis. The Committee have in para 5.25 of their 50th Report (Fourth Lok Sabha) recommended the adoption of a uniform procedure for the collection analysis and compilation of costs by these two organisations.

3.27. The Committee regret to observe that the breakup of the assumed cost of finding, production and transport of crude oil in Oil India Ltd. which was taken as Rs. 48 for the purpose of the Formula given in Clause 9 (B)(c) of the Second Supplemental Agreement, is not officially available in any document with the Government of India. The breakup, given by Oil India Ltd. includes the additional element of royalty which was not included in the original assumptions. Further against the assumed cost of Rs. 48 included in the Formula in 1961, the estimated cost of production of oil consisting of 7 elements has now been worked out at Rs. 40. It appears to the Committee that at the time of working out the complicated pricing formula in 1961, the details of the various elements had not been carefully worked out and considered by Government. The Committee would like to be informed of the reasons why the assumed cost of production of crude in 1961 was taken as Rs. 48 and what were its financial implications when the same works out to about Rs. 40 per tonne now.

3.28. The Committee are unable to appreciate why the price of crude charged by the Oil India Ltd. from the Gauhati, Barauni and Digboi refineries during the years 1962 to 1966 was worked out at abnormally high rates ranging from 100.96 to Rs. 152.42 per tonne when the cost of production of the crude on a discounted basis has been estimated at Rs. 40 per ton only. As the increase in the sale price of crude has resulted in the payment of heavy subsidies by the Government on account of the low offtake of the crude by the refineries at Gauhati and Barauni, the Committee would like to be informed whether feasibility of keeping sale price of crude low by spreading the development and exploration expenditure over a longer

period consistent with the life of oil fields, was examined by Government specially when the crude oil remained underground and the life of the oil-field got prolonged by the lower offtake of crude by the public sector refineries.

#### D. Pricing of Crude and Natural Gas (under Clause 9 SSA)

3.29. At the time of the formation of Oil India Ltd., the following clauses (13 and 15) were incorporated in the Promotion Agreement of 14th January, 1958 in regard to selling price of crude oil produced by the Company to the public sector refineries :

“13. The Company shall sell crude oil produced by it to each of the two refineries sponsored by the Government of India and specified in that behalf. The first of such refineries shall be established at intermediate locality referred to in clause 12 hereof and the second at Barauni. The Government of India shall arrange that the entire crude oil required for each such refinery will be purchased from the Company in so far as the Company may be able to meet the requirements. The delivered price payable by each such refinery shall be either the lowest price delivered at Calcutta at which such crude oil can be secured by the refinery from any alternative source or the cost incurred by the Company together with a reasonable commercial return, whichever is less, such price being fixed by the Company with the approval of the Government of India after examination by the latter of the costs and subject to review in January and July of each year. In determining the cost incurred by the Company for the purpose of this clause, the quantum of such costs and the elements to be taken into account in calculating such costs, shall be as mutually agreed between the Government of India and the Company.”

“15. The price of crude oil for sale by the Company other than to the refineries aforesaid will be an economic price and will be fixed by the Company with the approval of the Government of India.”

3.30. The above basis of pricing of crude was changed in the Second Supplemental Agreement, 1961 and the above-mentioned clauses were replaced by clause 9 in the Second Supplemental Agreement concluded in July, 1961, as follows :

“9. (A)(i) Subject to the provisions of sub-clause (C) of this clause and on the basis (a) that the paid-up capital of Oil India does not exceed Rs. 28,00,00,000 and (b) that the posted F.O.B. Middle East price of equivalent quality crude oil is in the range of Rs. 57—Rs. 63 per ton the price per ton at which crude oil from Area A and Oil India's existing areas will be sold and:

delivered to Indian Refineries Limited's Barauni and Nunmati Refineries and Assam Oil Company's Digboi Refinery will be posted F.O.B. Middle East price of equivalent quality crude oil plus ocean freight [as per Average Freight Rate Assessment (AFRA) award for a general purpose tanker] insurance (comprehensive insurance covering all risks against which shipments of crude oil are generally insured) and ocean loss (at average rate) from Ras Tanura to Calcutta less such a discount on posted F.O.B. Middle East price of equivalent quality crude oil as will secure a return to the shareholders of Oil India of 10.8 per cent on paid-up capital after payment of all taxes (including taxes payable on dividends) calculated in accordance with the Formula set out in sub-clause (B) of this Clause.

- (ii) If the posted F.O.B. Middle East price of equivalent quality crude oil is in excess of Rs. 63 per ton the sale price per ton of such crude oil will be an amount equal to the price calculated in accordance with sub-clause (A) (i) of this Clause on the basis of a posted F.O.B. Middle East price of equivalent quality crude oil of Rs. 63 per ton plus an amount equal to the excess of the actual posted F.O.B. Middle East price per ton of equivalent quality crude oil over Rs. 63.
- (iii) If the posted F.O.B. Middle East price of equivalent quality crude oil is below Rs. 57 per ton the sale price per ton of such crude oil will be an amount equal to the price calculated in accordance with sub-clause (A) (i) of this Clause on the basis of a posted F.O.B. Middle East price of equivalent quality crude oil of Rs. 57 per ton reduced by an amount equal to the difference between the actual posted F.O.B. Middle East price per ton of equivalent quality crude oil and Rs. 57.
- (iv) On any increase in the paid-up share capital of Oil India in excess of Rs. 28,00,00,000 the discount referred to in the preceding paragraphs of this sub-clause will be varied in accordance with the Formula set out in sub-clause (B) of this Clause which for purposes of calculation of discount only assumes certain constant factors and a return to the shareholders of Oil India based thereon of Rs. 10.8 per cent after payment of all taxes (including taxes payable on dividends) on the paid-up share capital.

**(B) FORMULA**

$$\frac{C \times \text{paid up capital}}{3,000,000}$$

$$= A - B + 18.4 + 0.31 - 48$$

Where :

(i) A is the posted F.O.B. Middle East price in rupees per ton of equivalent quality crude oil

and

(ii) B is the actual discount in rupees per ton on the posted F.O.B. Middle East price of equivalent quality crude oil in (i) above.

and

(iii) C is a factor which when applied to the paid-up capital of Oil India will yield to the shareholders of Oil India a return of 10.8% after the payment of all taxes (including taxes payable on dividends).

The figures 18.4, 0.31 and 48 are assumed constant factors (expressed in Rupees per ton) which represent :

(a) 18.4—ocean freight and insurance from Ras Tanura to Calcutta as at the date of this Agreement.

(b) 0.31—ocean loss from Ras Tanura to Calcutta as at the date of this Agreement.

(c) 48—the assumed costs of finding, production and transport.

(C) (a) Notwithstanding sub-clause (A) of this Clause it is understood and agreed that Oil India should be in a position from the profits of each calendar year from 1962 and onwards to pay a dividend to yield a return to its shareholders after payment of all taxes including taxes payable on dividends (currently 20 per cent for dividends payable by Oil India) of not less than 9 per cent and not more than 13 per cent per annum on its share capital paid up as at the last date of the year.

(b) Should therefore the posted F.O.B. Middle East price of equivalent quality crude oil plus freight insurance and ocean loss up to Calcutta less the discount referred to in sub-clause (A) of this Clause be such that the income of Oil India in any year from 1962 onwards (after deducting all costs outgoings and taxes in accordance with the formula set out in the Schedule hereto) is insufficient to enable such a dividend from the profits of Oil India for such a year to be paid then the price to be paid by purchasers of crude oil during such year will be increased *pro rata* by retrospective adjustment so as to permit the payment of such minimum dividend and conversely if on the basis aforesaid the income of Oil India (after making such deductions as aforesaid) gives a dividend of more than 13 per cent then a retrospective discount will be allowed *pro rata* to purchasers of



crude oil during that year of such an amount as will permit the payment of such maximum dividend.

(D) Any other levies on sales e.g. sales tax will be added to the price to purchasers.”

3.31. It will be seen that the original clause 13 of the Promotion Agreement provided for the payment of the price of crude by the refineries either at the lowest price delivered at Calcutta at which such crude can be secured by the refinery from any alternative source or the cost incurred by the Oil India Ltd. together with a reasonable commercial return, whichever is less. Such price was to be fixed by the Company with the approval of the Government of India, after examination of the costs and was subject to review in January and July of each year. The quantum of such costs and the elements to be taken into account in calculating such costs were to be mutually agreed between the Government of India and the Company. Thus the Government had the right to fix the price of crude supplied by the Company either at import parity (Calcutta Port) or at cost plus reasonable commercial return whichever was less. Even the elements of costs to be taken into account in calculating the costs were to be mutually agreed between the Government of India and Oil India Ltd. The reasonable commercial return was also to be determined, with the approval of the Government of India.

3.32. Thus the maximum price that could be paid by the Gauhati and Barauni refineries for the Oil India crude was the import parity price (Calcutta Port). In that eventuality, sales tax on the indigenous crude supplies was to be absorbed by the import parity price and was to be borne by the Oil India Ltd. as there is no sales tax on imported crude. In fact, the sales tax on the indigenous crude supplied by O.N.G.C. to the various refineries is now borne by O.N.G.C. and not the refineries.

3.33. There was also no commitment of offtake of specific quantities of crude from any year and no guarantee of any dividend to the Company.

3.34. Under the revised formula for fixing the price of crude incorporated in clause 9 of the Second Supplemental Agreement, 1961, (i) the price of crude has to be fixed in such a way so as to guarantee a minimum return after payment of all taxes, including taxes payable on dividend, of not less than 9 per cent and not more than 13 per cent per annum on the paid up share capital.

(ii) The return has been guaranteed from 1962 onwards irrespective of the offtake of crude by the refineries.

(iii) Sales tax has been made payable by the purchasers.

(iv) A complicated formula for calculation of price and discount has been introduced in clause 9 (A) and (B).

(v) In case the price fixed in accordance with the formula is insufficient to give a profit of less than 9 per cent to Oil India Ltd., the purchasers of crude are made responsible to make good the difference by increase in the price and conversely if the profits are more than 13 per cent, a discount in price is allowed to the purchasers of crude.

(i) *Payment of Dividend*

3.35. As a result of the provision made in clause 9(C) (a) of the Second Supplemental Agreement, 1961 for the payment of a minimum dividend of not less than 9 per cent and not more than 13 per cent in the paid up capital, the Oil India Ltd. has been declaring dividend since 1962. No dividend was declared before 1962. The percentage of dividend (net) declared year-wise, the total amount of dividend, the share of Government of India and Burmah Oil Company are given below :

Year	Percentage of dividend declared	Total dividend declared (in lakhs)	Govt.'s share (in lakhs)	BOC's share (in lakhs)
		Rs.	Rs.	Rs.
1962	6½%	252	126	126
1963	9%	336	168	168
1964	9%	336	168	168
1965	9%	336	168	168
1966	9.575%	356.21	178.11	178.11
		1616.21	808.11	808.11

3.36. To ensure the guaranteed rate of dividend to the Oil India Ltd. as laid down in clause 9(C) (a) of the Second Supplemental Agreement, subsidies had to be paid to Oil India Ltd. by Government of India and Assam Oil Company. It has been there on account of the teething troubles of Gauhati refinery and delay in the commissioning of the Barauni refinery. The quantities of crude oil delivered to these refineries did not come up to the level of anticipated offtake of 2.75 million tonnes per annum as foreseen earlier.

3.37. The cost of oil proved to be much higher than at which the refineries were to get supplies of crude oil. A decision was, therefore, taken by Government that supplies to the refineries may be charged for at the landed cost at Calcutta, of comparable quality of imported crude oil and that any shortfall on account of the dividend liability would be made good by Government. Under this arrangement Government have paid to Oil India Ltd. a sum of over Rs. 18 crores during the years 1963-64 to 1966-67.

3.38. The details of the subsidy paid by the Government of India in connection with the purchase of crude oil by Government refineries and by A.O.C. are given below :

Year	Govt. of India	Assam Oil Co.
1962-63	—	102,00,000·00
1963-64	71,75,000·00	192,00,000·00
1964-65	3,93,40,282·00	155,00,000·00
1965-66	7,21,81,999·00	115,00,000·00
1966-67	6,33,84,000·00	—

*N.B.*—AOC's accounts are maintained on calendar year basis.

3.39. The Secretary of the Ministry informed the Committee during evidence that because of improvement in the situation with an augmented supply of crude, 1967 is going to be the last year when there will be no subsidy payable by Government to Oil India Ltd.

(ii) *Payment of Subsidy*

3.40. As to how the need of payment of subsidy to Oil India Ltd. arose, it has been stated that the price as affected by a retrospective adjustment in the early years of Oil India's supply to Gauhati and Barauni refineries has tended to be very high. So as to ensure to Oil India Ltd. a minimum dividend of 9% the price of oil under the formula including the retrospective adjustment has been arrived at. It has gone up to as much as Rs. 152, Rs. 126 and Rs. 113 per tonne. The question was whether the Indian Oil Corporation should be asked to pay this price. In considering the matter in 1963 Government came to the conclusion that having regard to the policies in force for the pricing of oil products, it would be improper and inequitable for the Indian Oil Corporation refineries at Gauhati and Barauni to be called upon to pay this high price. The pricing of oil products in all refineries in the country is based on import parity. It would have been unfair on the public sector refineries to have pegged them down to parity prices for their products and to have expected them to pay a price for crude oil which was far in excess of import parity. The Government, therefore, came to the conclusion that the public sector refineries at Gauhati and Barauni should be placed on the same footing, as the other refineries operating in India; that is to say they will receive crude at a price equal to import parity and they will sell their products at prices equal to import parity. This immediately led to the need to find ways of making up to Oil India Ltd. the difference in prices between import parity for crude and the formula price under the Second Supplemental Agreement. This is really the element which is called subsidy.

### *Mechanism of payment of subsidy*

3.41. Oil India Ltd. bills I.O.C. on the basis of the formula price under Clause 9(A) of the Second Supplemental Agreement. The I.O.C. pays the import parity price and the difference between the two is paid by the Government as price differential. At the end of the year when the accounts are made up, if the provisional price has to be increased to enable Oil India to declare a minimum dividend of 9% that additional sums is also paid by Government as a retrospective price adjustment.

3.42. The subsidy was, therefore, made up of two elements firstly the difference between the formula price and the import parity price payable to the Oil India Ltd. and secondly payment of sales tax to the Indian Oil Corporation.

3.43. In this connection the Secretary of the Ministry informed the Committee during evidence that there was a no retrospective price differential payable to Oil India Ltd. on the accounts of 1966. But to the extent of the element of sales tax there has to be and there has been a subsidy which is expected to be of the order of Rs. 2 crores. It has been stated that in Assam, there is a sales tax on indigenous crude of about Rs. 12 per tonne.

3.44. The Committee were also informed that in 1961 at the time of finalising the Second Supplemental Agreement, the idea of having to pay a subsidy was not foreseen because it was thought that refineries would come up as planned and production would keep pace with expectations.

### *(iii) Recoupment of Subsidy*

3.45. It has been stated by the Ministry in a note that under clause 9(C) of the Second Supplement Agreement, when costs go down and the income from the sale of crude would be such as to result in a net dividend to the shareholders of more than 13%, the price of crude oil will be reduced by giving a discount to the customers so as to bring the dividend to 13% only. This retrospective adjustment accrues to the Government. As the Government refineries would continue to pay on the basis of import parity, the benefit would accrue to Government during any year when the final price of Oil India crude under clause 9 *ibid* is less than the import parity price.

3.46. During evidence when the Secretary of the Ministry was asked as to when such a stage is likely to come, he informed the Committee that it will be from 1969 onward. When further asked about the basis of his assessment the Secretary stated "On the basis of the oil produced, the expenditure incurred or incurrable and the formula price that is derived from this data." In 1969, the Oil India Ltd. is expected to produce 3 million tonnes of crude which will bring down the formula price to about Rs. 93 as against import parity price of about Rs. 100 or Rs. 101 per tonne. The Secretary further stated that "as we go on, a time comes when formula price

comes to as low as 88. It goes on decreasing because the expenditure is also reduced. There is a period when the price is 84." As against decline in the formula price, it is assumed by the Government that the import parity price will remain somewhat constant.

3.47. Asked whether the difference between formula price and the import parity price would be because of the devaluation of Indian rupee in June, 1966, the witness stated that had there been no devaluation, there would have not been much difference between these two prices. He further stated that "The devaluation has merely magnified the prices." Elucidating it he stated that "...if there had been no devaluation, the difference might not have been Rs. 16 but might have been 11." He further informed the Committee that in 1961 when the negotiations were going on with the Burmah Oil Company there had been certain calculations made by Government and at that time it appeared that the formula price at 3 million tonnes off-take be about 6 to 7 rupees less than the import parity price.

3.48. It will be seen that under the revised pricing formula introduced in 1961 Government had to pay a subsidy of over Rs. 18 crores to Oil India Ltd. till 1966-67, and has received only about Rs. 8 crores as their share of dividend. Hence there has been a deficit of about Rs. 10 crores on this account. In addition they will have to bear sales tax amounting to over Rs. 2 crores annually on the sales to Indian Oil Corporation. The B.O.C./Assam Oil Company on the other hand has paid about Rs. 6 crores as subsidy to Oil India Ltd. during the same period and has received Rs. 8 crores as their share of dividend.

3.49. When asked as to why the pricing basis given in clause 13 of the Promotion Agreement was changed to a new complicated formula by the Second Supplemental Agreement of July, 1961, the Ministry in a written note have stated as follows :

"During the negotiations preceding the conclusion of the Second Supplemental Agreement of 27th July, 1961, the question of fixing the price of crude oil was examined carefully. Till then, no price had been fixed by Oil India Limited with the approval of the Government of India as provided in the Promotion Agreement of January, 1958. Two alternative methods of fixing the price of crude oil viz. (a) import parity and (b) cost+basis were considered. Simple import parity was not considered suitable as the indigenous crude even if it could be produced at a cheaper rate, would have to be paid for at import parity over which Government of India or Burmah Oil Company have no control. The cost+basis might have meant enormous profits to Oil India Ltd. in case they found a prolific field in the new areas which were being allocated to them i.e. 1886 square miles in Dum Duma and NEFA where the prospects were considered to be bright and which area Burmah Oil Company was

keen to obtain for exploration by Oil India Limited. Consequently, it was felt that the price which would give a certain discount on the import parity price and at the same time not allow the profits of Oil India Limited to exceed a certain limit, namely, 13% was the best solution in the circumstances prevailing at that time. It was also felt at that time that, with the expected offtakes, this formula will actually yield a price lower than the then existing import parity price."

3.50. Explaining the details of the working of the pricing formula given in clause 9 of the Second Supplemental Agreement, the Ministry have stated in a written note that "The price of crude oil supplied by Oil India Limited to the Government refineries and Assam Oil Company is fixed under Clause 9 of the Second Supplemental Agreement. Clause 9(A) provides that the crude oil price would be :—posted f.o.b. Middle East price of equivalent quality crude oil as will secure a return to the shareholders of Oil India Ltd. of 10.8% of the paid up capital after payment of all taxes. The discount is to be calculated in accordance with the formula set out in Clause 9(B) of the Agreement. Clause 9(C) provides that Oil India Limited should be in a position from the year 1962 to pay a dividend to yield a return to its shareholders after payment of all taxes of not less than 9% and not more than 13% per annum if necessary by retrospective adjustment of the price arrived at under Clause 9(A) of the Agreement."

3.51. Elucidating further, the Secretary of the Ministry informed the Committee during evidence that the Promotion Agreement provided for the fixing of prices either on import parity basis or on cost plus basis whichever was less. These basis were not considered suitable by Government firstly because "there was a feeling that import parity is not a very satisfactory way of fixing the prices. . . at the present time import parity is not really parity with a fully posted price. This was the time when India was importing oil at full posted price. There was no system of discount account on posted price. The heavy discounts as of today were then not known. It was felt in the then situation that the linking of our internal price for a long period to import parity may not be advantageous arrangement. If today we would think of it, we would probably feel that import parity may well be a good basis considering the high costs of production in India and so on. Any way, this was in the minds of people who looked at that problem then. Secondly, I think the cost plus basis was also thought to be hazardous in the sense that it may throw up a very high rate of return on investment. Therefore the question was what should be a reasonable basis. After negotiations at that time, we came to the conclusion that a return of 9 to 13% on equity capital was not a higher rate of return. On this basis and with reference to the total equity capital of Rs. 28 crores on the formula prescribed, we arrived at a price for this oil which was some what lower than import parity." According to him this was a practical way of interpreting

the original idea. The Secretary also informed the Committee that it was at the instance of the Government that the necessity to fix prices with reference to pegging down profit element was felt and the initiative was taken by the Government.

3.52. Regarding the basis of fixing a net return of 9 to 13% on capital in the Second Supplemental Agreement (1961) as referred to in para 3.50 above, the Ministry in a written note have stated that net return of between 9 to 13% was considered reasonable on the capital invested for an oil producing company taking into account the risk involved in oil exploration. According to a study undertaken by the First National City Bank, New York, in respect of seven oil producing companies in the Eastern Hemisphere (viz. British Petroleum Company Limited, Standard Oil Company, Gulf Oil Corporation, the Royal Dutch/Shell Group, Tenaco Inc., Standard Oil Company of California and Mobil Oil Corporation) the return on net worth of these companies during 1957-1966 was as follows :

1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
18.7	15.1	13.8	13.9	13.1	13.2	14.2	11.2	11.4	11.3

3.53. Asked what would the net return 9 to 13 per cent exclusive of all taxes, including tax on dividend, guaranteed in the Second Supplemental Agreement amount to, if it is made inclusive of all taxes, the Secretary of the Ministry stated during evidence that 9% net return would amount to 24% and 13% net return would amount to 36 per cent.

3.54. A knowledgeable person while commenting upon the change in pricing formula of crude oil produced by Oil India Ltd. has informed the Committee as follows :

“The price formula was changed. I don't know who worked it out, but he must be very clever brain. I had to read many times to understand the significance. The cost of production would be about Rs. 48 at the well head and Rs. 22 as transportation charges by the pipeline plus something was added to it. That is most interesting. They said it was innocent. The price will be import parity price plus a factor which will give them a clear tax free return of 9% minimum and 13% maximum and anything above 13% will be given to the refineries. On paper it looked a very tempting agreement.”

3.55. Giving the comparative economics of pricing formula as envisaged in clause 13 and clause 9 of the Promotion Agreement and Second Supplemental Agreement respectively, the Ministry have furnished the following written note to the Committee :

“In 1961 and 1962 the landed cost (import parity) of crude was Rs. 74 (approximately) per tonne.. The price of crude as per

clause 9(A) of the Second Supplemental Agreement was Rs. 71.28 per tonne in 1962. As no discount on imported crude was available in 1962, it was expected that the price of crude as per clause 9(A) will continue to remain lower than the import parity price in future. Due to fairly substantial discounts being available on imported crude in subsequent years the above expectation was not fulfilled. However, from 1967 onwards the final average price of crude as per the Second Supplemental Agreement will always remain lower than the import parity price [e.g. Parity price Rs. 102.00 (1967) and Rs. 100.00 (1968); Final price per Second Supplemental Agreement Rs. 98.00 (1967) and Rs. 96.00 approximately (1968—estimated)].

In the Second Supplemental Agreement of July 1961, provision has been made for a guaranteed minimum dividend of 9%. At the same time, provision is also made that the maximum dividend should not exceed 13%, and any surpluses of Oil India Limited over and above the 13% would be refunded to the purchasers of crude oil in proportion to their offtake of crude oil. These two provisions of minimum and maximum dividends go together.

To ensure that the minimum dividend of 9% was realised during 1962-1965 certain retrospective price adjustment was necessary.

In other words, even against this price adjustment there is a corresponding set-off in the realisation by the Government of the 9% dividend as well as the dividend tax which was collected on the Burmah Oil Company's share of the dividend.

It is seen, therefore, that under the Second Supplemental Agreement, the cut-off of the maximum dividend at 13% discount Government gets a very much larger share of the balance since their offtake of crude oil is about 2.75 million tonnes as compared to only 0.25 million tonnes by the BOC. If there was no minimum and maximum dividend clause, on the other hand, all such surpluses would have been distributed equally between the two customers, since both are 50 : 50 equity shareholders. The position is summarized below :

#### *A—Position under Second Supplemental Agreement*

3.56. Statements I, II & III showing the position based on the actuals for 1962-67 and the forecast for 1968-80 are given at appendices III, IV & V. These show that under the Second Supplemental Agreement, the total return to Government over the entire period of 1962-80 comprising price differential, retrospective price adjustment, dividend and dividend tax



received on dividend paid to BOC), would come to approximately Rs. 64 crores. Payment for similar items in case of BOC/AOC would come approximately to Rs. 26 crores, over the same period.

3.57. This shows that Government would get about Rs. 38 crores more than BOC/AOC under the Second Supplemental Agreement. As will be seen from the statements, these returns are after taking into account the price adjustments which both Government and BOC had to pay during the years 1962-1965 in order to fulfil the minimum guaranteed dividend of 9%.

#### B—Position under Promotion Agreement

3.58. If similar calculations are made taking clause 13 of the Promotion Agreement as the basis, (at an average price of Rs. 100 per tonne which is the import parity price) the receipt to Government and BOC/AOC would be as follows:

Government	Rs. 40 crores
BOC/AOC	Rs. 24 crores

Thus, it will be seen that under the Promotion Agreement, Government would get on its investment *only* Rs. 16 crores more than BOC/AOC.

#### C—Position envisaged at the time of Finalising Second Supplemental Agreement

3.59. The crude oil actually delivered to Gauhati, Barauni, and Digboi, during the years 1962 to 1966 was 6.36 million tonnes and the sale proceeds based on initial prices amount to Rs. 52.35 lacs. To realise a minimum dividend of 6.75% in 1962, 9% during 1963/1965, a price adjustment was required to be paid both by the Government and AOC amounting to Rs. 21,08 lacs (Government of India Rs. 15,40 lacs and AOC Rs. 5,68 lacs). Total sales proceeds including price adjustment was Rs. 73,06 lacs. But if the sale proceeds were calculated at the same initial prices on the originally expected throughout of 12.017 million tonnes based on the commissioning of refineries, for the same period, would have amounted to Rs. 95,30 lacs. The difference between the anticipated and actual sale proceeds, *i.e.* Rs. 9530—73,43=Rs. 21,87 lacs, is the loss of income to Oil India Ltd. due to the delay in commissioning of the Gauhati and Barauni refineries.

The actual price adjustment by Government of India/AOC, amounting to Rs. 21,08 lacs is almost entirely due to delays in commissioning of the Gauhati/Barauni Refineries.

3.60. It was also felt that, with the expected offtakes, this formula will actually yield a price lower than the then existing import parity price. It may be stated that the price of crude based on the formula included in the Second Supplemental Agreement would be lower than import parity price (which is based on higher discounts) when the offtake reaches 3 million

tonnes per annum. The average price of crude for 1967 is estimated to be Rs. 97.5 per tonne which is less than the average import parity price for that year.

3.61. The Committee are unable to find any justification for replacing the original pricing formula given in Clause 13 of the Promotion Agreement, 1958, by the complicated pricing formula given in Clause 9 of the Second Supplemental Agreement, 1961 which guaranteed a net return of 9 to 13% to the Oil India Ltd. on the paid-up capital. The changing of the original pricing formula has resulted in the following :

- (i) Government had to pay a subsidy of over Rs. 18 crores up to the year 1966-67 to ensure the minimum guaranteed dividend to the Oil India Limited. If the Government's share of dividend from Oil India Ltd. is also taken into account, the net outgo would still be over Rs. 10 crores during this period. Against this, BOC/AOC have received dividend amounting to Rs. 8 crores during the same period and have paid subsidy of about Rs. 5.7 crores, thereby giving them a net benefit of about Rs. 2.3 crores.
- (ii) Government/Indian Refineries have been made responsible for the payment of Sales Tax on the sale of crude by Oil India Ltd. to the Gauhati and Barauni Refineries which at the rate of Rs. 12 per tonne would amount to a recurring liability of over Rs.\* 3 crores per year on the supply of 2.75 million tonnes of oil. Sales Tax liability was not to be borne by the refineries in the original pricing formula but was to have been included in its sale price by Oil India Ltd. (vide para 3.32).
- (iii) The guaranteeing of net return on paid-up capital has tended to slow down exploration work in the Exploration Licence Area as all expenditure on exploration work is also treated as revenue expenditure and increases the price of crude (vide para 2.21). The net return on share capital has been guaranteed from 1962 onwards i.e. the very first year of the starting of supply of crude to Gauhati refinery which was not provided for in the original Promotion Agreement.
- (iv) Since Oil India Ltd. has been assured a minimum guaranteed return of 9 to 13% on the supply of 3 million tonnes of crude per annum, there appears to be no incentive to Oil India Ltd. to effect economy and to accelerate exploration efforts for additional crude.

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\*At the time of factual verification the Ministry have stated that while the sales tax in Assam is nearly Rs. 12 per tonne, it applies to the crude supplied (.75 million tonnes) to the Gauhati Refinery. In Bihar, the Sales Tax is only 3% *ad valorem*. Hence the total expenditure incurred on account of sales tax on the crude purchased by these two refineries is not Rs. 3 crores per annum but would be around Rs. 1.5 crores.

**3.62. Government have advanced the following reasons for changing the pricing formula as laid down in the Promotion Agreement of 1958 to the existing formula incorporated in the Second Supplemental Agreement of 1961 :**

The original formula provided for two alternative methods for fixing price of crude viz. import parity price or cost plus basis. The import parity basis was not considered suitable as the indigenous crude would have to be paid for at import parity even if it could be produced at a cheaper rate. It has also been stated by Government that India was importing crude at that time at full posted price as no discounts were available. The cost plus basis might have meant enormous profits to Oil India Limited in case they found a prolific field in the new areas. So it was felt that the price which would give a certain discount on import parity and at the same time not allow profits of Oil India Ltd. to exceed a certain limit, was considered the best solution. It was also expected that the price of crude based on the new formula would be lower than import parity when the offtake reaches 3 million tonnes per annum. It has been contended that the payment of subsidy is almost entirely due to delays in commissioning of Gauhati and Barauni refineries.

**3.63. The Committee have considered these reasons. They feel that the original pricing formula laid down in Clause 13 of the Promotion Agreement, 1958 was quite comprehensive and was advantageous to the Government as under that formula Government had option either to fix the price of crude at the import parity or cost plus the reasonable commercial return. This gave adequate powers to Government to peg the profits of the Company to any figure considered reasonable by them and therefore could well have been used by Government to keep the profits up to 13% or even lower. Under this formula Government was also to examine the costs, as well as to determine the quantum of costs and elements to be taken into account in calculating such costs in agreement with the Oil India Limited. Moreover Government had guaranteed neither any net return to the Oil India Ltd. nor assured offtake of specific quantities of crude by the Barauni and Gauhati refineries from any specific year. There was therefore no question of payment of any subsidy under the Promotion Agreement of 1958. The Committee have already in para 2.52 commented on the optimism shown by Government in assuming that the refineries would be commissioned on schedule and would be able to process the agreed quantities of crude. The net return if at all could have been related to the production and supply of specific quantity of oil to the refineries rather than to the year 1962 irrespective of the quantity of crude supplied. Further discounts began to be made available by the coastal refineries on the imported crude with effect from June, 1960 and Government was aware of the availability of discounts in the world oil market at the time of entering into the Second Supplemental Agreement in 1961 [vide para 5.12 of the 50th Report (4th Lok Sabha)].**

3.64. Having regard to these factors, the Committee feel that the change made in the pricing formula in 1961 was uncalled for and unbusinesslike. The Committee recommend that the circumstances leading to the change in the pricing formula in 1961 which has proved disadvantageous to the Government and public sector refineries should be thoroughly examined with a view to fix responsibility. They would also like the Government to ensure that before such agreements are entered into in future the advantages and disadvantages thereof should be carefully examined.

3.65. The Committee are concerned to note that Government paid subsidies to the Oil India amounting to over Rs. 18 crores without getting the accounts examined by their own auditors. They note that Clause 13 of the Promotion Agreement regarding the pricing of crude provided for the examination of the cost of crude including the element of cost by the Government. The Committee would like that the accounts of the Company for the years when subsidy had to be paid may be examined by Government through its own auditors.

3.66. From the comparative statements (vide appendices III, IV & V) the Committee note that according to the calculations made by Government under the new pricing formula, Government will get a total return of approximately Rs. 64 crores during the period 1962 to 1980 while the return to the BOC/AOC has been estimated at Rs. 26 crores for the same period. Under Clause 13 of the Promotion Agreement, 1958, as the basis, the return to Government has been estimated at Rs. 40 crores against the BOC/AOC Rs. 24 crores. The Committee are not satisfied with the details contained in these statements as the assumptions on which these have been based have not been fully enumerated therein. It appears that while making these assumptions neither the liability of Sales Tax amounting to over Rs. 3 crores a year (amounting to about Rs. 40 crores up to 1980) which has become the responsibility of the Government/public sector refineries, has been taken into account nor the interest on the amount of Rs. 18 crores paid as subsidy by Government has been considered. The Committee would therefore like that these assumptions also should be thoroughly got examined by Government through the Comptroller & Auditor General of India so as to come to a correct assessment of the position.

3.67. The Committee note the assurance given by the Secretary of the Ministry that Government will start recouping the subsidy paid by them to Oil India Ltd. from 1969 onwards. The Committee consider that as Government has paid heavy subsidies amounting to Rs. 18 crores under the new pricing formula, it would appear to be appropriate that the recouping of the amount paid is made as early as possible. They would therefore suggest that the feasibility of limiting the net return to the Oil India Ltd. to 9 per cent till the subsidy is fully recovered may be examined. This would appear to be reasonable as the net return on investment in oil industry even in Middle East where oil potential is large, is stated to be a little over 11 per cent during recent years.

3.68. The Committee also consider that the liability for the payment of over Rs. 3 crores per year by Government on account of Sales Tax on the crude supplied to public sector refineries is an unconsonable and inequitable burden on the Government which was not payable under Clause 13 of the Promotions Agreement. They would therefore suggest that the feasibility of including Sales Tax in the sale price of crude by Oil India Limited as is done by ONGC, may be examined.

#### E. Concessional price of crude and gas supplied to Assam Oil Company

3.69. In accordance with the provisions of Clause 20 of the Promotion Agreement of January, 1958 some concessions have been allowed by Oil India Limited to the Assam Oil Company. Clause 20 of the Promotion Agreement of January, 1958 reads as follows :

“The Assam Oil Company will do its utmost to promote the efficiency and success of the Company by putting at its disposal all the experience and data with regard to the Said Areas and the Mining Lease Area which it possesses, and in particular all the geological and geophysical data accumulated by it in the past in the course of its exploration and development to the interpretation of these data, particularly with respect to the reconstruction of the complex structural and sedimentary history of the areas, to studies of oil migrations and primary and secondary accumulations, the benefit of its experience in the application of the afore-mentioned data and advantages of past research to the search for oil in the Said Areas and the Mining Lease Area and all the results of its experience gained during many years of operations of the general and specialised techniques required in the oil industry on the engineering, drilling, production and reservoir physics aspects of oil exploration and oilfield development and oil transport. IN CONSIDERATION THEREOF the Assam Oil Company shall for a period of twenty years from the date of registration of the Company be entitled to receive from the Company in each year one in twenty-four tons of oil and associated natural gas produced by the Company on payment of production costs and royalty for the first million tons of production in each year, one in forty-eight tons for the second million tons in each year and one in ninety-six tons for the third million tons in each year. The Assam Oil Company shall not be entitled to receive any such oil and natural gas for quantities produced beyond three million tons in any one year. PROVIDED also that the Assam Oil Company shall not be entitled charges for rendering the above services.”

3.70. It will be seen that Assam Oil Company was entitled to receive for 20 years specific quantities of crude oil and gas, produced by Oil India Ltd. on payment of production costs and royalty. The concessional supplies are not available for quantities of crude oil and natural gas produced beyond three million tonnes in any one year by Oil India Ltd.

(i) *Supply of Crude Oil*

3.71. The quantities of crude oil supplied to Assam Oil Company under Clause 20 of the Promotion Agreement from 1959 to 1966 are given below : The normal price of crude charged from public sector refineries and Digboi refinery is also indicated in a separate column.

Year	Quantity of crude oil supplied	Price charged under clause 20	Price charged per tonne from public sector refineries and Digboi refinery
	Tonnes	Rs. Tonnes	Rs.
1959 .. .. (18-2/31-12-59)	8,959 approx.	15.44 approx	—
1960 .. ..	11,336	14.84	—
1961 .. ..	13,188	21.71	108.92
1962 .. ..	23,155	20.64	152.42
1963 .. ..	33,777	17.43	126.44
1964 .. ..	47,900	17.64	112.37
1965 .. ..	57,462	17.14	100.96
1966 .. ..	64,657	16.33	
	2,60,431	17.65 per tonne average	120 per tonne average

It will be seen that against an average price of Rs. 120/- per tonne, the concessional price charged from Assam Oil Company under Clause 20 of the Promotion Agreement has been about Rs. 17.65 per tonne.

3.72. When asked to give a break-up of the average price of Rs. 17.65 charged from the A.O.C. the Secretary of the Ministry informed the Committee during evidence that it included production cost of Rs. 8.50, transportation cost of Re. 1/- and royalty of Rs. 7.50 per tonne.

3.73. Asked what are the various elements which are taken into account in working out the overall cost of crude by Oil India Ltd. it has been stated that the following five elements make up the cost of crude :

- (a) Exploration costs .. .. Geological, Geophysical and Exploration Drilling;
- (b) Development costs .. .. Geological, Geophysical and Development Drilling;
- (c) Production costs
- (d) Royalty
- (e) Transportation costs

3.74. The Ministry have further stated that the elements referred to above are taken into account in working out the overall cost of crude delivered to refineries. This method of analysis has been used by Assam Oil Company for many years and has been followed by Oil India Ltd. since the company was formed. Clause 20 of the Promotion Agreement provides that Assam Oil Company is entitled to quantities of crude oil and the associated natural gas "on payment of Production costs and royalty" which are elements of costs against which expenditure is allocated.

The costs recovered from Assam Oil Company in respect of supplies of crude and gas under Clause 20 of the Promotion Agreement include the above expenditure allocated to the Production function in respect of those supplies. The items included in respect of crude oil supplies are as follows :

- (a) Oil well servicing;
- (b) Operation and maintenance of flowlines and fields crude oil lines;
- (c) Operation and maintenance of oil collection stations;
- (d) Tank farm maintenance;
- (e) Production Superintendent's Office expenditure;
- (f) Production Department overhead expenditure;
- (g) Geological Department expenditure;
- (h) General Overhead expenditure allocation;
- (i) Depreciation on assets employed.

As the pipeline from Nahorkatiya to Digboi is owned by Oil India Ltd., proportionate charges are raised for the transportation to Digboi of supplies of crude in terms of Clause 20 of the Promotion Agreement.

In addition royalty is also recovered.

3.75. When asked, as to what are the elements of cost which are taken into account by the oil industry in general in working out the cost of production, the Ministry have stated that the methods of calculating cost varies from company to company and this is generally treated as confidential. However, the following elements of cost are taken into account by the Oil and Natural Gas Commission in building its costs of production :

- (a) Operational cost of production;
- (b) Royalty;
- (c) Depletion of the field;
- (d) Field exploration expenses;
- (e) Amortization of expenditure on exploration in other areas.

The production cost mentioned in Clause 20 of the Promotion Agreement correspond roughly to the operational cost of production of the O.N.G.C.

3.76. Asked what has been the benefit to the Assam Oil Company on account of the concessional price of crude supplied to them under Clause 20 of the Promotional Agreement, it has been stated by the Ministry that during the period 1959 to 1966, out of a total oil production of 7.3 million tonnes, approximately 4.9 million tonnes were supplied to Government refineries and the balance of 2.4 million tonnes was supplied to the Assam Oil Company of which 2.15 million tonnes was supplied to the Assam Oil Company at the same rate as charged to the Government refineries. The table below gives the concessional value which has accrued to the Assam Oil Company till 1966 under this clause.

Year	Concession value	
	Rs. lakhs ;	
1959	..	7.1
1960	..	8.6
1961	..	6.9
1962	..	20.4
1963	.. ..	45.6
1964	.. ..	52.1
1965	.. ..	54.7
1966	.. ..	54.7
TOTAL		250.1

3.77. When further asked as to what is the quantity of crude that will be made available to the Assam Oil Company during the remaining 12 years under the said Clause 20 of the Promotion Agreement and what is the estimated amount that the A.O.C. will stand to benefit by way of concessional price charged from them during this period, the Ministry have furnished the following information :

Assam Oil Company is entitled to receive approximately 73,000 tonnes of crude oil per year assuming that the production is maintained at 3 million tonnes per annum.

“Assuming that the average rate charged to A.O.C. would be around Rs. 20 per tonne and the estimated average selling price of crude under Clause 9 of the Second Supplemental Agreement over this period would be about Rs. 90 per tonne, the total value of the concession during the next 12 years would be about Rs. 6.13 crores.”

Thus the total benefit on the supply of crude oil under Clause 20 of Promotion Agreement for 20 years is estimated at Rs. 8.63 crores.



(ii) *Supply of natural gas*

3.78. Asked about the supply of gas under this clause, it has been stated that under Clause 20 of the Promotion Agreement, 1134 million cubic feet (32.11 million cubic metres) of associated gas has been supplied to the Assam Oil Company from 1959 to 1967 :

During this period the payments made by A.O.C. for associated gas supplied in terms of Clause 20 have been as follows :

Year	per 1,000 cft.
1959 (actuals) ..	23 paise
1960 .. ..	19 paise
1961 .. ..	16 paise
1962 .. ..	32 paise
1963 .. ..	28 paise
1964 .. ..	21 Paise
1965 a .. ..	25 Paise
1966 .. ..	24 Paise
1967 .. ..	Not yet available

From 1968 to 1978 the quantity of gas expected to be supplied to AOC in terms of Clause 20 will amount to approximately 5895 million c. ft. (166.92 million cu. met's).

3.79. Taking average concessional price of associated gas supplied to the Assam Oil Company at Re. 0.25 per thousand cubic feet, the Company has paid nearly Rs. 3 lakhs so far for the supply of 1134 million cubic feet (32.11 million cubic metres) and will be paying about Rs. 15 lakhs in the remaining period of eleven years for the total expected supply of 5895 million cubic feet, (166.92 million cubic metres) gas under the said clause.

3.80. The Committee has been informed that the cost of net production of gas for 1966 was Rs. 17.54 for 1000 cubic metres and that the price charged from Fertilizer Corporation of India is Rs. 42.10 per 1000 cubic metres. Taking the sale price of gas at Rs. 42.10 per 1000 cubic metres the net benefit to the A.O.C. for the concessional supply of gas under Clause 20 of the Promotion Agreement would amount to about Rs. 9 lakhs.

3.81. Justifying the grant of this concession to the Assam Oil Company, the Ministry have stated "it is a normal practice in the oil industry for a payment to be made for discovery value when a new partner is taken into a new producing oil venture. This payment can be in cash or an over-riding royalty in kind and Clause 20 provides for an over-riding royalty in kind. At the time of Promotion Agreement, Assam Oil Company had established substantial crude oil reserves and as they were handing over its Naharkatiya Mining Lease area to Oil India Ltd., a concessional rate was given for limited quantities of crude oil and gas."

Asked about the services rendered by the A.O.C. to Oil India for the concessional supply of crude and gas under Clause 20 of the Promotion Agreement the Secretary to the Ministry stated during evidence that these are for services rendered previously and not after this.

3.82. The Committee note that the total benefit to the Assam Oil Company on account of the concessional supply of crude oil and gas under Clause 20 of the Promotion Agreement, 1958 is estimated at about Rs. 9 crores. This benefit is stated to be in consideration of the Assam Oil Company placing at the disposal of the Oil India Ltd. the geological and geophysical data accumulated in the past in the course of exploration and development of Naharkatiya etc. areas, the advantages of its past research relating to the interpretation of this data etc. Considering that the Assam Oil Company has been reimbursed fully on account of the costs of the surveys and explorations costs of prospecting and exploring operations in the said areas as well as the costs of assets and properties transferred to Oil India Ltd. for which over Rs. 13 crores were paid to the AOC as also the fact that the employees of the AOC connected with this work have all been taken over by the Oil India Limited, the Committee feel that the benefit of this magnitude for the supply of data alone does not appear to be contemplated or justified under Clause 20 of the Promotion Agreement. The Committee are unable to agree with the contention of the Ministry that this benefit is in the nature of an 'over-riding royalty' which is a normal practice in the oil industry, for a payment to be made for the discovery value when a new partner is taken into a new producing oil venture. This analogy does not appear to apply in this case as participation of Government in this venture cannot be compared to the taking of a new partner. The giving of mining lease and prospecting licences to the Assam Oil Company in these areas was subject to the provisions of the Industrial Policy Resolutions and was conditional on the participation of Government in this venture. The Committee consider that the concessions sought to be given to the Assam Oil Company under Clause 20 of the Promotion Agreement perhaps related to the supply of the specified quantities of crude and gas on cost basis only i.e. without charging any profit thereon. The Committee are not convinced that out of the five elements of cost i.e. exploration costs, development costs, production costs, royalty and transportation costs, which are normally taken into account for calculation of cost of production of crude, the AOC was required to pay only for the two elements i.e. production costs and royalty. The Committee would therefore urge that the original papers leading to the finalisation of this Clause may be examined in detail to see whether all the five elements of cost which make up the cost of crude were clearly spelt at that time and whether the Government had specifically agreed to the charging of the two elements only. Further the Committee would also like to know whether the financial implications of this concessional supply were fully worked out at the

time of finalisation of this Clause. The Committee recommend that since this matter relates to the interpretation of the Clause of the agreement which has far-reaching financial implications the whole matter may be examined in consultation with the Ministry of Finance, Ministry of Law and the Comptroller and Auditor General at an early date so as to find out the exact implications of this Clause in the Agreement and to determine the price payable by Assam Oil Company on account of the concessional supply of crude and gas from 1959 onwards.

**F. Services rendered by the Assam Oil Company to the Oil India Ltd.**

3.83. Clause 21 of the Promotion Agreement, 1958 provides as under :—

“The Assam Oil Company shall render to the Company such specific services and facilities as may be required by the Company and which the Assam Oil Company having regard to the requirements of its own business is in a position to render or provide, such as workshop, accommodation, hospital, geological drilling, production, engineering, transport and store-keeping. The Company shall pay to the Assam Oil Company actual costs including a due proportion of overhead expenses for such services and facilities as are provided by the Assam Oil Company but nothing shall be included in such costs for remuneration to the Assam Oil Company. The parties shall procure that an agreement will be entered into between the Assam Oil Company and the Company for the provision of services and facilities as above and the agreement will also provide for the discontinuance of any service or facility by either party on twelve months’ notice.”

3.84. Asked about the specific services rendered by A.O.C. to Oil India Ltd. under this clause and the payments made therefor, the Committee have been informed that the under-noted services are provided by the Assam Oil Company :

- (1) Providing Specialist Medical Facilities and Provision for long-term treatment at AOC Hospital at Digboi to OIL employees.
- (2) Providing mechanised accounting facilities on AOC's Holle- rith installation at Digboi.
- (3) Providing teleprinter services on AOC's circuit Delhi- Calcutta-Digboi.
- (4) Providing office accommodation and administrative services to OIL at AOC's office at Shillong.

The payment made to AOC-on this account are as follows :

<i>Year</i>	<i>Amount</i> <i>(Rs. Lacs)</i>
18-2-58 to 31-12-59 .	51.46
1960 . . .	95.71
1961 . . .	94.55
1962 . . .	21.18
1963 . . .	18.43
1964 . . .	9.87
1965 . . .	8.69
1966 . . .	7.38

3.85. The Committee note that the payments on account of the services rendered by Assam Oil Company to Oil India Limited have come down from Rs. 95.71 lakhs in 1960 to Rs. 7.38 lakhs in 1966. They hope that these payments will be kept to the absolute minimum.

**G. Payments made to the Government of Assam by the  
Oil India Limited**

*(i) Mining Lease and Exploration Licence Fees*

3.86. The Oil India Limited made the following payments to the Government of Assam for Mining Leases and Exploration Licences year-wise since its inception :

Mining Lease

	1959	1960	1961	1962	1963	1964	1965	1966	1967	Total
Dead Rent (Rs. in lacs)	2.39	2.94	3.3	6.01	5.69	10.67	13.23	16.23	8.49	68.95
Surface Rent	609	609	1018	1035	819	705	695	967	513	6970
										69,01970

PETROLEUM EXPLORATION LICENCES

Licence Fee

	16-1-63 to 15-1-64	16-1-64 to 15-1-65	16-1-65 to 15-1-66	16-1-66 to 15-1-67	16-1-67 to 15-1-68
Dum Duma	Rs. 12,910	Rs. 64,550	Rs. 3,22,750	Rs. 4,11,000	Rs. 4,11,000
	315*		795*		12,23,320
Ningru	Rs. 5,950	Rs. 29,750	Rs. 86,750	Rs. 1,06,500	Rs. 2,28,950
					14,52,270
					83,53,240

\*Royalty.

(ii) *Royalty*

3.87. The amount of royalty paid by Oil India Limited to Assam Government year-wise during the last five years as furnished by the Ministry is given in the following statement :

(i) Rates of Royalty payable to the Government of Assam on crude oil and gas :—

		<i>Crude Oil</i>			
1962	1-1-62 — 31-10-62—	Rs. 1·58	(average) per barrel of 40 I.G. (@10% of Oklahoma crude price of equivalent API Gravity).		
1963 to 1966	1-11-62 — 31-12-62—	Rs. 7·50	Per metric tonne		
<i>Gas</i>		— Rs. 7·50	Do.		
1962/1966		Rs. 1·55	Per 1,000 cu. metres.		

(ii) *Amount of Royalty/dead rent paid to Assam Government from 1962 to 1966.*

	Crude (Rs. lacs)	Gas (Rs. lacs)	Total (Rs. lacs)
1962	59·04	1·06	60·10
1963	55·74	1·12	56·86
1964	105·42	1·31	106·73
1965	130·61	1·70	132·31
1966	160·53	1·79	162·32
	<hr/> 511·34	<hr/> 6·98	<hr/> 518·32

**3.88. The Committee note that the Oil India Limited has paid over Rs. 6 crores to the Assam State Government on account of Mining lease and Exploration license fees and royalty.**

#### H. Impact of devaluation on the operations of Oil India Limited

3.89. The Committee has been informed that as a result of the devaluation of the rupee, the formula price of crude went up, with effect from the 6th June, 1966, from Rs. 70.81 to Rs. 114.75 per tonne. However, this was offset, to an appreciable extent by the increase in the cost of production and other operations of Oil India Ltd. and also by the increase in the rupees required to repay the loans, interest charges, imports etc.

3.90. The devaluation has also effected the operations of the Company as follows :—

- (i) The amount in rupees required to repay the balance of Bank of Scotland Loan has increased from Rs. 11.91 crores to Rs. 18.75 crores.
- (ii) Interest charges on the Bank of Scotland Loan will increase from 3.91 crores to Rs. 6.16 crores.

- (iii) The annual foreign exchange cost of maintenance imports and replacements will increase by about Rs. 70 lakhs and consequential increase in customs duties is estimated at Rs. 10 lakhs per annum.
- (iv) The cost of the compressors and other equipment for pressure maintenance and secondary recovery will increase by Rs. 3.5 crores over the period upto 1971.
- (v) Payments for foreign services and for helicopters are likely to increase by Rs. 20 lakhs per annum.
- (vi) Many items of annual expenditure which include imported components are estimated to cost Rs. 50 lakhs more per annum.

The devaluation of Sterling in November, 1967 has affected the operations of Oil India Limited as follows :

- (1) The price of crude under Cl. 9(A) of Second Supplemental Agreement decreased from Rs. 126.87 to Rs. 121.97 per tonne.
- (2) The amount in rupees required to repay the balance of Bank of Scotland loan of £ 6,776,715 is reduced from Rs. 1430 lacs to Rs. 1226 lacs i.e. a reduction of Rs. 204 lacs. Taken with the Sterling devaluation loss of Rs. 4 lacs on OIL's balances on current A/c with the Bank of Scotland and in short term deposits aggregating to £1,22,340.44 the net devaluation gain in respect of Bank of Scotland loan comes to Rs. 200 lacs.
- (3) Interest charges on the Bank of Scotland loan will be reduced by Rs. 66 lacs during the period loan is outstanding.
- (4) There will be reduction in terms of Rupees of OIL's two exploration loans of £ 200,000 and £ 350,000 by Rs. 16.50 lacs. In view of this reduction in cost of exploration there will be reduction in amortisation of exploration expenses.
- (5) There will also be reduction in the rupee value of O.I.L.'s imports yet to be made under U.K. Credit allocation of 1.5 million. This is estimated to be in the region of Rs. 7 lacs.
- (6) There will not be any effect on casing and tubing cost since these are imported from Rupee Trade Countries.
- (7) There will be refund in respect of Rupee deposits made by OIL before 18-11-67 against which payments are yet to be processed by High Commissioner for Imports under U.K. credit.

- (8) There will be reduction of approximately Rs. 9 lacs in respect of equipments to be imported from U.K. against 1968 Capital Budget proposals.
- (9) There will be small reduction on Sundry Items like payments to Osterman (outstanding bill), remittance to Burmah Oil Company for service charges etc.

3.91. Discussing about the impact of devaluation on the price of Oil India crude the Committee asked whether there would have been any difference between the import parity price of crude and formula price of crude, if there would have been no devaluation. The Secretary of the Ministry stated during evidence, that if there had been no devaluation, the difference might not have been Rs. 16 per tonne but might have been Rs. 11/- per tonne.

3.92. The Committee note that devaluation of the rupee in June, 1966, has resulted in increasing the formula price of crude from Rs. 70.81 to Rs. 114.75 per tonne. They also note that devaluation has also resulted in increasing the liabilities of Oil India Limited in respect of repayment of loan taken from Bank of Scotland and interest thereon, the cost of maintenance imports and replacements etc. The devaluation of Sterling in November, 1967 has, however, resulted in reducing these liabilities to some extent. The Committee feel that the net effect of devaluation of the rupee and the subsequent devaluation of Sterling has been that the formula price of crude has gone up much more than warranted by the increase in the liabilities of the Company on account of devaluation. According to the representative of the Ministry, the overall increase in crude price on account of devaluation alone is estimated at Rs. 5/- per tonne. The Committee would therefore like the Government to work out the full details of the impact of both the devaluations (i.e. rupee and sterling) on the operations of the Oil India Limited so as to determine the overall benefit to Oil India Limited as a result of increase in the formula price of crude. As this increase in crude price is unconscionable the feasibility of mopping up the same by suitable measures may be examined by Government.

#### I. Audit of Accounts of Oil India Ltd.

3.93. Asked whether the accounts/balance sheets of the Oil India Limited are subject to scrutiny of the Comptroller and Auditor General of India, the Ministry have stated in a written note that as Oil India Limited is not a "Government Company" as defined in the Companies Act, 1956, its accounts/balance sheets are not subject to Audit/Scrutiny by the Comptroller and Auditor General of India.

3.94. The Comptroller and Auditor General has expressed the following views in this matter :

"As the investment of the Government of India in the Oil India Ltd. is less than 51% of the paid up share capital, the Com-



pany is not a Government Company in terms of the Companies Act, 1956 and as such audit by the Comptroller and Auditor General is not attracted. In the case of companies in which Government have invested more than 25% but less than 51% of the paid-up capital or Rs. 5 lakhs whichever is less, we obtain the annual report of the concerns together with the balance sheet, trading and profit and loss account and any other subsidiary statements of accounts prepared by the companies and any observations made by the statutory auditors and examine them with a view to draw conclusions about the financial stability of the concern and the adequacy of the return on the money invested by the Government. In cases where the companies are continuously running at a loss for several years, the position can be brought to the notice of the Government and commented upon in the Audit Report, if necessary."

3.95. Asked whether it was not advisable to get the accounts of Oil India Limited audited by the Comptroller and Auditor General as Government paid huge amounts as subsidy out of the Consolidated Fund of India, the Secretary of the Ministry stated during evidence "I do not consider any advantage in this.....to the extent that Parliament votes grants or moneys for this purpose (i.e. subsidy) there is a scrutiny of that expenditure by the Auditor General". He further informed the Committee that the Companies Act does not envisage auditing of accounts of such companies by the Comptroller and Auditor General. In case of Oil India this could only be done provided the other shareholder viz. Burmah Oil Company also agreed to this. He further stated that so far this question has not been considered.

Asked whether auditors of companies in which Government hold 50% shares should be appointed in consultation with the Comptroller and Auditor General, the Secretary of the Ministry informed the Committee : "This is a matter which has not been considered. It has to be considered. What its implications would be, will have to be gone into. We will have to look into this in consultation with the Company Law Administration and the Ministry of Finance."

3.96. The Committee note that under the Companies Act, 1956, the Comptroller and Auditor General (C&AG) is not responsible for the audit of the accounts of the companies which are not Government companies. Oil India Limited is not a Government company as defined in the Companies Act, 1956 and hence its accounts are not audited by the Comptroller and Auditor General of India. The Committee feel that as Government holds 50 per cent shares in Oil India Limited and has invested Rs. 14 crores

in the share capital of this company and has paid over Rs. 18 crores as subsidy, it would have been appropriate for Government to have the accounts of the company audited by the C&AG before the payment of subsidies. The Committee have in para 3.65 already recommended that the accounts of the Company since 1962 may be examined by Government auditors. The Committee further feel that Government should consider the advisability of getting the accounts of companies where they hold 25% or more shares and where the investment exceeds one crore, test audited by the C&AG.

## IV ORGANISATIONAL AND ADMINISTRATIVE MATTERS

### A. Board of Directors

4.1. The control of Oil India Ltd. is vested in the Board of Directors which consists of 8 Directors including the Chairman. Four Directors have been nominated by the Government of India and 4 by the Burmah Oil Company. The Chairman of the Board of Directors of Oil India Ltd. who has no casting vote holds office for one year and is nominated in alternate years by the Government of India and the Burmah Oil Company. The Managing Director of the Company is the nominee of the Burmah Oil Company and the Financial Director is the nominee of the Government of India.

4.2. The Board does not exercise day to day control over the affairs of the Company. This is done by the Managing Director who is responsible to the Board and all executive instructions/guidance to the officials of the Company are given by him.

4.3. The following are the particulars of the nominees of the Government of India, on the Board of Directors of the Oil India Ltd. since the inception of the Company showing the period for which the office had been held by each such Director :—

Sl. No.	Name	Date of Appointment/ Retirement
1.	Shri M. B. Rama Chandra Rao, ONGC	30-10-1961 9-3-1962
2.	Shri K. K. Sahni, Ministry of Steel, Mines & Fuel	18-2-1959 30-10-1961
3.	Shri Rana K. D. N. Singh, IAS, Assam Government	18-2-1959 30-10-1961
4.	Shri N. N. Wanchoo, I.C.S., Ministry of Finance, Government of India	12-9-1960 30-10-1961
5.	Shri Khandubhai K. Desai, M.P.	30-10-1961 31-3-1968
6.	Shri S. C. Kagti, I.A.S., Assam Government	30-10-1961 15-12-1966
7.	Shri L. P. Mathur, Oil & Natural Gas Commission	9-3-1962 21-6-1963
8.	Shri S. K. Guha, I.A.S., Ministry of Petroleum & Chemicals	21-6-1963 26-10-1966
9.	Shri P. Govindan Nair, I.C.S., Ministry of Finance, Government of India	30-10-1961 20-3-1968
10.	Shri P. K. J. Menon, Ministry of Petroleum and Chemicals	26-10-1966 20-1-1967
11.	Shri R. S. Paramasivan, I.A.S., Assam Government	28-12-1967 5-7-1967
12.	Shri M. V. Rajwade, I.A.S., Ministry of Petroleum & Chemicals	25-1-1967 continuing
13.	Shri Dharmananda Das, Assam Government.	21-7-1967 continuing

4.4. When it was brought to the notice of the Ministry that barring the Financial Director and the Chairman, all other Government nominees on the Board of Directors of the Oil India Ltd. have held office for short periods, the following reply was furnished to the Committee :

“Of the four Government Directors on the Board of Oil India Ltd., the Financial Director and the Chairman have remained in office continuously since 1961. Of the other two Directors, one represents the Ministry of Petroleum & Chemicals and the other Government of Assam. As these persons are officials of the Central Government and the State Government, due to exigencies of service, transfers do take place resulting in consequential changes of the two remaining Directors.”

4.5. Since Oil India Ltd. and the Oil and Natural Gas Commission are both engaged on similar activities viz., exploration and production of crude oil the Ministry were also asked to give reasons as to why no representative from the Oil and Natural Gas Commission is kept continuously on the Board of the Oil India Ltd. In reply the Ministry have stated that Government of India appointed Shri S. K. Guha as Director on the Board of Oil India Ltd. and Joint Secretary in the Ministry of Petroleum and Chemicals as a part-time member of the Oil and Natural Gas Commission, with effect from 22nd January, 1965. Thereafter the Joint Secretary in the Department of Petroleum continued to represent Government both on the Board of Oil India Ltd. and as member of the Oil and Natural Gas Commission.

4.6. The Committee note that except the Chairman and the Financial Director, the other nominees of the Government on the Board of Directors of Oil India Ltd. have held office for short periods. The Committee consider that it would be advantageous if the Directors hold office for a minimum of three years. They, therefore, urge that at the time of appointing their nominees on the Board of Oil India Ltd., Government should keep this aspect in view.

4.7. The Committee further suggest that it would be advisable if a technical member of the Oil and Natural Gas Commission is also represented on the Board of Directors of Oil India Ltd. as a Government nominee so that both the organisations may benefit from each others' experience in the field of exploration and production of oil.

(i) *Meetings of the Board*

4.8. The Board of Directors of Oil India Ltd., on an average, meets 9 times in a year. With the exception of a few meetings held in Assam and Calcutta prior to 1964, all meetings are normally held at New Delhi.

A statement showing the number of Board meetings held in each year during the past three years; attendance of each Director and venue of such meetings is given below :

*Meetings held during 1964 to 1966*

1964—9 meetings (49th to 57th) at New Delhi.

1965—9 meetings (58th to 66th) at New Delhi.

1966—8 meetings (67th to 74th) at New Delhi.

Attendance by each Director during this period is as follows :

	1964		1965		1966	
	Total meetings held	Meetings attended	Total meetings held	Meetings attended	Total meetings held	Meetings attended
1. Shri Khandubhai K. Desai ..	9	8	9	7	8	4
2. Mr. J. C. Finlay	9	6	9	7	8	6
3. Shri P. Govindan Nair ..	9	9	9	9	8	8
4. Shri S. K. Guha (resigned on 26th Oct. 1966) ..	9	7	9	9	5	3
5. Shri S. C. Kagti (nomination revoked on 15-12-66)	9	3	9	3	7	1
6. Shri W. B. Metre	9	9	9	7	8	8
7. Shri GNS Robertson ..	9	8	9	7	8	7
8. Shri A. Subramani	9	8	9	6	8	5
9. Shri P. K. J. Menon (appointed on 26th Oct. 1966)	..	..	..	..	3	1
10. Shri R. S. Paramasivan (appointed on 28th Dec. 1966)	..	..	..	..	1	..

4.9. The Committee consider that the presence of most of the Directors of the Company at Delhi, particularly the Managing Director and Financial Director, is the main reason for holding the meetings of the Board here. This has naturally resulted in the setting up of a big office at Delhi to provide secretarial assistance to these functionaries. The appropriate place for a Managing Director and Financial Director is the headquarters of the Company. The holding of meetings of the Board at Duliajan will not only eliminate the avoidable visits of persons from Assam to Delhi in connection with such meetings but will also provide opportunities to the Directors to be in touch with what goes on actually in the field.

4.10. The Committee, therefore, consider it desirable that normally meetings of the Board of Directors of Oil India Ltd. should be held at the

registered office where full assistance of the personnel concerned of the Company will be available readily. Meetings at places outside the registered office should be held only in exceptional circumstances.

(ii) *Chairman of the Board*

4.11. According to clause 16(b) of the Second Supplemental Agreement (July, 1961) the Chairman of the Board of Directors of Oil India Ltd. is to hold office for one year and is to be nominated in alternate years by the Government of India and the Burmah Oil Company. He does not have any casting vote. It has been stated that since October, 1961 the nominee of the Government of India has also been nominated by the Burmah Oil Company to work as Chairman of the Oil India Ltd.

**B. Appointment of Managing Director Financial Director**

4.12. Clause 16(c) to 16(h) of the Second Supplemental Agreement of July, 1961 provides and lays down the procedure of appointment of Managing Director and Financial Director of the Company. It would be seen from clause 16(c) *ibid* that the Managing Director and the Financial Director will be the respective nominees of the Burmah Oil Company and the Government of India.

The appointment of the Managing Director and the Financial Director is subject to review by the Government of India and the Burmah Oil Company at the end of 5 years from the date of respective appointment of the first Managing Director and Financial Director (*vide* clause 16(h) *ibid*).

(i) *Functions and Powers of the Managing Director and Financial Director*

4.13. Clause 16 (d) to (f) of the Second Supplemental Agreement reads as follows :

- (d) The Managing Director will be responsible for the management of Oil India to its Board of Directors.
- (e) All executive instructions to the staff of Oil India will be issued by or in the name of the Managing Director.
- (f) The functions, responsibilities and powers of the Managing Director and of the Financial Director shall be as may be prescribed by the Board of Directors from time to time.

The main functions of the Managing Director are :

- (a) to advise the Board; and
- (b) to implement the policies and decisions of the Board.

He accordingly directs the management in the oil fields as regards the policy and planning, and gives guidance where required in connection with all operations, technical, financial (in consultation with the Financial Director) and administration. For these purposes the Managing Director has various officers to assist him.

Managing Director's office additionally coordinates publicity, press relations, advertisement, publications and acts as a clearing house for information on matters of interest to the Company.

4.14. Under Clause 16(C) of Second Supplemental Agreement, the Financial Director of Oil India Ltd. is a nominee of the Government of India whose functions, responsibilities and powers are as may be prescribed by the Board of Directors from time to time. Soon after the first Board meeting held after the conclusion of the Second Supplemental Agreement, a procedure for financial control was drawn up and enforced and the Board also approved a schedule of powers for the Managing Director and the Financial Director with powers for sub-delegation to the General Manager and Financial Controller. If the General Manager and Financial Controller are unable to agree on a point within the authority delegated to them, reference is made to Managing Director/Financial Director, to the Board if necessary and finally, if no agreement is reached at the Board level to the two shareholders. The Managing Director is not empowered to over-rule a financial objection. The Financial Director is responsible for advising the Managing Director and the Board of Directors on all matters where financial policies and considerations are involved.

4.15. A schedule of duties and responsibilities of the Managing Director and the Financial Director is given below :

*Duties and Responsibilities of the Managing Director and the Financial Director*

*General*

- (1) The executive responsibilities for the management of the Company will be vested in the Managing Director and all instructions will be issued either by him or in his name.
- (2) The Managing Director will consult the Financial Director in all matters of financial policy.
- (3) The Managing Director will also keep the Financial Director fully informed of all matters of Company business.
- (4) The Financial Director will be responsible for advising the Managing Director and the Board of Directors on all matters where financial policies and considerations are involved.
- (5) The Financial Director may call for papers and reports from any of the Heads of the Departments or officials of the Company relating to the exercise of his (the F.D's) duties and responsibilities.
- (6) Where there is any difference of opinion between the Managing Director and the Financial Director, the matter will be referred to the Board of Directors.

*Delegation of specific powers*

- (1) Subject to the general provisions above, the powers have been delegated to the Managing Director and the Financial Director. All instances not covered by these delegated powers would be a matter for decision by the Board.
- (2) While the Managing Director and the Financial Director are responsible for the exercise of these delegated powers, they have further delegated the exercise of specified authority within the ambit of these delegated powers to the General Manager and Financial Controller as approved by the Board.

4.16. The Committee have been informed that at present both the Managing Director and the Financial Director are part-time employees of the Company.

4.17. Asked why a full-time Financial Director was not appointed by Government of India, it has been stated that as there is a full-time Financial Controller (who is an experienced official) it was not considered necessary to have a full-time Financial Director. It was also considered that as the Managing Director who is the nominee of the Burmah Oil Company is only a part-time for Oil India Ltd., the Financial Director as Government's nominee, should be on the same basis and not a whole-time employee of Oil India Ltd.

4.18. From the information furnished to the Committee in reply to a specific enquiry about the visits of the Government Directors to the headquarters of Oil India Ltd. at Duliajan and to other field areas in Assam, it is seen that the Financial Director visited Duliajan on 9-4-1962, 22-6-1962, 1-2-1963 and 20-6-1963 only. It has also been stated that in addition, every year the Financial Director pays a visit to Calcutta in connection with the Budget Committee meetings.

It will thus be seen that the Financial Director has not visited Assam since June, 1963.

4.19. Clause 16(h) of the Second Supplemental Agreement provides for the review of the provisions relating to the appointment of Managing Director and Financial Director at the end of 5 years. Asked whether such a review was made, the Secretary of the Ministry informed the Committee during evidence that such a review was made in 1966 *i.e.*, five years after the initial period and the conclusion reached was that the present arrangements of a part-time Managing Director who is a nominee of the Burmah Oil Company and a part-time Financial Director who is a nominee of the Government, should continue for two years more to be reviewed in April, 1968.



4.20. The Committee consider that the duties of the Financial Director are onerous and very responsible. These are more so in this Company which is a joint venture and where Government have invested Rs. 14 crores in equity capital and has given heavy loans. The Committee are unable to appreciate how a part-time Financial Director operating from Delhi could devote the time and attention, required for the proper and closer supervision over the financial matters of this Company. They note that the Financial Director could not visit the Company's headquarters since June, 1963. The Committee are not convinced by the contention of Government that they appointed part-time Financial Director because the Burmah Oil Co. had also appointed a part-time Managing Director. In the opinion of the Committee, a whole-time Financial Director alone can effectively discharge the onerous functions expected of him. The Committee recommend that early action should now be taken by Government to appoint a whole-time Financial Director at the Headquarters of the Company.

4.21. The Committee suggest that when the next review regarding provisions relating to the appointment of Managing Director and Financial Director is made in 1968, the Managing Director, if appointed by Government, should be a whole-time employee, located at the Headquarters of the Company in Assam.

(ii) *Remuneration and terms of service of Managing Director and Financial Director*

4.22. Clause 16(c), *inter alia*, provides that "the remuneration and terms of service of the Managing Director and Financial Director will be settled between the Government of India and the Burmah Oil Company".

*Managing Director*

4.23. The Committee have been informed that the Managing Director who is nominee of Burmah Oil Company is a part-time employee of the Company, and is paid the following amounts for the services rendered by him :

Emoluments	Rs. 5,988 p.m. with yearly increments subject to a maximum of Rs. 6,500.
Terminal Benefits	Rs. 1,720 p.m. as contribution towards terminal benefits subject to a maximum of Rs. 1,850.
Compensation for loss due to devaluation.	Rs. 1,000.
Leave	.. The entitlement of 2 months leave every year on full pay.

No other facilities or perquisites are provided by Oil India Ltd.

*Financial Director*

4.24. The Financial Director who is the nominee of Government of India and is a part-time employee, is not paid any salary etc. direct by Oil

India Ltd. However the company has been making a payment of Rs. 2,000 per month to the Government of India. No other facilities are provided for him by Oil India Ltd.

It has been further stated that the Financial Director was provided with a company car (without a driver) for his official use. For occasional private use of the car, he had paid Rs. 100 p.m. to the Company.

**4.25. The Committee note that there is wide disparity between the remuneration paid to the Managing Director, a nominee of the Burmah Oil Company and the Financial Director, a nominee of the Government of India inasmuch as the former is paid about Rs. 9000 per month and the latter Rs. 2000 per month only. The Committee consider that as the two functionaries are the nominees of the two equal partners their remunerations should be uniform. The Committee note that the remuneration etc. payable to Government servants are governed by Government Rules and Regulations. The Committee therefore suggest that the feasibility of restricting the remuneration of these functionaries in such a manner as to be within Government Rules and Regulations, may be examined. Any other remuneration which may be justified, should in fairness be borne by the sponsoring partner.**

The Committee would also suggest that the feasibility of recovering the difference between the remuneration of the Managing Director and the Financial Director which approximates to a lakh of rupees per year, since 1961 onwards, and crediting the same to the Government account, may be examined.

### C. Technical Consultant

4.26. The Committee have been informed that one of the Directors of Oil India Ltd. who is a nominee of the Burmah Oil Company on the Board of Oil India Ltd., was appointed as a part-time Technical Consultant to Oil India Ltd. by the Board of Directors on the following terms with effect from the 1st January, 1965 :

Monthly Retainer fee	.. .. .	Rs. 2,500 p.m.
House Rent	.. .. .	Rs. 1,000 p.m.
Free telephone		
Expenses for journeys/visits in his capacity as Consultant		
Reimbursement for transport charges incurred by him in connection with visits to Oil India Office.		

NOTE.—50% of the above expenses and fees will be borne by the Assam Oil Company in consideration of part-time services rendered by the Technical Director to them as Consultant.

**4.27. The Committee are unable to appreciate the appointment of a part-time Technical Consultant to Oil India Limited on a monthly retainer fee of Rs. 2,500 plus Rs. 1,000 as house rent. They consider that the advisability of doing away with such retainer needs examination.**

#### D. Nature and Extent of Control by Government

4.28. It has been stated that Government of India exercises its control in the formulation of policy decisions affecting the operations of the Company through the Directors nominated by it on the Board of Directors.

4.29. All financial matters coming up before the Board are first examined/approved by the Financial Director who is a nominee of the Government of India.

4.30. During evidence before the Committee, the Secretary of the Ministry gave a brief resume of the relationship between the Government and the Company as follows :

“Government’s position in this Company is that of an equal partner. The rights and obligations of this equal partner are determined by the Promotion and Supplemental Agreements that were executed by the Government, the Burmah Oil Company and the Assam Oil Company. Briefly speaking, these agreements provide for the formation of a Company in which the Government and B.O.C. have equal share-holding. They also have equal representation in the Board of Directors of the Company. It is provided that in the initial period, which is the first five years . . . the Managing Director of the Company will be appointed from out of the nominees of the Burmah Oil Company and a Financial Director shall be appointed out of the nominees of the Government of India. The Managing Director is required to act in consultation with the Financial Director. There is a provision that differences between these two must be brought before the Board for resolution. The Board itself, as it is composed of equal number of Directors, can only act by agreement amongst the parties. It is provided that if the Board is unable to reach agreement, the matter must be deferred for further consultation. and in the end, if necessary referred to the principals *i.e.* the Government and the Burmah Oil Company for resolution of differences.

The Company is really required to act by unanimous decision. In that sense, the Government have an equal voice in the deliberations and decisions of the Company.

There have been . . . no instances in which differences amongst the two share-holders have persisted to the point of having to be referred to the principals. All their decisions have been taken unanimously.”

“ . . . The Government of India come into the affairs (of Oil India) in the sense that they have to contribute certain sums of money for carrying on the operations . . . . . in terms of

investment in new operations or in development for which the Government of India make equal contribution with the Burmah Oil Company. At the point of considering proposals for such fresh investments for moneys to be provided either by way of loan or otherwise, a Government decision is called for. . . . . So the Government have an opportunity to examine the programmes, the basis of cost estimates, the requirements of funds, and it is only subject to Government's approval. . . . . that funds are provided to the Company for carrying on operations. We have, in terms of the Oil Fields (Regulation and Development) Act prescribed a number of \*returns to be given by the Company, both in technical and financial matters. These are subject to Government scrutiny; they are subject to questioning and investigations of the company and give the Government an opportunity to find out what is happening, whether the expenditure is being incurred in accordance with the approvals given by Government and so on."

"But by way of the power to issue any orders to the Company in its administration and in its management, the Government as such has no specific authority. Government acts through its directors and the Government's strength or power is equal to the other partner."

**4.31. The Committee realise that Government have no authority to issue any directions to Oil India Limited regarding its administrative and management affairs as it is a joint venture. The Committee, however, feel that since Government are equal partner in this venture, it is necessary that policies of Government particularly with regard to scales of pay to the employees, scales of amenities etc. are reflected in the working of such companies. To ensure this apart from appointing whole-time Directors, Government should also consider the advisability of deputing some Government officers in top positions in the managerial and financial cadres of such companies. The Committee feel that this arrangement would be to the mutual benefit of both the parties.**

#### E. Consultants

##### (i) *Consultants for estimation of Oil and Gas reserves*

4.32. For the purpose of estimation of oil and gas reserves in the oil-fields Messrs De Golyer & Mac-Naughton have been working as consultants to Oil India Ltd. with short interruptions since 1962 .

Originally Messrs De Golyer & Mac-Naughton were appointed by the Burmah Oil Company Ltd. Later on Oil India Limited Board approved the

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\*for details of such returns please see Appendix VI.

appointment of this agency as consultants to have an independent estimate of the oil and gas reserves.

Oil India Limited is presently paying them \$ 38,000 per annum.

**4.36. The Committee note that the Oil India Limited are paying \$ 38,000** the terms of reference of the consultants consisted as follows :

*Contract commencing May 1, 1962*

- (1) To furnish Oil India with a formal report on the oil and gas reserves of their properties in Assam, India, as of the last day of each calendar year and a brief letter report at mid-year;
- (2) To furnish a schedule of gas production with the annual and mid-year reports similar to that provided in the formal report as of January 1, 1962;
- (3) To maintain current files and keep informed, to the extent the data permit, on the operations in Assam and to recommend supplementary means of data collection wherever required;
- (4) To prepare a preliminary investigation of the economics of secondary recovery methods which might be initiated in these fields;

For these services OIL paid \$ 24,000 per year. These have, however, lately been changed to as follows :

- (1) A complete reservoir engineering study of the 4th and 5th Sand pools in the Main Nahorkatiya area; estimate of recoverable oil by primary means based on past performance; estimate of future recoveries under pressure maintenance schemes—indicating the quantum of water/gas injection, trend of water and gas production to be expected from the pools under different conditions.
- (2) Advice on similar studies of other pools to be undertaken internally.
- (3) Advice from time to time on general field practices and laboratory technique in connection with secondary recovery.

The total amount paid to De Golyer & Mac-Naughton by OIL upto 1967 is \$ 138,000.

4.34. It has been further stated by the Ministry that M/s. De Golyer & Mac-Naughton performed their task well and the importance of their association has increased since 1966 with an increasing association of this firm in secondary recovery and pressure maintenance studies and consultations.

4.35. Asked whether any similar consultants have been appointed by the Oil and Natural Gas Commission, the Ministry have stated that as regards Oil and Natural Gas Commission the Russian experts attached to the Commission and the officers of the Research and Training Institute,

Dehra Dun, estimate the reserves of oil and gas of the oil fields of the Commission.

**4.36. The Committee note that the Oil India Limited are paying \$38,000 per annum to Messrs De Golyer & Mac-Naughton on account of their services as Consultants while similar work in the Oil and Natural Gas Commission is being done by the Officers of the Research and Training Institute, Dehra Dun. The Committee feel that in view of the tight foreign exchange position of the country as also with a view to encourage Indian talent, the question of utilising the services of Indian experts by the Oil India Limited for this purpose may be examined.**

*(ii) Fees paid to Foreign Consultants*

4.37. The Committee have been informed that Oil India Ltd. made payments in foreign exchange to the following on account of consultancy fees, agency commissions etc. since its inception in 1959 to 1966 to various agencies :

*Fees Paid to Consultations, etc.*

Name of the Party	Nature of Services	1959	1960	1961	1962	1963	1964	1965	1966
1	2	3	4	5	6	7	8	9	10
Schlumberger Sea Co. Inc.	Oil Well Services.	—	—	—	—	\$266,523.86	\$289,904.00	\$287,331.96	\$287,275.55
DeGolyer & MacNaughton Inc.	Reservoir and pressure maintenance studies.	—	—	—	\$14,000.00	\$25,010.63	\$25,016.44	\$25,005.00	\$19,016.52
Seismograph Services Ltd.	Seismic work/Data processing.	—	—	—	—	£ 13575.16-1	£ 35214.1-8	£ 29160.7-5	£ 469.11-0
Burmah Oil Company, London.	Services in terms of service Agreement dated 27-12-1963.	—	—	—	£ 90287.0-0	£ 62225.0-0	£ 47006.0-0	£ 52567.3-6	£ 28582.2-8
Tuboscope Company	Sonoscope inspection of drill pipe.	—	—	—	\$9,791.18	—	—	—	—
Universal Oil Products Co.	Technical fees for analysis of NHK crude oil	—	\$25,000.00	—	—	—	—	—	—
Eastman Oil Well Survey Co.	Services for Directional/deviated drilling.	—	—	—	\$5,345.79	\$8,548.50	—	—	—
Mr. L. S. Crews of M/s. Burmah Oil Western Co. of U.S.A.	Services reg. Dual completion of wells.	—	—	—	\$1,800.00	—	—	—	—
Mr. J. L. Sluder of M/s. Dowell Schlumberger Corp.	Services reg. cementation of wells.	—	—	—	\$1,250.00	—	—	—	—
Whessoe Ltd.	Services reg. erection of crude conditioning plant.	—	—	—	£86142.10-6	£ 18000.0-0	£ 22170.18-2	—	—
AB Osterman Overseas Aviation Ltd., Sweden.	Helicopter Services	—	—	—	—	—	£ 19823.0-0	£ 23700.0-0	£ 7022.0-0
Petroleum Plant Technologists Inc.	Inspection & Supervisory services.	—	—	—	—	—	\$29,190.92	\$20,332.94	—
Mr. F. J. Griffith of M/s. Shell Oil Co. Ltd., U.S.A.	Technical Adviser with particular reference to OIL despatching.	—	—	—	—	—	\$14,894.61	\$7,872.46	—

4.38. The Committee note that, apart from the payments made to M/s. De Golyer & Mac-Naughton which have been referred to in para 436 regular payments are also being made in foreign currency to M/s. Schlumberger Sea Co. Inc., M/s. Seismograph Services Ltd., M/s. Burmah Oil Company, London and M/s. AB Osterman Overseas Aviation Ltd., Sweden on account of various services rendered by them to Oil India Ltd. The Committee need hardly stress the need to save as much foreign exchange as possible. They consider that since Oil & Natural Gas Commission has developed expertise for some of the services referred to above, the feasibility of doing away with foreign consultants by Oil India Ltd. and replacing them by the Indian experts of the Oil & Natural Gas Commission, may be considered.

## F. Organisational Set-up

### (i) Headquarters

4.39. The full fledged field headquarters of the Oil India Ltd. was established in Duliajan in January, 1962. Before that the headquarters of the Company was located at Digboi.

4.40. The fields headquarters office at Duliajan is headed by General Manager. Under him, there are three managers—Technical Manager, Financial Controller and Senior Administrative Officer who are directly responsible to him. All technical matters e.g. exploration, geology, drilling, engineering, production, pipelines, etc. are dealt with by the Technical Manager. Financial Controller looks after the financial aspects of the Company and the Senior Administrative Officer deals with the staff, labour, welfare, hospital, security, publicity/public relations etc.

4.41. Powers of the Managing Director/Financial Director have been delegated to the General Manager for directing the operations in the fields and pipelines subject to the concurrence of the Financial Controller in certain aspects as per schedule of the Delegation of Powers approved by the OIL Board.

### (ii) Outside Offices

4.42. Oil India Ltd. and the Assam Oil Company have common offices at Delhi, Calcutta and Shillong. Expenditure on offices are shared by Oil India Ltd. and Assam Oil Company as follows :

	<i>Oil India</i>	<i>Assam Oil Com- pany</i>
Delhi office expenses (other than that chargeable 100% to Oil India) .. .. .	75%	25%
Calcutta Office expenses .. .. .	75%	25%
Shillong Office expenses .. .. .	50%	50%



4.43. Statement showing the expenditure during 1966 for maintaining common offices at Delhi and Calcutta is given below :

Office doing work also for AOC

	Calcutta Office		Delhi Office	Delhi Office staff employed 100% on OIL work
	75% OIL 25% AOC	75% OIL 25% AOC	75% OIL 25% AOC	
Salaries ..	2,76,245	2,26,860		1,73,440
Wages ..	4,87,661	65,065		—
House Allowance	—	—	Cr.	1,108
Fuel ..	1,814	2,733		134
Stores ..	7,415	50,362		323
Foodstuff ..	15,601	29,967		133
Stationery ..	16,628	26,570		—
Casual Labour .	466	3,230		—
Travelling ..	21,195	42,216		15,231
Insurance ..	8,468	2,993		—
Freight ..	2,681	958		161
Rents/Taxes ..	70,405	3,48,699		18,750
Postage Telegram	25,352	37,090		122
Publications ..	348	38,156		40,816
Sundries ..	2,25,561	2,99,241		2,360
Entertainment ..	3,216	—		—
Pension Gratuity	8,530	—		—
	11,71,586	11,74,140		2,50,362

During the same period an expenditure of Rs. 1.41 lakhs was also incurred on maintaining office at Shillong which was shared between the Oil India Ltd. and the Assam Oil Company on 50 : 50 basis. It would be seen from the statement given above that an expenditure of about Rs. 14.25 lakhs and Rs. 11.72 lakhs respectively is being incurred annually on the Delhi and Calcutta offices of the Oil India Ltd.

4.44. When asked to indicate the reasons for maintaining such heavy establishments in Delhi and Calcutta, the Ministry have stated in a written note as follows :

“Delhi Office : The Oil India Limited Board Meetings are generally held in Delhi. A number of important problems have to be constantly discussed with Government and the Government Directors regarding the day to day functioning of the Company.

A number of discussions on technical matters such as exploration, drilling programmes, transportation of O.N.G.C. crude, etc., are held in the Ministry of Petroleum & Chemicals. It is, therefore, necessary to have the Senior Technical Adviser in Delhi assisted by a Technical Assistant.

As the Board Meetings are held in Delhi and the Managing Director is stationed in Delhi, it is also necessary to have the Secretary of the Company and supporting staff in Delhi.

In addition to the above, there are Accountants and Public Relations and Administrative Officers to assist the Managing Director and Financial Director on matters connected with financial and other matters.

The establishment is kept at the minimum level that is considered necessary commensurate with the important nature of the work.

**Calcutta Office :** The broad functions of the Calcutta Office are as follows :

- |                                 |   |
|---------------------------------|---|
| (i) <i>Local Purchase</i>       | Local purchase from Calcutta market as per order placed by Duliajan, finding the sources of the new indigenous products to replace foreign material required by the Company Inspection of local material before despatch. |
| (ii) <i>Passage and General</i> | Air, Rail, Sea passage booking meeting & greeting, booking of Hotel Accommodations and making other travelling arrangements.  |
| (iii) <i>Shipping</i>           | .. Import licence, Customs, Clearing, Foreign Exchange. Storing in warehouse and despatch.  |
| (iv) <i>Accounts</i>            | .. Payment of local Bills, clearing of sight draft through Bank Payment of customs duty, Port Commissioners charges, salary/wages and other Misc. bills.  |

For carrying out the above work of the company with the main centre of activity situated in a remote area in Assam, it is essential to have an office at Calcutta."

4.45. As regards reasons for having common offices, the Ministry have stated in a written note as under :

"The main reasons for a joint office is that separate offices with so many employees would be very costly and uneconomical to both the organisations. The Managing and other Directors, the Senior Technical Adviser and other staff perform functions for both O.I.L. and A.O.C./Burmah Group of Oil Companies and it is, therefore, considered advisable to have the above common offices. The administrative control of the major offices at Calcutta and Delhi vest in O.I.L."

(iii) *Technical Cell in Delhi*

4.46. Recently a technical cell has been organised by the Company in New Delhi office to work under the Senior Technical Adviser to the Managing Director. The Cell which is a part of the Managing Director's office in Delhi consists of one Technical Assistant and supporting secretarial staff. The annual expenditure on this cell is Rs. 36,000 approx.

4.47. Justifying the setting up of the cell in New Delhi the Ministry have stated :

“Development of complex oilfields with a 3 m.t.p. a production potential, maintenance, of this production potential (through additional drilling, multiple completions, pressure maintenance, secondary recovery etc.) transportation of this crude oil over a 720 miles long pipeline through a region vulnerable to changing river courses and floods, as also exploration for additional oil resources, all require a continuous sequence of technological forward planning and implementation.

The basic plans are made by operating personnel in the oilfields, but it is necessary that the plans should thereafter be independently scrutinised by a competent technical authority in close touch with Managing Director, Financial Director and the Ministry of Petroleum & Chemicals (who exercise an overall responsibility for coordination of all petroleum activities in the country). It is also necessary to indicate from time to time, by a senior Technical Member what new directions the operational planning should take. All these vital roles require some detachment from the oilfields day to day activities and close contact with Managing Director, Financial Director and the Ministry of Petroleum. This function can be fulfilled only from Delhi.”

**4.48. The Committee note that the share of Oil India Ltd. in the expenditure on outside offices in New Delhi and Calcutta worked out to Rs. 8.40 lakh and Rs. 5.86 lakhs respectively during the year 1966. The Committee are not convinced of the need for the Oil India Limited to have big offices at New Delhi and Calcutta with such heavy expenditure. One of the main reasons given in support of having an office in New Delhi is that Board meetings of the Oil India Limited are generally held in Delhi and that the Managing Director and Financial Director are stationed at Delhi. The Committee have already recommended that the Board meetings should invariably be held at the Headquarters of the Company in Assam.**

**4.49. The Committee also feel that the location of the office of the Managing Director and Financial Director of the Company at a place different from its Headquarter is not conducive to efficiency and economy and is contrary to normal industrial practice. Such an arrangement leads to duplication of technical and other staff at Delhi. The Committee have already recommended the stationing of these officers at the Headquarters of the Company in the interest of effective supervision and economy.**

**4.50. The Committee are also not satisfied with the justification given for the setting up of a Technical Cell of the Company in Delhi. Since**

the matters looked after by the Cell relate to oil field operations of the Oil India Limited, it is all the more necessary that such a Cell should be organised at Duliajan. The Committee note that there is already a technical manager at Duliajan to look after all such matters. Further there appears to be little justification for a highly paid Public Relations Officer at Delhi, particularly when the crude produced by Oil India Ltd. is sold to public sector refineries.

Such an officer if at all considered necessary is required at the headquarters at Dhuliajan. The Committee feel that with the shifting of the venue of Board meetings and the offices of Managing Director and Financial Director to Dhuliajan, there will not be any need for a big office at Delhi which will result in considerable economy.

4.51. Similarly the reasons given for having a big office of the Oil India Limited at Calcutta are not convincing. The Committee feel that there is considerable scope for economy in the expenditure of Calcutta office as many of its functions can be performed through specialised agencies. The Committee therefore recommend that the organisational set up and the staff strength of the Calcutta office need to be reviewed with a view to effect economy.

4.52. The Committee further suggest that with the shrinkage of the work at New Delhi and reorganisation of Calcutta office, as recommended by them, the need of having common offices with Assam Oil Company at New Delhi, Calcutta may be reviewed.

### G. Payment of Bonus

4.53. The Committee have been informed that Workmen in Oil India Ltd. were paid for each of the year 1964, 1965 and 1966 three months basic wages as bonus. Under the Payment of Bonus Act 1965, Executives drawing salaries upto Rs. 1,600 per month inclusive of dearness allowance were paid a minimum bonus at the rate of 4 per cent in accordance with section 10 of the Act.

The amount paid as bonus during the last three years is as under :—

		Rs.	Rs.
1964	Workmen ..	9,86,482·00	
	Junior Executives ..	51,633·48	10,62,811·25
	Senior Executives ..	24,695·77	
1965	Workmen ..	10,57,855·00	
	Junior Executives ..	65,882·66	11,46,180·15
	Senior Executives ..	22,442·49	
1966	Workmen ..	11,04,522·00	
	Junior Executives ..	65,413·29	11,91,403·50
	Senior Executives ..	21,468·21	

4.54. In reply to a specific question it has been stated that after the enforcement of the Payment of Bonus Act 1965, the workmen were not entitled to 3 months basic wages as bonus because there was no surplus available with the company in these years as per the calculations made under the formula provided by the Act. However, the 3 months bonus had to be continued by the company for the workers for various reasons including historic and in the interest of industrial harmony.

4.55. During the course of the evidence the Secretary of the Ministry informed the Committee that it was an unusual step in the sense that there was no statutory obligation, but nevertheless, the Company thought it necessary and desirable to give a bonus to the staff and in that particular instance the matter was referred to the Government of India where it was considered at the highest level and approved.

4.56. Justifying this action the Ministry have stated in a written note as follows :

“An overwhelming majority of the Oil India workmen/employees were the former employees of the Assam Oil Company which has been paying bonus to workers at the rate of 3 months basic wages as per a long term agreement they had concluded with the workers Union. When the workers were transferred from the Assam Oil Company to Oil India Limited they were assured that their terms and conditions of service would be no less favourable than what they were enjoying with the Assam Oil Company. In view of this it was obligatory on the part of Oil India to pay the workers a quantum of 3 months basic wages which they have been receiving over a number of years.

Bonus has been paid to junior and senior executives only in accordance with the Bonus Act. The reasons for paying bonus to the workers (though not strictly necessary according to the Bonus Act) are explained above.

The annual expenditure on account of payment of bonus in 1967 was Rs. 12.39 lakhs.”

**4.57. Oil India Limited is incurring an annual expenditure of Rs. 12 lakhs on account of payment of bonus to its employees though it was not payable under the Payment of Bonus Act, 1965. It is unfortunate that this liability has been incurred by Oil India Limited even when heavy subsidies were paid to it by Government to make up the guaranteed return of 9% during this period.**

## H. Employment of Indian Personnel

### (i) *Indianization*

4.58. Clause 18 of the Promotion Agreement of January 1958 provides that :

“The Company shall employ Indian nationals in preference to non-Indians whenever Indian nationals of the requisite qualifications,

calibre and experience are available. The Company will also arrange for the training of an adequate number of Indian nationals in India and abroad so that to the fullest extent practicable its organisation will be manned by Indians as early as possible. For this purpose the Company will consult the Government of India from time to time."

Further clause 17 of the Second Supplemental Agreement of July, 1961 lays down that :

"Oil India will afford the maximum possible employment and training facilities for Indian personnel and the Burmah Oil Company will train Indians abroad in all fields of the petroleum industry at the expense of Oil India."

In reply to a written question the Ministry have informed the Committee that the Company had 19, 12 and 8 foreign employees as on the 1st of April, 1965, 1966 and 1967 respectively. It was also stated by the Ministry that 90% of the key posts are held by Indian Nationals.

(ii) *Training*

4.59. In regard to arrangements made by the Company to impart technical training to an adequate number of Indians in India and abroad the Ministry have stated as follows :—

"O.I.L. has sent its executives for technical training to various institutions in India such as

Director General of Civil Defence; Research & Development Organisation, Indian Medical Association, Central Electrochemical Research Institute; Lucas Indian Service Private Ltd.; Burmah-Shell Training Centre; National Institute for Industrial Engineering; Materials Management Association of India.

In addition, a number of executives have been sent on technical training courses in the U.K. and U.S.A. Arrangements have also been made with the B.O.C. Ltd., London, for imparting technical training in various fields."

4.60. During evidence in January 1968, the Secretary of the Ministry informed the Committee that at that time there were only three foreigners employed by the Company—one Stores Superintendent, one Assistant Drilling Superintendent and one Production Engineer. He also informed the Committee that they were likely to be there for some time more because they were highly skilled.

4.61. In a written note the Ministry have stated as follows in regard to Indianisation of Oil India Ltd.

"In the year 1961, Oil India had on their pay roll 62 expatriates in various positions. With a phased programme which has been

continuously discussed and agreed by Government, the number of 1967 has been brought down to 3 who are experienced officers and as such are useful to the Company.

It will thus be seen that the programme of Indianisation has progressed very well in Oil India. OIL, has therefore been able to make considerable savings in the high salaries which were paid to the expatriates by replacement of Indian Nationals in these posts. The successors are paid according to OIL scale of pay.

In organisations doing similar type of work, the expatriates employed are paid on an average salaries—from Rs. 7,000 to Rs. 8,000 p.m. (free of income-tax) and their number will be approximately in the range of 80 to 100 at least. OIL has been able to make substantial economy by this measure.”

**4.62. The Committee are happy at the progress achieved in the matter of Indianisation of the Oil India Limited. They hope that complete Indianisation of the posts in Oil India Limited will be achieved as early as possible.**

#### I. Construction of buildings etc.

4.63. From the schedule of the Fixed Assets of the Oil India Ltd. as at the end of 31-12-66 it is seen that the total cost of land and buildings of Oil India amounts to over Rs. 9 crores (Land—Rs. 2.27 crores, buildings Rs. 7.10 crores).

The break-up of the locations of lands and buildings is as under :

	Duliajan/Moran	Pipelines	Total (Rs. lakhs)
Land .. .. .	45	182	227
Building .. .. .	377	333	710
	Oil India Ltd.	Pipelines	Total
Residential Buildings ..	275	148	423
Buildings for Administrative Purposes .. .. .	2	7	9

It will be seen that the value of residential buildings is Rs. 4.23 crores. Asked about the justification for spending so much for providing houses to the employees when the crude reserves are a wasting asset, the Ministry have stated as follows :

“Though crude oil is a wasting asset, the presently estimated reserves of the company will last at least for another 25 years. The company is also conducting exploration programme in Dum Duma and Ningru areas where most probably oil fields will

be found. Taking these factors into account, there is ample justification for spending a large sum on housing. As the Nahorkatiya oilfield is far away from any town or city in Assam, it was absolutely necessary to provide residential accommodation to the staff in the interest of proper working of the company. In this connection, it is pertinent to note that A.O.C. which started its operations in Digboi in 1889 with a small Digboi field containing about 10 million tonnes of crude oil is still continuing its operations."

**4.64. The Committee agree that there is need for providing housing facilities to its employees by oil India Limited. They feel that in the construction of houses utmost economy should have been observed. They hope that this aspect will be kept in view in future.**

NEW DELHI

*April 30, 1968*

*Vaisakha 10, 1890 (Saka)*

P. VENKATASUBBIAH

*Chairman*

*Estimates Committee*



# APPENDIX I

(*vide* para 1.9)

## TEXTS OF :

(i) Promotion Agreement dt. 14-1-58 between the Government of India, the Burmah Oil Company and Assam Oil Company.

(ii) Supplemental Agreement dt. 16-2-59 between the Government of India, the Burmah Oil Company and Assam Oil Company.

(iii) Adopting Agreement dt. 14-3-59 between the Government of India, the Burmah Oil Company, Assam Oil Company and Oil India Private Limited.

## APPENDIX I

THIS AGREEMENT made this 14th day of January 1958, BETWEEN The President of India (hereinafter called "the Government of India") which expression shall, unless excluded by or repugnant to the context, be deemed to include his successors of the first part. The Burmah Oil Company Limited, a company incorporated under the United Kingdom Companies Act and having its registered office at 175, West George Street, Glasgow, C. 2, (hereinafter called "the Burmah Oil Company") which expression shall, unless excluded by or repugnant to the context, be deemed to include its successors and assigns of the second part and the Assam Oil Company Limited, a company incorporated and registered under the United Kingdom Companies Act and having its registered office at Britannic House, Finsbury Circus, London. E.C. 2 and also carrying on business at Digboi in the State of Assam and elsewhere in India (hereinafter called "the Assam Oil Company" which expression shall, unless excluded by or repugnant to the context, be deemed to include its successors and assigns of the third part.

### WHEREAS

(1) The Assam Oil Company is a wholly owned subsidiary of the Burmah Oil Company.

(2) The Government of Assam with the approval of the Central Government agreed to grant certain prospecting licences for petroleum in accordance with the provisions of the Petroleum Concession Rules, 1949 (hereinafter called the "Said Rules") over Nahorkatiya Extension Hugrijan and Moran areas in the State of Assam (hereinafter referred to as the "Said Areas") to the Assam Oil Company on the terms and conditions mentioned in the several letters referred to in Part I of the Schedule hereunder written.

(3) The Government of Assam with the approval of the Central Government agreed to grant a mining lease over an area extending to 0.55 square miles situated in Nahorkatiya in the State of Assam (hereinafter referred to as the "Mining Lease Area") in accordance with the Said Rules and on the terms and conditions mentioned in the letter referred to in Part II of the said Schedule.

(4) One of the terms of the said agreement to grant prospecting licences was that the Assam Oil Company would form a Rupee Company to which the aforesaid prospecting licences to be granted to the Assam Oil Company would be transferred.

(5) One of the terms of the said agreement to grant a mining lease was that, in the event of a Rupee Company being formed to work the Nahorkatiya

Extension prospecting licence area, the said Mining Lease to be granted to the Assam Oil Company would also be transferred to the said Company.

(6) The said prospecting licences and mining lease have not yet been executed by the State of Assam in favour of the said Assam Oil Company.

(7) The parties hereto desire to promote a new Rupee Company (hereinafter referred to as "the Company") to be formed and registered in the State of Assam, *inter alia*, with the object of obtaining mining leases for petroleum over the Said Areas for which prospecting licences would be granted to the Assam Oil Company and for obtaining the transfer of the said Mining Lease and for exploration and production of petroleum and crude oil (including natural gas) and for arranging for such pipeline or other related facilities as the Company may consider necessary for the transport of the crude oil produced from all these areas.

NOW IT IS HEREBY AGREED by and between the parties hereto as follows :—

1. The Government of India shall within six months from the date hereof or such longer period as may be agreed between the parties hereto procure the Government of Assam to issue to the Company or if the same shall not then have been formed to the Assam Oil Company :—

- (a) prospecting licences under and in accordance with the Said Rules in respect of the Said Areas on the terms and conditions mentioned in the several letters referred to in Part I, of the Schedule hereunder.
- (b) a mining lease under and in accordance with the Said Rules in respect of the Mining Lease Area on the terms and conditions mentioned in the letter referred to in Part II of the said Schedule.

2. The Company shall be called OIL INDIA PRIVATE LIMITED and shall be promoted by the Assam Oil Company and incorporated and registered in Assam as a private company limited by shares under the Companies Act, 1956, *inter alia* with the object of obtaining and working mining leases for petroleum over the Said Areas and the Mining Lease Area and for exploration and production of petroleum and crude oil (including natural gas) and for arranging for a pipeline or other related facilities as the Company may consider necessary for the transport of the crude oil from all these areas. The Assam Oil Company shall be repaid by the Company all expenses of and incidental to such promotion, incorporation and registration.

3. The Memorandum and Articles of Association of the Company shall be as approved by the Government of India and the Burmah Oil Company.

4. (a) The initial authorised capital of the Company shall be Rs. 50 crores divided into 5,00,000 equity shares of Rs. 1,000 each. Unless otherwise

agreed, all of such shares as may be issued from time to time shall be issued for cash at par, and two thirds thereof will be applied for and allotted to the Burmah Oil Company and/or its nominee or nominees and one-third thereof will be applied for and allotted to the Government of India and/or its nominee or nominees.

(b) Within one month from the date of registration of the Company the Government of India, and the Burmah Oil Company shall subscribe and pay in cash for and the Company shall issue sufficient share out of its initial authorised capital to pay to the Assam Oil Company all sums payable to the Assam Oil Company under Clause 7 hereof and to provide for the Company's immediate requirements of working capital.

5. Immediately after the registration of the Company the Assam Oil Company shall, if the same shall have been granted to it, subject to payment by the Company of all expenses of and incidental thereto transfer and/or assign in favour of the Company the prospecting licences over the Said Areas as also the mining lease over the Mining Lease Area referred to in Clause 1 hereof. Mining Leases for the Said Areas or any portion of them shall be granted to the Company direct.

6. The Assam Oil Company shall subject to payment by the Company of all expenses of and incidental thereto also transfer to and/or assign in favour of the Company free from all encumbrances created by itself all its assets and properties held by it within and for the purpose of operating in the Said Areas and the Mining Lease Areas as also such of its other assets outside the Said Areas and the Mining Lease Area which are used or intended to be used exclusively for the purpose of the operations in the Said Areas or the Mining Lease Areas, determined as provided in Clause 7(2) hereof. The Company shall accept such title as the Assam Oil Company has to the assets and properties hereby agreed to be transferred or assigned.

7. (1) The Company shall pay to and reimburse the Assam Oil Company the following sums, that is to say :—

- (a) All costs of or in connection with the surveys and explorations under the geophysical licence relating to the Said Areas excluding assets transferred as hereinbefore provided,
- (b) All costs of prospecting and exploring operations in the Said Areas till the date of the transfer excluding assets transferred as hereinbefore provided.
- (c) The cost of the assets and properties transferred to the Company at cost less any depreciation allowance and any development rebate allowed to the Assam Oil Company or to which the Assam Oil Company may be entitled at the date of transfer under clauses (vi), (via) and (vib) of sub-section (2) of Section 10 of the Indian Income Tax Act.

Provided that :—

- (i) the costs included in the assessment were such as could have been reasonably incurred in the execution of the operations mentioned in sub-clauses (a) and (b) of this clause.
- (ii) such costs of the aforesaid operations referred to in sub-clauses (a) and (b) above as have been already charged to the working expenses of the Assam Oil Company shall not be included in the assessment if they have been allowed as deductions in computing the taxable profits in India of the Assam Oil Company.

(2) The assets to be transferred shall be determined and the sums due under sub-clause (1) shall be assessed prior to the registration of the Company by a Committee consisting of four persons, two to be appointed by the Government of India and two to be appointed by the Assam Oil Company. The Committee may inspect the assets to be transferred and also the accounts of the Assam Oil Company as far as relating to the costs to be paid and the assets to be transferred and the Assam Oil Company shall furnish all necessary facilities to the said Committee for the purpose of the assessment.

(3) The payments and reimbursements to be made to the Assam Oil Company under this Clause shall be paid in cash within one month after the first issue of capital by the Company.

8. The Board of Directors of the Company shall consist of not less than 6 and not more than 12 Directors to be nominated by the Burmah Oil Company and the Government of India on the basis that for every two nominees of the Burmah Oil Company there shall be one nominee of the Government of India. Provided that the Government of India shall be entitled to designate one of its nominees as a Special Director of the Company for the purposes of Clause 10 hereof. The Government of India may also appoint one of its nominees to function as a Special Director in the absence of the Special Director.

9. No Director shall be required to hold any qualification shares. The Board of Directors of the Company may appoint any person to act as an Alternate Director for any of the Directors in accordance with and subject to the provisions of the Articles of Association of the Company relating to Alternate Directors. Every Alternate Director to be appointed by the Board of Directors pursuant to the foregoing provisions shall be nominated by the party by whom the absent director for whom he is to act was nominated or appointed, that is to say by the Government of India or by the Burmah Oil Company as the case may be.

10. The Special Director of the Company may in his discretion reserve for the consideration of the Government of India any proposals or decisions of the Board of Directors in respect of the following :—

- (a) Increasing the authorised capital of the Company or issuing any unissued shares forming part of the original authorised capital otherwise than pursuant to Clause 4 (b) :
- (b) Any programme of capital expenditure for an amount which exceeds Rs. 5 lakhs :
- (c) Any borrowing by the Company (other than overdraft arrangements for purposes of working capital) in excess of the then paid-up capital of the Company, or at a rate of interest exceeding the Reserve Bank of India discount rate by more than two per cent :
- (d) Issue of debentures :
- (e) Winding up of the Company :
- (f) Any other matter brought before the Board involving an important question of national policy which in his opinion requires the consideration of the Government of India. Any such reservation shall be intimated by such Special Director at the meeting at which such proposals or decisions are made or taken.

11. In respect of matters reserved by the Special Director for the consideration of the Government of India under sub-clause (f) of Clause 10 hereof the Government of India shall within forty-five days of the meeting at which such reservation was intimated intimate in writing if it disagrees with such proposal or decision, and in the event of such disagreement such proposal or decision shall not be put into effect. If intimation of the Government of India's disagreement be not received within the aforesaid period of forty-five days, the Company shall be entitled to act in accordance with the proposal for decision without further sanction by the Government of India.

12. The Company shall arrange for the construction in two stages, and operation of a pipeline or such other related facilities as the Company shall consider necessary for the transport of the crude oil to be produced by it up to Barauni. The first such stage shall consist of the construction of a pipeline or other related facilities as aforesaid to an intermediate locality to be approved by the Government of India and the Burmah Oil Company and the second stage shall consist of the construction of a pipeline or other related facilities as aforesaid from such intermediate locality to Barauni. The timing of the commencement of each of the two stages shall be determined by the Government of India. The method of raising and providing the finance required at both stages of the construction and the operation and use (including rights of use) of the said pipeline and other related facilities shall be as agreed between the Burmah Oil Company and the Government of India; it being understood that this Clause does not impose any obligation upon either party to provide the finance for any of the above purposes from their own resources save to the extent that the Burmah Oil Company will make a loan to the Company in the United Kingdom, on terms to be

agreed between the Burmah Oil Company and the Government of India, of a sufficient sum in sterling to meet the foreign exchange requirements of the cost of the said first stage of the construction of the said pipeline and other related facilities.

13. The Company shall sell crude oil produced by it to each of the two refineries sponsored by the Government of India and specified in that behalf. The first of such refineries shall be established at the intermediate locality referred to in Clause 12 hereof and the second at Barauni. The Government of India shall arrange that the entire crude oil required for each such refinery will be purchased from the Company in so far as the Company may be able to meet the requirements. The delivered price payable by each such refinery shall be either the lowest price delivered at Calcutta at which such crude oil can be secured by the refinery from any alternative source or the cost incurred by the Company together with a reasonable commercial return, whichever is less, such price being fixed by the Company with the approval of the Government of India after examination by the latter of the costs and subject to review in January and July of each year. In determining the cost incurred by the Company for the purpose of this Clause, the quantum of such costs and the elements to be taken into account in calculating such costs, shall be as mutually agreed between the Government of India and the Company.

14. The disposal of crude oil produced by the Company otherwise than by sale to the aforesaid refineries shall be subject to the approval of the Government of India.

15. The price of crude oil for sale by the Company other than to the refineries aforesaid will be an economic price and will be fixed by the Company with the approval of the Government of India.

16. Contracts or arrangements shall not be entered into by the Company with companies or persons in foreign States or with other companies in India in respect of crude oil without the prior approval of the Government of India.

17. Subject to the consent of the United Kingdom Exchange Control authorities the Burmah Oil Company will pay for the shares to be subscribed for by it in sterling, and for that purpose funds held from time to time by it or its subsidiary or associated companies, qualifying under the Foreign Exchange Regulation Act, 1947, existing at the date hereof, for remittances from India which are used for this purpose shall be deemed to be sterling. The Government of India shall pay for the shares to be subscribed for by it in rupees only. Should the Company's overall requirements of foreign exchange for capital expenditure including that required for the pipeline or other related facilities exceed the sum of the aforementioned share subscriptions in sterling of the Burmah Oil Company and any funds raised by loans

outside India, the Burmah Oil Company undertakes to use its best endeavour to obtain sterling for the Company to meet this deficiency.

18. The Company shall employ Indian nationals in preference to non-Indians whenever Indian nationals of the requisite qualifications, calibre and experience are available. The Company will also arrange for the training of an adequate number of Indian nationals in India and abroad so that to the fullest extent practicable its organisation will be manned by Indians as early as possible. For this purpose the Company will consult the Government of India from time to time.

19. The Company shall within the scope of its own activities provide facilities and make arrangements for the training of Indian technical personnel needed by the Government of India in accordance with a programme to be agreed upon between the Government of India and the Company.

20. The Assam Oil Company will do its utmost to promote the efficiency and success of the Company by putting at its disposal all the experience and data with regard to the Said Areas and the Mining Lease Area which it possesses, and in particular all the geological and geophysical data accumulated by it in the past in the course of its exploration and development of the Said Areas and the Mining Lease Area, the advantages of its past research relating to the interpretation of these data, particularly with respect to the reconstruction of the complex structural and sedimentary history of the areas, to studies of oil migrations and primary and secondary accumulations, the benefit of its experience in the application of the aforementioned data and advantages of past research to the search for oil in the Said areas and the Mining Lease Area and all the results of its experience gained during many years of operations of the general and specialised techniques required in the oil industry on the engineering, drilling, production and reservoir physics aspects of oil exploration and oilfield development and oil transport. IN CONSIDERATION THEREOF the Assam Oil Company shall for a period of twenty years from the date of registration of the Company be entitled to receive from the Company in each year one in twenty-four tons of oil and associated natural gas produced by the Company on payment of production costs and royalty for the first million tons of production in each year, one in forty-eight tons for the second million tons in each year and one in ninety-six tons for the third million tons in each year. The Assam Oil Company shall not be entitled to receive any such oil and natural gas for quantities produced beyond three million tons in any one year. PROVIDED also that the Assam Oil Company shall not be entitled to any other fees, remuneration or charges for rendering the above services.

21. The Assam Oil Company shall render to the Company such specific services and facilities as may be required by the Company and which the Assam Oil Company having regard to the requirements of its own business is in a position to render or provide, such as workshop, accommodation,



hospital, geological, drilling, production, engineering, transport and store-keeping. The Company shall pay to the Assam Oil Company actual costs including a due proportion of overhead expenses for such services and facilities as are provided by the Assam Oil Company but nothing shall be included in such costs for remuneration to the Assam Oil Company. The parties shall procure that an agreement will be entered into between the Assam Oil Company and the Company for the provision of services and facilities as above and the agreement will also provide for the discontinuance of any service or facility by either party on twelve months' notice.

22. The Government of India and the Burmah Oil Company respectively undertake to exercise or to procure the exercise of all voting powers either direct or indirect of themselves and of their nominees as the case may be, respectively at general meetings and extraordinary general meetings of the Company and (through their representatives on the Board) at meetings of the Board of Directors of the Company and in the exercise of the powers of Directors to pass resolutions by circular or otherwise in such manner as will give effect to the terms and conditions of this Agreement relative to the appointment of Directors, the execution of the agreement and documents herein-mentioned and to all other provisions herein contained and generally so as to carry out the purposes and intentions of this Agreement.

23. All prospecting licences and mining leases in respect of the Said Areas and the Mining Lease Area shall be held in accordance with and subject to the Petroleum Concession Rules, 1949. The Government of India shall on the application of the Company grant and when necessary renew any Certificates of Approval for Petroleum that may be required by the Company.

24. Any dispute or difference between the Government of India on the one hand and the Burmah Oil Company and/or the Assam Oil Company on the other of any kind whatsoever at any time or times arising out of or in connection with or incidental to this Agreement (including any dispute or difference regarding the interpretation of this Agreement or any clause thereof) shall be referred to the arbitration of two arbitrators, one to be appointed by the Government of India and one by the Burmah Oil Company and/or the Assam Oil Company (which arbitrators shall appoint an umpire before taking upon themselves the burden of the reference under this Agreement) and such reference shall be deemed to be a submission to arbitration within the meaning of the Indian Arbitration Act, 1940, or any statutory modification thereof. In the event of the arbitrators failing to agree upon an umpire such umpire shall be appointed by the Chief Justice of India.

25. Notwithstanding the promotion and incorporation of the Company, this Agreement shall continue and remain in force and be binding between the parties in respect of the terms and conditions hereof and the rights and obligations of the parties respectively in connection therewith which may be subsisting and not fully performed as at the date of such incorporation.

26. In the construction and operation of this Agreement, regard shall be had to the letters referred to in Part III of the said Schedule, copies whereof are hereto annexed and collectively marked as Annexure 'A' which set out various understandings arrived at between the parties.

27. Subject to what is hereinbefore provided, all previous commitments, undertakings and correspondence connected with this Agreement will be superseded by the Agreement and, subject as aforesaid and to any alterations or clarifications made hereafter by mutual consent, this Agreement alone shall be binding on the parties in relation to the subject-matter thereof.

SCHEDULE ABOVE REFERRED TO

*Part I*

1. Letter dated 28th January 1954 from Shri S. C. Kagti, I.A.S., Secretary to the Government of Assam in the Revenue Department to the Deputy Commissioner, Lakhimpur.

2. Letter dated 26th August 1955 from Shri Uma Kanta Sarma, B.A., A.C.S., Under Secretary to the Government of Assam, Revenue Department, to the Deputy Commissioner, Lakhimpur.

3. Letter dated 26th August 1955 from the said Shri Uma Kanta Sarma to the Deputy Commissioner, Lakhimpur.

*Part II*

1. Letter dated 21st January 1954 from the said Shri S. C. Kagti to the Deputy Commissioner, Lakhimpur.

*Part III*

1. Letter dated 29th November 1957 from Mr. R. P. Smith, Managing Director, the Burmah Oil Company to Shri S. S. Khera, I.C.S., Secretary to the Government of India, Ministry of Steel, Mines & Fuel headed 'Sterling Loan from the Burmah Oil Company to the Rupee Company'.

2. Letter dated 14th January 1958 from Shri S. S. Khera, I.C.S., Secretary, to the Government of India, Ministry of Steel, Mines & Fuel, Department of Mines & Fuel to R. P. Smith, Esq., Managing Director, the Burmah Oil Company headed 'Availability of steel, other raw materials and services for utilisation in the construction and laying of a pipeline for transport of crude oil' and reply thereto dated 14th January 1958 under the same heading from R. P. Smith, Esq., Managing Director, the Burmah Oil Company to Shri S. S. Khera, I.C.S., Secretary to the Government of India, Ministry of Steel, Mines & Fuel.

3. Letter dated 14th January 1958 from the Assam Oil Company to the Secretary to the Government of India, Ministry of Steel, Mines & Fuel, Department of Mines & Fuel, headed 'Supplies of crude oil from the Rupee

Company to the Assam Oil Company' and reply thereto, dated 14th January 1958 under the same heading, from the Secretary to the Government of India, Ministry of Steel, Mines & Fuel, Department of Mines & Fuel, to the Assam Oil Company.

4. Letter dated 14th January 1958 from Shri B. K. Nehru, I.C.S., Secretary to the Government of India, Ministry of Finance to Mr. R. P. Smith, Managing Director of the Burmah Oil Company, relating to the foreign exchange entitlement of the Company.

5. Letter dated 14th January 1958 from the Burmah Oil Company to the Secretary to the Government of India, Ministry of Steel, Mines & Fuel, Department of Mines & Fuel, headed 'Transportation of Crude Oil' and reply thereto dated 14th January 1958, under the same heading, from the Secretary Ministry of Steel, Mines & Fuel, Department of Mines & Fuel, to the Burmah Oil Company.

6. Letter dated 4th December 1957 from Mr. R. P. Smith, Managing Director of the Burmah Oil Company to Shri S. S. Khera, I.C.S., Secretary to the Government of India, Ministry of Steel, Mines & Fuel, headed 'Rupee loans from the Government of India to the Rupee Company'.

In witness whereof K. K. Sahni, Joint Secretary to the Government of India in the Ministry of Steel, Mines & Fuel, Department of Mines & Fuel, for and on behalf of the President of India has hereunto set his hand and The Burmah Oil Company Limited by its duly constituted attorney Robert Paterson Smith (as witnessed by the power of attorney produced by him) and Assam Oil Company Limited by its duly constituted attorney Robert Paterson Smith (as witnessed by the power of attorney produced by him) have executed these presents the day and year first above written.

Signed by the said K. K. Sahni for and on behalf of the President of India in the presence of :—

(Sd.) S. R. SUNDARAM,

(Sd.) K. K. SAHNI.

*Under Secretary,*

*Ministry of Steel, Mines & Fuel.*

Signed by the Burmah Oil Company Limited by the said Robert Paterson Smith its duly constituted attorney in the presence of :—

(Sd.) W. P. G. MACLACHLAN,

(Sd.) R. P. SMITH.

*General Manager,*

*Assam Oil Company, Limited,  
Digboi, Assam.*

Signed by Assam Oil Company Limited  
by the said Robert Paterson Smith its duly  
constituted attorney in the presence of :—

(Sd.) W. P. G. MACLACHLAN,  
*General Manager,*  
*Assam Oil Company, Limited,*  
*Digboi, Assam.*

(Sd.) R. P. SMITH.

CLAUSE 26, ANNEXURE A.  
LETTER NO. 1, SCHEDULE PART III.  
*New Delhi, the 29th November, 1957.*

FROM

R. P. Smith, Esq., Managing Director,  
The Burmah Oil Company Limited.

TO

Shri S. S. Khera, I.C.S.,  
Secretary to the Government of India,  
Ministry of Steel, Mines and Fuel,  
New Delhi.

DEAR SHRI KHERA,

*Sterling Loan from the Burmah Oil Company to the Rupee Company.*

I write to indicate the nature of the terms to be agreed between the Government of India and the Burmah Oil Company for the loan to be made by the latter to the Rupee Company pursuant to Clause 12 of the draft Memorandum of Agreement between the President of India of the first part, The Burmah Oil Company of the second part and the Assam Oil Company of the third part. At least to the extent that the money is used for the purchase outside India of capital plant and machinery, The Burmah Oil Company will wish to have the benefit of section 4(3) (xvii) of the Indian Income Tax Act so that it will receive interest free of Indian Tax.

To ensure this our legal advisers inform me that the loan must be approved by the Central Government. This should, therefore, be a term of the loan.

The other terms to be agreed are :—

1. The rate of interest.
2. The time and manner of repayment.

Both the above must depend upon the terms upon which The Burmah Oil Company itself borrows the money in London, the intention being that identical terms will apply to the loan from the Burmah Oil Company to the Rupee Company so that The Burmah Oil Company neither loses nor profits by the transaction.

Yours sincerely,  
(Sd.) R. P. SMITH.

CLAUSE 26, ANNEXURE A.  
LETTER NO. 2, SCHEDULE PART III.  
GOVERNMENT OF INDIA  
DEPARTMENT OF MINES & FUEL  
(MINISTRY OF STEEL, MINES & FUEL)

No. 158(2)/56-OR

*New Delhi, the 14th January, 1958.*

FROM

Shri S. S. Khera, I.C.S.,  
Secretary to the Government of India.

TO

R. P. Smith, Esq.,  
Managing Director,  
The Burmah Oil Company Limited,  
10-Golf Links,  
New Delhi.

SIR,

SUBJECT—*Availability of steel, other raw materials and services for utilisation in the construction and laying of a pipeline for transport of crude oil.*

I am directed to refer to the recent discussion between the Government of India and your Company on the above subject and to indicate below, for the sake of good order, the points of agreement arrived at therein, viz.,

- (i) It was made clear to you that it may not be possible for the Government of India to make available to the Rupee Company steel, other raw materials and services, etc., in India, for the construction and laying of a pipeline for the transport of crude oil from the oil-fields to the sites selected for the location of the Government sponsored refineries. Accordingly, you agreed not to seek Government assistance in this regard and undertook to obtain such steel, other raw materials and fabrication services, etc., from elsewhere and on your own.
- (ii) On the other hand, should the Government of India be in a position to make available steel, other raw materials, and services, etc., from within the country, you undertook to avail of such resources to the extent indicated by the Government.

2. I am to request you to confirm your acceptance of the above points of agreement.

Yours faithfully,  
(Sd.) S. S. KHERA  
*Secretary to the Government of India.*

CLAUSE 26, ANNEXURE A.

ACKNOWLEDGEMENT LETTER No. 2, SCHEDULE PART III.

FROM

R. P. Smith, Esq., Managing Director,  
The Burmah Oil Company Limited.

To

Shri S. S. Khera, I.C.S.,  
Secretary to the Government of India,  
Ministry of Steel, Mines and Fuel,  
Department of Mines & Fuel,  
New Delhi.

DEAR SIR,

*Availability of steel, other raw materials and services for utilisation in the construction and laying of a pipeline for transport of crude oil.*

We acknowledge, with thanks, your letter of the 14th January 1958 under the above heading and confirm that we agree to the understandings contained therein.

Yours faithfully,  
For the Burmah Oil Company Limited,  
(Sd.) R. P. SMITH  
14-1-1958.  
*Managing Director.*

## CLAUSE 26, ANNEXURE A.

## LETTER No. 3, SCHEDULE PART III.

To

The Secretary to the Government of India,  
Ministry of Steel, Mines & Fuel,  
Department of Mines & Fuel,  
New Delhi.

DEAR SIR,

*Supplies of crude oil from the Rupee Company to the Assam Oil Company.*

We have today concluded with the Government of India and The Burmah Oil Co., Ltd., an agreement governing *inter alia* the taking over by a new rupee company of certain of our existing oil concessions in Assam. Clauses 14 and 15 of the agreement provide that the disposal of crude oil produced by the rupee company other than by sale to the two new refineries and the price of any such other sale will be subject to the approval of the Government of India. In our discussions it has been agreed that, to the extent that the rupee company, after meeting the crude oil requirements of the two new refineries, can supply our crude oil requirements for our Digboi refinery additional to those which we can meet from our own resources, we shall purchase such crude oil from the rupee company and the rupee company will sell such crude to us.

2. It has also been further agreed that the price which we shall pay for these supplies of crude oil delivered to our Digboi refinery will initially be the contemporary cost at Calcutta of crude oil from the nearest available alternative source of supply with suitable adjustments for differences in gravity and quality, and that this price will be subject to review in January and July of each year.

3. We should be glad to receive your confirmation of your agreement to the above understandings.

Yours faithfully,  
For Assam Oil Company Limited,  
(Sd.) R. P. SMITH  
14-1-1958.  
Managing Director.

CLAUSE 26, ANNEXURE A.

ACKNOWLEDGEMENT LETTER No. 3, SCHEDULE PART III.

GOVERNMENT OF INDIA

DEPARTMENT OF MINES & FUEL  
(MINISTRY OF STEEL, MINES & FUEL)

No. 158(2)/56-OR

New Delhi, the 14th January, 1958.

FROM

The Secretary to the Government of India,  
Ministry of Steel, Mines & Fuel,  
Department of Mines & Fuel,  
New Delhi.

To

M/s. Assam Oil Company, Limited,  
Nahor House,  
10, Golf Links,  
New Delhi.

DEAR SIRs,

*Supplies of crude oil from the Rupee Company to the Assam Oil Company.*

I acknowledge with thanks your letter of 14th January 1958 under the above heading. I confirm Government's agreement to the understandings set forth therein.

Yours faithfully,  
(Sd.) S. R. SUNDARAM  
*for Secretary to the Government of India.*



## CLAUSE 26, ANNEXURE A.

## LETTER No. 4, SCHEDULE, PART III.

GOVERNMENT OF INDIA

DEPARTMENT OF ECONOMIC AFFAIRS

MINISTRY OF FINANCE

*New Delhi, the 14th January, 1958.*

DEAR MR. SMITH,

During the course of our discussions, certain questions were raised regarding the entitlement of the rupee company to foreign exchange for various purposes. I write to explain the correct position.

2. In so far as import licences will be required for the purchase of plant, equipment, machinery, stores and technical services to establish the rupee company and/or the pipeline, these licences together with exchange control copies will be granted to the rupee company to the extent of the amount of the share capital subscriptions of the Burmah Oil Company and any loan or loans that may be raised in foreign markets. In so far as the requirements of the rupee company of foreign exchange for the import of such goods exceed the amounts above stated or are required for the purposes of maintenance or operation, licences will be issued on the basis of the import policy that may be in force from time to time. Remittances for the services of technicians will similarly be permitted in accordance with the regulations in force.

3. The announced policy of the Government of India in regard to the remittance of interest, profits and dividends will apply to the rupee company. The present policy is that such remittances are permitted in full. The Government of India hope to be able to continue this policy in the future.

Yours sincerely,  
(Sd.) B. K. NEHRU.

R. P. Smith, Esq.,  
Managing Director,  
The Burmah Oil Company,  
10, Golf Links,  
New Delhi.

CLAUSE 26, ANNEXURE A

LETTER No. 5, SCHEDULE, PART III.

FROM :

The Burmah Oil Co. Ltd.

To :

The Secretary to the Government of India,  
Ministry of Steel, Mines & Fuel,  
Department of Mines & Fuel,  
New Delhi.

DEAR SIR,

*Transportation of crude oil.*

In the event of the second stage of construction of the pipeline, as envisaged in Clause 12 of the Memorandum of Agreement concluded between us on 14th January, 1958, being found impossible by reason of failure to find finance, the agreement will be reviewed by both parties in the light of the consequences which would ensue from such failure and any consequent revisions would be as mutually agreed by the parties. We should be grateful if you would confirm your agreement to the above understanding.

Yours faithfully,  
for The Burmah Oil Company Ltd.  
(Sd.) R. P. SMITH  
14-1-1958  
*Managing Director.*

CLAUSE 26, ANNEXURE A.

ACKNOWLEDGEMENT LETTER No. 5, SCHEDULE, PART III

GOVERNMENT OF INDIA

DEPARTMENT OF MINES AND FUEL

(MINISTRY OF STEEL, MINES AND FUEL)

No. 158(2)/56-OR.

New Delhi, the 14th January, 1958.

FROM :

The Secretary to the Government of India.

To :

The Burmah Oil Company Limited.

DEAR SIRs,

*Transportation of crude oil*

I acknowledge with thanks your letter of 14th January 1958 under the above heading. I confirm Government's agreement to the understanding contained therein.

Yours faithfully,

(Sd.) S. R. SUNDARAM

for Secretary to the Government of India.

CLAUSE 26, ANNEXURE A.

LETTER No. 6, SCHEDULE, PART III.

4th December, 1957.

FROM :

R. P. Smith, Esq.,

To :

Shri S. S. Khera, I.C.S.,  
Secretary to the Government of India,  
Ministry of Steel, Mines and Fuel,  
New Delhi.

DEAR SHRI KHERA,

*Rupee loans from the Government of India to the Rupee Company.*

With reference to the draft Memorandum between the President of India. The Burmah Oil Company and the Assam Oil Company relating to, *inter alia*, the formation of a Rupee Company to take over certain of the Assam Oil Company's concessions in Assam and to our discussions regarding loans to the Rupee. Company by the Government of India and the Burmah Oil Company, I confirm that the Government of India will be entitled to lend money to the Rupee Company in rupees to the extent of the rupee equivalent of one half of the amount of any sums lent to the Rupee Company by the Burmah Oil Company, in sterling and that the same terms as to interest, repayment, etc., shall apply to loans from the Government of India to the Rupee Company as are applicable to loans from the Burmah Oil Company to the Rupee Company.

Yours sincerely,  
(Sd.) R. P. SMITH.

## SUPPLEMENTAL AGREEMENT

**THIS AGREEMENT** made this 16th day of February, 1959 **BETWEEN** the President of India (hereinafter called "The Government of India" which expression shall, unless excluded by or repugnant to the context, be deemed to include his successors) of the first part, The Burmah Oil Company Limited, a Company incorporated under the United Kingdom Companies Act and having its Registered Office at 175, West George Street, Glasgow, C. 2, (hereinafter called "the Burmah Oil Company" which expression shall, unless excluded by or repugnant to the context, be deemed to include its successors and assigns) of the second part and Assam Oil Company Limited, a Company incorporated and registered under the United Kingdom Companies Act and having its Registered Office at Britannic House, Finsbury Circus, London E.C. 2., and also carrying on business at Digboi in the State of Assam and elsewhere in India (hereinafter called "Assam Oil Company" which expression shall, unless excluded by or repugnant to the context, be deemed to include its successors and assigns) of the third part,

### WHEREAS

- (1) The parties hereto are the parties to an Agreement made on the 14th day of January 1958 (hereinafter called "the Promotion Agreement").
- (2) By The Promotion Agreement it is *inter alia* provided that a Rupee Company to be called Oil India Private Limited (hereinafter called "the proposed Company") shall be registered in the State of Assam for the purposes set forth in the Promotion Agreement, with an authorised capital of Rs. 50 crores divided into 5,00,000 equity shares of Rs. 1,000 each.
- (3) By Clause 4 (b) of the Promotion Agreement it is provided that within one month from the date of registration of the proposed Company the Government of India and the Burmah Oil Company shall subscribe and pay in cash for and the proposed Company shall issue sufficient shares out of its initial authorised capital to pay to Assam Oil Company all sums payable to that Company under Clause 7 of the Promotion Agreement and to provide for the proposed Company's immediate requirements of working capital.
- (4) By Clause 7(2) of the Promotion Agreement it is provided that the said sums payable to Assam Oil Company under the Promotion Agreement shall be assessed prior to the registration of the proposed Company by a Committee as therein defined and constituted.

- (5) The Committee has subject to adjustment of the items hereinafter specified completed assessment of the sums payable to Assam Oil Company under Clause 7 of the Promotion Agreement in respect of the period ended the 31st December 1957 only and has assessed the said sums at Rs. 1033·85 lacs being Rs. 1047·17 lacs less Rs. 13·32 lacs on account of bonus hereinafter mentioned.
- (6) The items referred to in recital (5) above consist of the cost and/or rental charge of two 34-10-FE steam drilling outfits, the total amount of bonus paid by Assam Oil Company to its employees in whole or in part employment in or in connection with the business of the proposed Company for the period 1954 to 1957 and possible adjustment of allowances under Clauses (vi) (via) and (vib) of sub-section 2 of Section 10 of the Indian Income Tax Act 1922, and it has been agreed between the parties hereto that the said items will be further considered and assessed and determined by the Committee to be constituted or re-constituted as hereinafter provided.
- (7) It has been further agreed by the parties hereto that notwithstanding that the entire sums payable to and assets transferable by Assam Oil Company under Clause 7 of the Promotion Agreement have not been assessed and determined in accordance therewith the proposed Company should now be incorporated in accordance with the provisions hereinafter contained and that the Promotion Agreement should be modified or varied to the extent and in the manner hereinafter appearing.

**NOW IT IS HEREBY AGREED** by and between the parties hereto as follows:—

- (1) The proposed Company shall be incorporated forthwith.
- (2) Within one calendar month from the date of incorporation of the proposed Company shares of the nominal value of Rs. 12 crores shall be issued for cash at par to provide for payment of the said sum of Rs. 1033·85 lacs payable to Assam Oil Company for the period to 31st December 1957 and the further sum of Rs. 166·15 lacs as working capital. Two-thirds of the said shares will be applied for and allotted to the Burmah Oil Company and/or its nominee or its nominees and one third thereof will be applied for and allotted to the Government of India and/or its nominee or nominees.
- (3) The assessment of the Committee in respect of the period ended the 31st December 1957 having been completed and accepted by the parties hereto except as regards the items hereinbefore specified in recitals (5) and (6) as being still subject to adjustment the said sum of Rupees 1033·85 lakhs shall be paid by

the proposed Company out of the proceeds of the share capital issued for cash as aforesaid to Assam Oil Company Limited within a period of one calendar month from the date of receipt of the proceeds of the said capital under Clause (2) hereof.

- (4) Immediately following incorporation of the proposed Company the Government of India and Assam Oil Company shall constitute or re-constitute or cause to be constituted or reconstituted a Committee in terms of Clause 7(2) of the Promotion Agreement and such Committee shall proceed forthwith to assess the sum or sums payable to and to determine the further assets transferable by Assam Oil Company in respect of the period from the 1st January 1958 to the date of incorporation of the proposed Company, and the said Committee shall be deemed to be vested with all the powers and privileges conferred by Clause 7(2) of the Promotion Agreement for the purpose of the further assessment to be made hereunder. Assam Oil Company shall make available such accounts as the Committee shall reasonably require and furnish all necessary facilities to the said Committee for the purpose of the assessment.
- (5) The Committee to be constituted or reconstituted in accordance with Clause (4) hereof shall complete its assessment within four months from the date of its appointment and shall include in its assessment report such adjustment or valuation as it may deem necessary or expedient in respect of the items or any of them specified in recital (6) hereof.
- (6) Within one calendar month from the date of submission by the Committee of its assessment under Clause (5) hereof further shares shall be issued by the proposed Company for cash at par of a nominal value sufficient to provide for payment to Assam Oil Company of the further sum or sums due to it under Clause 7(1) of the Promotion Agreement in respect of the said period subsequent to the 31st December 1957, and the said shares shall be applied for and allotted to the Burmah Oil Company and the Government of India and/or their respective nominee or nominees in the same proportion as the proportion specified in Clause (2) hereof.
- (7) The said further sum or sums in respect of the said period subsequent to the 31st December 1957 shall be paid to Assam Oil Company by the proposed Company in cash within one calendar month from the date of the receipt of the proceeds of the further issue of capital referred to in Clause (6) hereof.
- (8) In the event that the allowances under Clauses (vi), (via) and (vib) of sub-section (2) of Section 10 of the Indian Income-

Tax Act, 1922 as determined by the Indian Income Tax Authorities shall differ from the said allowances as assessed or determined by the Committee the proposed Company and Assam Oil Company shall be at liberty to make any consequential adjustments between themselves, and if either of said parties so require the party benefiting by the difference shall be entitled to be re-imbursed to the extent of the difference by the other party.

- (9) Save and except as is herein expressly modified varied or amended, the Promotion Agreement and all the terms and conditions thereof shall remain in full force and effect and binding on the parties thereto and hereto.

In witness whereof K. K. Sahni, Joint Secretary to the Government of India in the Ministry of Steel, Mines & Fuel, Department of Mines & Fuel, for and on behalf of the President of India has hereunto set his hand and The Burmah Oil Company Limited by its duly constituted attorney WILLIAM PATRICK GAWAIN MACLACHLAN (as witnessed by the power of attorney produced by him) and Assam Oil Company Limited by its duly constituted attorney WILLIAM PATRICK GAWAIN MACLACHLAN (as witnessed by the power of attorney produced by him) have executed these presents the day and year first above written.

Signed by the said K. K. Sahni for and on behalf of the President of India in the presence of:—

Sd/- K. K. Sahni

Sd/- S. D. Bhambri,

Deputy Secretary, Ministry of Steel, Mines & Fuel, Department of Mine & Fuel, Central Sectt., New Delhi.

Signed by the Burmah Oil Company Limited by the said William Patrick Gawain Maclachlan its duly constituted attorney in the presence of :—

Sd/- W. P. G. Maclachlan

Sd/- A. C. Gowan,

Representative, Assam Oil Co. Ltd., 10, Golf Links, New Delhi.

Signed by Assam Oil Company Limited by the said William Patrick Gawain Maclachlan its duly constituted attorney in the presence of :—

Sd/- W. P. G. Maclachlan

Sd/- A. C. Gowan,

Representative, Assam Oil Company Limited, 10, Golf Links, New Delhi.



## ADOPTING AGREEMENT

AN AGREEMENT made this 14th day of March 1959 BETWEEN THE PRESIDENT OF INDIA (hereinafter called "the Government of India" which expression shall unless excluded by or repugnant to the context be deemed to include his successors) of the first part, THE BURMAH OIL COMPANY LIMITED a Company incorporated under the United Kingdom Companies Act (as applicable to Scotland) and having its registered office at 175 West George Street, Glasgow C. 2, Scotland (hereinafter called "The Burmah Oil Company" which expression shall unless excluded by or repugnant to the context be deemed to include its successors and assigns) of the second part, ASSAM OIL COMPANY LIMITED a Company incorporated under the United Kingdom Companies Act and having its registered office at Britannic House, Finsbury Circus, London E. C. 2 and also carrying on business at Digboi in the State of Assam and elsewhere in India (hereinafter called "Assam Oil Company" which expression shall unless excluded by or repugnant to the context be deemed to include its successors and assigns) of the third part and OIL INDIA PRIVATE LIMITED a private limited liability Company incorporated under the Indian Companies Act 1956 and having its registered office at Digboi in the State of Assam, India (hereinafter called "Oil India" which expression shall unless excluded by or repugnant to the context be deemed to include its successors and assigns) of the fourth part.

## WHEREAS

1. By an Agreement dated the 14th January, 1958 and made between: the Government of India of the first Part, The Burmah Oil Company of the second part and Assam Oil Company of the third part (hereinafter called "the Promotion Agreement") the Government of India undertook to procure from the Government of Assam within the period as therein stated or such longer period as might be agreed between the parties thereto the issue to Oil India if then incorporated otherwise to Assam Oil Company of the prospecting licences and mining leases more fully described or referred to in the Promotion Agreement upon the terms and conditions as therein contained or specified and Assam Oil Company undertook to promote and to have Oil India incorporated and registered in Assam as a Private Company limited by shares under the Indian Companies Act, 1956 *inter alia* with the object of obtaining and working mining leases for petroleum over the areas specified in the Promotion Agreement and for exploration and production of petroleum and crude oil (including natural gas) and for arranging for a pipeline or other related facilities as Oil India might consider necessary for the trans-

port of the crude oil from the said areas, such promotion, incorporation and registration being upon the terms and conditions contained in the Promotion Agreement.

2. By a Supplemental Agreement dated the 16th day of February 1959 and made between the Government of India of the first part, The Burmah Oil Company of the second part and Assam Oil Company of the third part, the Promotion Agreement was varied and/or modified to the extent and in the manner as therein provided.
3. Oil India was incorporated on the 18th day of February, 1959.

NOW IT IS HEREBY AGREED AND DECLARED by and between the parties hereto as follows :—

The Promotion Agreement as varied or modified by the said Supplemental Agreement is hereby adopted by Oil India and shall operate in the same manner and take effect in all respects as if Oil India had been in existence at the date thereof and had been a party thereto.

In witness whereof K. K. Sahni, Joint Secretary to the Government of India in the Ministry of Steel, Mines & Fuel, Department of Mines & Fuel, for and on behalf of the President of India has hereunto set his hand and The Burmah Oil Company Limited by its duly constituted attorney WILLIAM PATRICK GAWAIN MACLACHLAN (as witnessed by the power of attorney produced by him) and Assam Oil Company Limited by its duly constituted attorney WILLIAM PATRICK GAWAIN MACLACHLAN (as witnessed by the power of attorney produced by him) have executed these presents and Oil India Private Limited has hereunto affixed its common Seal the day and year first above written.

Signed by the said K. K. Sahni for and on behalf of the President of India in the presence of :—

Sd/- K. K. Sahni

Sd/- K. D. N. Singh

Signed by The Burmah Oil Company Limited by the said William Patrick Gawain Maclachlan its duly constituted attorney in the presence of :—

Sd/- W. P. G. Maclachlan

Sd/- K. B. Kanuga

Signed by Assam Oil Company Limited by the said William Patrick Gawain Maclachlan its duly constituted attorney in the presence of :—

Sd/- W. P. G. Maclachlan

Sd/- K. B. Kanuga

The common Seal of Oil India Private  
Limited was hereunto affixed in the  
presence of :—

SEAL

Sd/- W. P. G. Maclachlan and of

Sd/- K. B. Kanuga and of

Sd/- G. N. S. Robertson

Directors of the Company.

# **APPENDIX II**

( *Vide* Para 1·10 )

# **SECOND SUPPLEMENTAL AGREEMENT**

**BETWEEN**

**GOVERNMENT OF INDIA**

**BURMAH OIL CO. LTD.**

**O I L I N D I A L T D.**

**ASSAM OIL CO. LTD.**

**27th JULY 1961**

## APPENDIX II

THIS AGREEMENT is made the 27th day of July 1961 BETWEEN THE PRESIDENT OF INDIA (hereinafter called "the Government of India" which expression shall unless excluded by or repugnant to the context be deemed to include his successors) of the first part THE BURMAH OIL COMPANY LIMITED a company incorporated under the United Kingdom Companies Act and having its Registered Office at 175 West George Street Glasgow C.2. (hereinafter called "The Burmah Oil Company" which expression shall unless excluded by or repugnant to the context be deemed to include its successors and assigns) of the second part ASSAM OIL COMPANY LIMITED a company incorporated under the United Kingdom Companies Act and having its Registered Office at Britannic House Finsbury Circus London E.C. 2 and also carrying on business at Digboi in the State of Assam and elsewhere in India (hereinafter called "Assam Oil Company" which expression shall unless excluded by or repugnant to the context be deemed to include its successors and assigns) of the third part AND OIL INDIA LIMITED a company incorporated under the Companies Act 1956 and having its Registered Office at Digboi in the State of Assam India (hereinafter called "Oil India" which expression shall unless excluded by or repugnant to the context be deemed to include its successors and assigns) of the fourth part.

**WHEREAS :—**

- (1) This Agreement is SUPPLEMENTAL to :
- (a) an Agreement dated the 14th January 1958 made between the same parties as are parties hereto of the first second and third parts (hereinafter referred to as "the Promotion Agreement");
  - (b) an Agreement dated the 16th February 1959 made between the parties as are parties hereto of the first second and third parts (hereinafter referred to as "the Supplemental Agreement"); and
  - (c) an Agreement dated the 14th March 1959 made between the same parties as are parties hereto (hereinafter referred to as "the Adopting Agreement") whereby Oil India adopted the Promotion Agreement as modified by the Supplemental Agreement.
- (2) On the 18th February 1959 in accordance with the Promotion Agreement as modified by the Supplemental Agreement a company called Oil India Private Limited (being the same company as is herein called "Oil India") was incorporated in Assam as a private company under the Companies Act 1956 with an authorised capital of Rs. 50,00,00,000 divided into 5,00,000 shares of Rs. 1,000 each of which at the date of these presents 2,40,000

equity shares of Rs. 1,000 each have been issued as fully paid up as to 1,60,000 shares to The Burmah Oil Company or its nominee or nominees and as to 80,000 shares to the Government of India or its nominee or nominees.

(3) On the 28th March 1961 by virtue of Section 43A of the Companies Act 1956 Oil India became a public company and thereupon ceased to use the word "Private" in its name.

(4) On the 31st May 1961 Heads of Agreement were signed on behalf of the Government of India and The Burmah Oil Company embodying the terms of their proposed collaboration in Oil exploration production and transportation involving a modification in part of the terms of the Promotion Agreement as previously modified by the Supplemental Agreement and it was provided in the said Heads of Agreement that its terms would later be embodied in a formal Agreement namely these presents.

(5) Assam Oil Company being the party of the third part to the Promotion Agreement the Supplemental Agreement and the Adopting Agreement and having approved the terms of the said Heads of Agreement has agreed to join as a party to this Agreement.

(6) Oil India having adopted the Promotion Agreement and the Supplemental Agreement as aforesaid thereby becoming a party thereto and having approved the terms of the said Heads of Agreement has agreed to join as a party to this Agreement.

**NOW IT IS HEREBY AGREED** by and between the parties hereto as follows :

#### GENERAL

1. . Wherever the terms of this Agreement are inconsistent with or vary modify or amend any of the terms of the Promotion Agreement as previously modified by the Supplemental Agreement the terms of this Agreement shall prevail but without prejudice to the generality of the foregoing Clauses 8, 10, 11 and 13 of the Promotion Agreement are hereby abrogated and superseded but subject as aforesaid the terms of the Promotion Agreement as modified by the Supplemental Agreement shall remain in full force and effect and binding on the parties hereto.

#### DEFINITIONS

2. In this Agreement the following expressions have the following meanings that is to say :—

(i) "The Government of India" in relation to its shareholding in Oil India includes its nominee or nominees.

(ii) "The Burmah Oil Company" in relation to its shareholding in Oil India includes its nominee or nominees.

(iii) "The Indian Income-Tax Act 1922" or any specified Section thereof includes any re-enactment or statutory modification thereof in force from time to time.

(iv) "Oil India's existing areas" means the areas referred to in Recitals (2) and (3) of the Promotion Agreement.

(v) "Ton" unless otherwise specifically qualified herein means a long ton of 2240 lbs.

(vi) "Posted F.O.B. Middle East price of equivalent quality crude oil" means the price quoted in Petroleum Press Service quotation relating to Arabian crude oil ex Ras Tanura for a gravity of 34°—34·9° A.P.I. adjusted to 33·67° A.P.I. which at the date of these presents is Rs. 63·37 per ton.

#### EQUITY SHARE RATIO

3. The Government of India's holding of equity shares in Oil India will be increased and the holding of The Burmah Oil Company reduced within the period and in the manner hereinafter provided so as to secure that the Government of India and The Burmah Oil Company each holds fifty percent of the total issued equity share capital of Oil India.

#### CAPITALISATION

4.(A) In order to equalise the equity shareholdings in Oil India of the Government of India and The Burmah Oil Company and to meet the present estimated requirements of Oil India of an issued equity share capital of Rs. 28,00,00,000 the parties hereto will procure that within two months from the date hereof:

- (a) Oil India will issue 40,000 additional equity shares of Rs. 1000 each to the Government of India for payment in cash at par;
- (b) The Burmah Oil Company will sell and transfer to the Government of India 20,000 equity shares of Rs. 1000 each in the capital of Oil India for cash at par.

(B) It is hereby agreed that the Government of India will permit The Burmah Oil Company to repatriate to the United Kingdom the proceeds of sale of such shares but the actual ways and means of repatriation shall

be as agreed hereafter between the Government of India and The Burmah Oil Company.

(C) The Burmah Oil Company has incurred or will incur expenditure on imports covered by licences to the value of approximately Rs. 2,38,00,000 (of which licences for approximately Rs. 1,38,00,000 have been issued and a licence for approximately Rs. 1,00,00,000 for crude conditioning plant has been applied for) which licences are endorsed to the effect that payment thereunder will rank as a part of The Burmah Oil Company's subscription for shares in Oil India. Since however the Government of India prefers that the issued share capital of Oil India should not be increased for the time being above Rs. 28,00,00,000 it is therefore agreed that the Government of India will provide the required foreign exchange by the issue of fresh licences of equivalent value with exchange control copies entitling Oil India or Assam Oil Company (as the case may be) to remit the amount payable thereunder to The Burmah Oil Company or the suppliers (as the case may be) and will cancel the former licences endorsed as aforesaid.

(D) If in the opinion of the Board of Directors of Oil India any additional capital facilities are required by that Company other than the pipeline facilities from Nahorkatiya to Barauni at present under construction such additional facilities will be met so far as possible out of funds set aside as depreciation or development rebate but insofar as such funds are in the opinion of the Board of Directors of Oil India insufficient the additional capital facilities will be contributed as to fifty percent thereof by the Government of India and fifty percent thereof by The Burmah Oil Company unless otherwise mutually agreed between them.

#### EXPLORATION LICENCES

5. Oil India will apply for and on application will be granted by the appropriate authority petroleum exploration licences covering the area of approximately 1886 square miles shown on the map\* attached hereto (hereinafter referred to as "Area A") such licences to be for the term of six years and subject to the conditions that Oil India will surrender seventy-five percent of area A (but reduced by any area or areas in respect of which a petroleum mining lease or mining leases shall have been applied for by Oil India as hereinafter provided) within four years from the commencement of the term of the last licence issued and the remaining twenty-five percent of Area A (less any area or areas in respect of which a petroleum mining

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\*Not reproduced here.



lease or mining leases shall have been applied for by Oil India as hereinafter provided) within six years from the commencement of the term of the last licence issued.

#### MINING LEASES

6. If in the opinion of the Government of India and the Burmah Oil Company oil or gas has been discovered in commercial quantities in any part or parts of Area A then Oil India will apply for and on application will be granted by the appropriate authority a petroleum mining lease or mining leases over such part or parts of Area A not exceeding in total four hundred square miles which will be in addition to Oil India's existing areas and Oil India shall be entitled to apply for further petroleum mining leases covering additional acreages within Area A if considered necessary by Oil India all such leases to be for an initial term of twenty years with an option of renewal on the part of Oil India for a further twenty years on terms in accordance with the rules in force at the time of renewal PROVIDED ALWAYS that if either the Government of India or The Burmah Oil Company does not agree with the other that oil or gas has been discovered in commercial quantities in any part or parts of Area A or that Oil India should apply for the renewal of any mining lease then Oil India will not apply for a petroleum mining lease or for the renewal of such mining lease (as the case may be) over such part or parts of Area A in respect of which the difference of opinion exists and will abandon the same and the party believing that oil or gas has been discovered in commercial quantities therein or that Oil India should apply for the renewal of such mining lease (as the case may be) will be entitled to apply for and will on application be granted by the appropriate authority a petroleum mining lease or leases or a renewal of such mining lease (as the case may be) in respect thereof in terms identical to those which would have governed such lease or leases or the renewal of such lease (as the case may be) if granted to Oil India PROVIDED FURTHER that in the event that Oil India does not apply for the grant or renewal of any mining lease as hereinbefore provided Oil India will deliver up the land covered by such lease or contemplated lease and all wells on that land in good order and condition to the intending or new lessee as the case may be free of cost and such intending or new lessee will have the option to purchase at their written down value for tax purposes all stores equipment tools machinery and buildings and such other property of Oil India situated on the land at the date on which the intending lessee applies for a mining lease or at the date of the expiration of the original term of the lease as such intending or new lessee (as the case may be) may require.

#### DISPOSAL OF CRUDE OIL

7. All crude oil produced by Oil India excluding Assam Oil Company's entitlement in respect of Oil India's existing areas under Clause 20 of the

Promotion Agreement will (subject as hereinafter provided) be sold to and purchased by the Government of India PROVIDED that after meeting as a first call on such oil the joint annual requirements up to 2½ million tons of Indian Refineries Limited's Barauni and Nunmati Refineries Assam Oil Company's Digboi Refinery shall have the next call thereon up to a maximum of 435,000 tons per annum to the extent that it cannot be economically met from Assam Oil Company's leased areas.

#### BOC'S EXISTING INVESTMENTS

8. It is understood and agreed in principle that the right to purchase all Oil India's available crude oil production will not be exercised by the Government of India in such a way as to prejudice the economic use of the existing investments of The Burmah Oil Company in refining and marketing facilities in India.

#### PRICE FOR SUPPLIES TO REFINERIES OF AOC AND GOVERNMENT

9.(A)(i) Subject to the provisions of sub-clause (C) of this Clause and on the basis (a) that the paid up capital of Oil India does not exceed Rs. 28,00,00,000 and (b) that the posted F. O. B. Middle East price of equivalent quality crude oil is in the range of Rs. 57—Rs. 63 per ton the price per ton at which crude oil from Area A and Oil India's existing areas will be sold and delivered to Indian Refineries Limited's Barauni and Nunmati Refineries and Assam Oil Company's Digboi Refinery will be the posted F. O. B. Middle East price of equivalent quality crude oil plus ocean freight [as per Average Freight Rate Assessment (AFRA) award for a general tanker] insurance (comprehensive insurance covering all risks against which shipments of crude oil are generally insured) and ocean loss (at average rate) from Ras Tanura to Calcutta less such a discount on posted F. O. B. Middle East price of equivalent quality crude oil as will secure a return to the shareholders of Oil India of 10·8 percent on paid up capital after payment of all taxes (including taxes payable on dividends) calculated in accordance with the Formula set out in sub-clause (B) of this Clause.

(ii) If the posted F. O. B. Middle East price of equivalent quality crude oil is in excess of Rs. 63 per ton the sale price per ton of such crude oil will be an amount equal to the price calculated in accordance with sub-clause (A)(i) of this Clause on the basis of a posted F. O. B. Middle East price of equivalent quality crude oil of Rs. 63 per ton plus an amount equal to the excess of the actual posted F. O. B. Middle East price per ton of equivalent quantity crude oil over Rs. 63.

(iii) If the posted F. O. B. Middle East price of equivalent quality crude oil is below Rs. 57 per ton the sale price per ton of such crude oil will be an amount equal to the price calculated in accordance with sub-clause (A)(i) of this Clause on the basis of a posted F. O. B. Middle East

price of equivalent quality crude oil of Rs. 57/- per ton reduced by an amount equal to the difference between the actual posted F. O. B. Middle East price per ton of equivalent quality crude oil and Rs. 57/-.

(iv) on any increase in the paid up share capital of Oil India in excess of Rs. 28,00,00,000/- the discount referred to in the preceding paragraphs of this sub-clause will be varied in accordance with the Formula set out in sub-clause (B) of this Clause which for purposes of calculation of discount only assumes certain constant factors and a return to the shareholders of Oil India based thereon of Rs. 10·8 per cent after payment of all taxes (including taxes payable on dividends) on the paid up share capital.

**(B) FORMULA**

$$\frac{C \times \text{paid up capital}}{3,000,00} = A - B + 18 \cdot 4 + 0 \cdot 31 - 48$$

where :

- (i) A is the posted F.O.B. Middle East price in rupees per ton of equivalent quality crude Oil  
and  
(ii) B is the actual discount in rupees per ton on the posted F. O. B. Middle East price of equivalent quality crude oil in (i) above  
and  
(iii) C is a factor which when applied to the paid up capital of Oil India will yield to the shareholders of Oil India a return of 10·8% after the payment of all taxes (including taxes payable on dividends).

The figures 18·4, 0·31 and 48 are assumed constant factors (expressed in Rupees per ton) which represent:

- (a) 18·4 = ocean freight and insurance from Ras Tanura to Calcutta as at the date of this Agreement.  
(b) 0·31 = ocean loss from Ras Tanura to Calcutta as at the date of this Agreement.  
(c) 48 = the assumed costs of finding, production and transport.

(C)(a) Notwithstanding sub-clause (A) of this Clause it is understood and agreed that Oil India should be in a position from the profits of each calendar year from 1962 and onward to pay a dividend to yield a return to its shareholders after payment of all taxes including taxes payable on dividends (currently 20 percent for dividends payable by Oil India) of not less than 9 percent and not more than 13 percent per annum on its share capital paid up as at the last date of the year.

(b) Should therefore the posted F.O.B. Middle East price of equivalent quality crude oil plus freight insurance and ocean loss up to Calcutta less the discount referred to in sub-clause (A) of this Clause be such that the income of Oil India in any year from 1962 onwards (after deducting all costs outgoings and taxes in accordance with the formula set out in the Schedule hereto) is insufficient to enable such a dividend from the profits of Oil India for such a year to be paid then the price to be paid by purchasers of crude oil during such year will be increased pro rata by retrospective adjustment so as to permit the payment of such minimum dividend and conversely if on the basis aforesaid the income of Oil India (after making such deductions as aforesaid) gives a dividend of more than 13 percent then a retrospective discount will be allowed pro rata to purchasers of crude oil during that year of such an amount as will permit the payment of such maximum dividend.

(D) Any other levies on sales e.g. sales tax will be added to the price to purchasers.

#### SUPPLIES OF PRODUCTS TO BOC

10. (a) It being recognised that The Burmah Oil Company and/or its subsidiaries and/or its associated companies in India (hereinafter together referred to as "The Burmah Oil Company group") may require supplies of products to fill the need of their marketing interests in India in addition to their share of the production of Burmah-Shell Refineries Limited and Assam Oil Company it is therefore agreed that The Burmah Oil Company group will be entitled to purchase supplies up to 500,000 tons per annum from Indian Refineries Limited's Barauni and Nunmati Refineries at a rate of discount on the landed Calcutta cost of imported products commensurate with that for the time being allowed to Indian Refineries Limited on supplies of crude oil from Oil India but notwithstanding the foregoing the net price per ton of such supplies shall be neither more no less than that for the time being charged by the Barauni and Nunmati Refineries to Indian Oil Company Limited nor more than that charged to any other purchaser PROVIDED ALWAYS that if any supplies are sold to any other purchaser at a price less than the price at which similar supplies are sold by the Barauni Refinery or the Nunmati Refinery to Indian Oil Company Limited then the price of similar supplies to The Burmah Oil Company group shall be reduced to such lesser figure to the extent of the quantity actually supplied to such other purchaser.

(b) The entitlement of 500,000 tons to The Burmah Oil Company group referred to in sub-clause (a) of this Clause will rank *pari passu* with supplies by the Barauni and/or Nunmati Refineries to Indian Oil Company Limited and such entitlement of The Burmah Oil Company group will be drawn from the Barauni and Nunmati Refineries in proportion to their respective throughput but in the event of such joint throughput being less than 2½ million tons per annum the entitlement of The Burmah Oil Company group shall be in the proportion 500,000 : 2,750,000 of actual joint throughput.

#### AOC'S MARKETS

11. (a) In view of the fact that Indian Refineries Limited's Nunmati Refineries is situated within the marketing area of Assam Oil Company it is agreed that for purposes of distribution and marketing Assam Oil Company and Indian Oil Company Limited shall be treated as if they were under one and the same ownership and that cross-haulages will be avoided.

(b) The Government of India will use its good offices to reduce to the extent practicable the burden on Assam Oil Company of unrecovered freights.

#### TAXATION

12. Oil India will pay taxes in accordance with the laws for the time being in force PROVIDED however and it is here by agreed that :

- (i) All Oil India's post-incorporation exploration/prospecting/drilling expenditure whether abortive or not incurred prior to the effective date of the grant of each and every mining lease in respect of Oil India's existing areas and Area A whether before or after the date of these presents if incurred before the 31st December 1962 will be allowed as a deduction for tax purposes over a period of 15 (fifteen) years, commencing from the assessment year 1963/64 but if incurred after the 31st December 1962 will be allowed over a period of 15 years commencing from the year in which it is incurred **PROVIDED ALWAYS** that in the case of buildings plant and machinery only the usual depreciation/development rebate as provided under the Indian Income Tax Act, 1922, will be allowed each year.
- (ii) All expenditure on exploration/prospecting/drilling which is incurred by Oil India subsequent to the effective date of the grant of any mining leases in respect of areas in Area A and Oil India's existing areas will be allowed as a deduction for tax purposes in the year in which the expenditure is incurred.

- (iii) For the purpose of computing the profit or gains of the business carried on by Oil India for the purposes of taxation there shall be made a further allowance in addition to the allowances above specified of Rs. 61,00,000 per annum in respect of the assessment year 1963-64 (accounting year 1962 which for the purpose of this Clause 12 shall be deemed to be the year in which commercial production has begun) and for each of the next 14 (fourteen) succeeding assessment years. Provided however that where full effect cannot be given to any such allowance in any year owing to there being no profits or gains chargeable for that year or owing to the profits or gains chargeable being less than the allowance, then and in such an event, the allowance or part of the allowance to which effect has not been given as the case may be, shall be added to the amount of the allowance for the following year and deemed to be part of that allowance and so on for succeeding years.
- (iv) On expenditure incurred on buildings plant and machinery prior to incorporation of Oil India and taken over by Oil India usual depreciation/development rebate will be allowed each year as provided under the Indian Income Tax Act 1922.
- (v) In consideration of the above, Oil India will forego the benefit of the exemptions to which it would be entitled under Section 15-C of the Indian Income Tax Act provided however such action on the part of Oil India shall not deprive The Burmah Oil Company as one of the shareholders of Oil India of the benefits under the provisions of Section 56-A of the said Act as amended from time to time.
- (vi) The manner in which the provisions of sub-clauses (i) to (v) of this Clause will be implemented will be worked out by the Government of India.

#### ROYALTY

13. For the purpose of calculating the royalty on any crude oil or gas produced from Area A and Oil India's existing areas the "wellhead value" shall be the actual price received for such oil or gas worked back to well-head by deduction of transportation and other costs (including interest on loans used for creating transport facilities) from point of sale to well-head.

#### DISTRIBUTION OF PROFITS

14. (a) The profits of Oil India available for distribution as shown in its audited accounts will be distributed annually by way of dividend to its shareholders unless otherwise mutually agreed by the Government of

India and The Burmah Oil Company and such profits available for distribution will be calculated by deducting from the gross income all expenditure including costs and taxes in accordance with the formula set out in the Schedule hereto.

(b) Any reserves to be created by Oil India other than such as may be required by law and except sums required to be retained in the Development Rebate Reserve shall be as may be agreed upon between the Government of India and The Burmah Oil Company from time to time.

#### FOREIGN EXCHANGE/RUPEE FINANCE

15. (a) Subject to the consent of the United Kingdom Exchange Control authorities The Burmah Oil Company undertakes to provide the foreign exchange required by Oil India for exploration/prospecting purposes and for any expansion of capital facilities or major development projects including production and transportation which may be decided upon by Oil India as a result of such exploration/prospecting. It is hereby agreed that the provision of foreign exchange for any such purpose will be made at the option of The Burmah Oil Company either by the issue of equity shares by Oil India or by sterling loans PROVIDED ALWAYS that no increase in the share capital of Oil India can be made without the agreement of the two present shareholders namely the Government of India and the The Burmah Oil Company.

(b) Subject as aforesaid however the requirements of Oil India of foreign exchange will normally be met by the issue of licences on the basis of the import policy of the Government of India in force from time to time.

(c) The share subscription of the Government of India to Oil India will be paid in rupees and if additional rupee funds are required to be raised by Oil India the Government of India undertakes to obtain the same for Oil India.

#### MANAGEMENT

16. (a) The Board of Directors of Oil India will consist of either six or eight Directors including the Chairman.

(b) The Chairman of the Board of Directors of Oil India who will not have a Casting Vote will hold office for one year and will be nominated in alternate years by the Government of India and the Burmah Oil Company.

(c) A Managing Director of Oil India will be appointed who will be selected by the Government of India and The Burmah Oil Company in consultation together from a panel to be submitted by The Burmah Oil Company to Oil India. A Financial Director of Oil India will be appointed who will be selected by the Government of India and The Burmah Oil

Company in consultation together from a panel to be submitted by the Government of India to Oil India. The remuneration and terms of service of the Managing Director and the Financial Director will be settled between the Government of India and The Burmah Oil Company.

(d) The Managing Director will be responsible for the management of Oil India to its Board of Directors.

(e) All executive instructions to the staff of Oil India will be issued by or in the name of the Managing Director.

(f) The functions responsibilities and powers of the Managing Director and of the Financial Director shall be as may be prescribed by the Board of Directors from time to time.

(g) Neither the Managing Director nor the Financial Director shall be eligible for the office of the Chairman of the Board of Directors.

(h) The foregoing provisions insofar as they relate to the appointment of the Managing Director and the Financial Director shall be subject to review by the Government of India and The Burmah Oil Company at the end of five years from the date of the respective appointment of the first Managing Director and Financial Director appointed after the date of these presents.

#### INDIAN PERSONNEL

17. Oil India will afford the maximum possible employment and training facilities for Indian personnel and The Burmah Oil Company will train Indians abroad in all fields of the petroleum industry at the expense of Oil India.

#### PROSPECTING PROGRAMME

18. The Burmah Oil Company will submit to Oil India an immediate programme costing approximately Rs. 2,00,00,000 covering two years prospecting in Area A involving a minimum of six party months of seismic survey and six test wells. It is estimated that the first well could commence drilling within six months from the date when the petroleum exploration licences referred to in Clause 5 hereof are granted to Oil India.

#### FURTHER INSTRUMENTS

19. Each of the parties hereto will execute or procure the execution of such additional instruments and do or procure to be done any and all additional acts deeds and things that may be necessary to carry out the purpose of this Agreement.



## MARGINAL HEADINGS

20. The marginal headings appearing herein are for purposes of reference only and shall have no effect on the meaning or substance of any Clause of this Agreement.

IN WITNESS whereof the parties hereto have executed these presents the day and year first before written.

THE SCHEDULE above referred to:

Formula for the purpose of Clauses 9 and 14 of this Agreement.

Elements of the Formula

1. Gross Income of Oil India from all sources (after any adjustments required on selling prices to Barauni, Nunmati and Digboi Refineries as provided in Clause 9 of this Agreement).
2. (a) All expenditure of a revenue nature incurred by Oil India whether directly or indirectly, and in particular
  - (1) (i) Fields and operating expenditure inclusive of geological/geophysical, drilling, royalty, production and any other relevant charges.
  - (ii) Exploration/prospecting expenditure inclusive of geological/geophysical, drilling etc., other than that amortised under Clause 2 (a) (5) of this Schedule.
  - (2) All pipe-line operating expenditure.
  - (3) Administration and other overhead expenditure.
  - (4) Depreciation on capital assets.
  - (5) Amortisation of expenditure on fields, exploration/prospecting, and pipeline from the date of incorporation of Oil India including pre-incorporation expenditure taken over by Oil India from Assam Oil Company, where such expenditure has been capitalised and has not been subjected to depreciation as in Clause 2 (a) (4) of this Schedule.
  - (6) Duties or other levies and taxes (not covered in Clause 2(c) of this Schedule) actually paid to the Indian Central Government or any State Government or any municipal or other authority.
  - (7) Deferred revenue expenditure including pre-incorporation expenditure, brokerage and commission for raising loans if not otherwise charged under Clause 2(a)(1)–(6) of this Schedule.
  - (8) Provision for bad and doubtful debts.

- (9) Expenditure of revenue nature arising out of unforeseen circumstances (e.g. earthquake), if not otherwise covered under Clause 2(a)(7) of this Schedule.

**(b) Loan Interest**

Cost of interest payable on loans, debentures or other borrowings.

**(c) Taxes on Income or Capital**

Liability of Oil India for taxes on income or capital as provided in the audited accounts of that year.

**3. Balances available for Dividend.**

This will be obtained by deducting from the amount described in Clause 1 of this Schedule the amounts described in Clauses 2(a), 2(b) and 2 (c) of this Schedule and debiting or, as the case may be, crediting the balance with the Profit and Loss Account entries envisaged by the Indian Income-Tax Act 1922 or any re-enactment or statutory modification thereof for the time being in force in order to entitle Oil India and its shareholders to the benefits of development rebate.

**Quantum of Elements.**

It is agreed that whereas the annual quantum of elements specified in Clauses 2(a), 2(a)(1), 2(a)(2), 2(a)(3), 2(a)(6), 2(a)(8), 2(a)(9) and 2 (b) of this Schedule will be the actual audited charges for each year based on factual expenditure and liability, the calculation of annual charges in Profit and Loss Accounts for the elements specified in Clauses 2(a)(4), 2(a)(5), 2(a)(7) and 2(c) of this Schedule will be as follows:—

- 2(a)(4) The rates as granted for taxation purposes will be applied to all assets, except those representing the cost of the main pipeline itself, for which a "straight line" method shall be adopted at a rate of 5% per annum on original cost.
- 2(a)(5) The rates and methods of amortisation shall be as provided by Clause 12 of this Agreement for taxation purposes, from the year in which 1 m.t.p.a. (one million tons per annum) is first produced; prior to that the method and rate will be on the basis of percentage of actual offtake to annual potential of 1,000,000 tons; unless in the opinion of the Board of Directors of Oil India it becomes desirable in the future to adopt a method of recovering the expenditure involved more appropriate to full production from the field. The capitalised loan interest will be written off over the remaining period of the respective loans.
- 2(a)(7) Deferred revenue expenditure will be charged in the accounts in instalments; such instalments will depend on the period during which the benefit of the expenditure may be reasonably expected to be obtained.

- 2(c) The provision for liability to taxes in each year shall be the best estimate after taking into account the provisions of Clause 12 of this Agreement as agreed with Oil India's auditors to be levied on the profits of the year and/or the capital of Oil India, together with adjustment for over-or under-estimations in previous years' accounts.

SIGNED by M. M. Kohli

Deputy Secretary, Ministry of Steel,  
Mines & Fuel, Government of India for  
and on behalf of the President of India  
in the presence of :

(Sd.) M. M. Kohli

(Sd.) D. D. Gupta

Deputy Secretary to the Government of India,  
Ministry of Steel, Mines & Fuel,  
New Delhi.

SIGNED by The Burmah Oil Company

Limited by its duly constituted attorney  
M. J. Condon in the presence of :

(Sd.) M. J. Condon

(Sd.) S. H. Utamsingh,  
Accountant, Assam Oil Co. Ltd.,  
New Delhi-1.

SIGNED by Assam Oil Company Limited

by its duly constituted attorney  
M. J. Condon in the presence of :

(Sd.) M. J. Condon

(Sd.) S. H. Utamsingh  
Accountant, Assam Oil Co. Ltd.,  
New Delhi-1.

SIGNED by W. B. Metre

for and on behalf of Oil India Limited  
being a Director thereof and duly  
authorised in this regard by  
Resolution of the Board of Directors  
of Oil India Limited in the presence  
of :

(Sd.) W. B. Metre

(Sd.) A. A. Waheed  
Public Relations Officer, Assam Oil  
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(vide para 3.56)

## GOVERNMENT OF INDIA—BOC/AOC

Statement showing position regarding the amounts of price differential, retrospective price adjustment, dividend and dividend tax by years (1962—1967)

	1962	1963	1964	1965	1966	1967	TOTAL
(Figures in Rupees Lacs)							
<b>ACTUALS (1962—67)</b>							
<b>A. GOVERNMENT OF INDIA</b>							
Off-take (Million Tonnes) (IOC+AOC)	0.56	0.69	1.40	1.74	2.14	2.75	..
Dividend—Percentage	64%	9%	9%	9%	9.575%	13%	..
Price Differential	NIL	(-)90	(-)63	(-)112	(-)263	(-)399	(-)927
Retrospective price adjustment	(-)100	(-)278	(-)595	(-)574	NIL	490	(-)1057
Dividend—Amount	126	168	168	168	178	241	1049
Dividend Tax received on dividend paid to BOC	31.5	42	42	42	44	60	261.5
<b>NET RECEIPT</b>	57.5	(-)158	(-)448	(-)476	(-)41	392	(-)673.5
<b>B. BOC/AOC</b>							
Dividend—Percentage	64%	9%	9%	9%	9.575%	13%	..
Price differential	NIL	(-)67	(-)19	(-)28	(-)53	(-)56	(-)223
Retrospective price adjustment	(-)102	(-)192	(-)155	(-)119	NIL	70	(-)498
Dividend—Amount	126	168	168	168	178	241	1049
Dividend Tax paid	(-)31.5	(-)42	(-)42	(-)42	(-)44	(-)60	(-)261.5
<b>NET RECEIPT</b>	(-)7.5	(-)133	(-)48	(-)21	81	195	66.5

## APPENDIX IV

(vide para 3.56)

## GOVERNMENT OF INDIA—BOC/AOC

Statement showing position regarding the amounts of price differential, retrospective price adjustment, dividend and dividend tax by years (1968-80)

	1968	1969	1970	1971	1972	1973	1974
(Figures in Rupees Lacs)							
<b>II. ESTIMATES (1968-80)</b>							
<b>A. GOVERNMENT OF INDIA</b>							
Off-take (Million Tonnes) IOC+AOC . . . . .	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Dividend—Percentage . . . . .	13%	13%	13%	13%	13%	13%	13%
Price differential . . . . .	(- )495	(- )495	(- )495	(- )495	(- )495	(- )495	(- )495
Retrospective Price Adjustment (discount) . . . . .	743	743	743	743	743	743	743
Dividend—Amount . . . . .	241	241	241	241	241	241	241
Dividend tax received or dividend paid to BOC . . . . .	60	60	60	60	60	60	60
<b>NET RECEIPT</b> . . . . .	<b>549</b>	<b>549</b>	<b>549</b>	<b>549</b>	<b>549</b>	<b>549</b>	<b>549</b>
<b>B. BOC/AOC</b>							
Dividend—Percentage . . . . .	13%	13%	13%	13%	13%	13%	13%
Price differential . . . . .	(- )32	(- )32	(- )32	(- )32	(- )32	(- )32	(- )32
Retrospective Price adjustment (discount) . . . . .	48	48	48	48	48	48	48
Dividend—Amount . . . . .	241	241	241	241	241	241	241
Dividend Tax Paid . . . . .	(- )60	(- )60	(- )60	(- )60	(- )60	(- )60	(- )60
<b>NET RECEIPT</b> . . . . .	<b>197</b>	<b>197</b>	<b>197</b>	<b>197</b>	<b>197</b>	<b>197</b>	<b>197</b>

NOTE :—

(a) Final Crude Price from 1968-1980 assumed to be Rs. 91 per tonne.

(b) Crude Price as per Cl. 9(A) from 1968-1980 assumed to be Rs. 118 per tonne; Landed cost Rs. 100 per tonne.

## APPENDIX IV—Contd.

(Figures in Rupees Lacs)

	1975	1976	1977	1978	1979	1980	TOTAL
<b>II. ESTIMATES (1968-80)</b>							
<b>A. GOVERNMENT OF INDIA</b>							
Off-Take (Million Tonnes) IOC + AOC . . . . .	3·00	3·00	3·00	3·00	3·00	3·00	39·00
Dividend—Percentage . . . . .	13%	13%	13%	13%	13%	13%	—
Price differential . . . . .	(-)495	(-)495	(-)495	(-)495	(-)495	(-)495	(-)6435
Retrospective Price Adjustment (discount) . . . . .	743	743	743	743	743	743	9659·00
Dividend—Amount . . . . .	241	241	241	241	241	241	3133·00
Dividend tax received or dividend paid to BOC . . . . .	60	60	60	60	60	60	780·00
<b>NET RECEIPT . . . . .</b>	<b>549</b>	<b>549</b>	<b>549</b>	<b>549</b>	<b>549</b>	<b>549</b>	<b>7137·00</b>
<b>B. BOC/AOC</b>							
Dividend—Percentage . . . . .	13%	13%	13%	13%	13%	13%	—
Price differential . . . . .	(-)32	(-)32	(-)32	(-)32	(-)32	(-)32	(-)416·00
Retrospective Price adjustment (discount) . . . . .	58	48	48	48	48	48	624·00
Dividend—Amount . . . . .	241	241	241	241	241	241	3133·00
Dividend Tax Paid . . . . .	(-)60	(-)60	(-)60	(-)60	(-)60	(-)60	(-)780·00
<b>NET RECEIPT . . . . .</b>	<b>197</b>	<b>197</b>	<b>197</b>	<b>197</b>	<b>197</b>	<b>197</b>	<b>2561·00</b>

## NOTE :

(a) Final Crude Price from 1968-1980 assumed to be Rs. 91 per tonne.

(b) Crude Prices as per Cl. 9(A) from 1968-1980 assumed to be Rs. 118 per tonne; Landed cost Rs. 100 per tonne.

APPENDIX V  
(vide para 3.56)

Statement showing receipts from Crude oil sales and returns on Equity under Promotion Agreement  
from 1962—80

Year	Offtake (Million tonnes)	Crude Oil sales proceeds at landed cost (Clause 13 of Promotion Agreement)	Crude Oil sales proceeds required to cover costs		Return on Equity
			Rs. lacs	Rs. lacs	
I. Actual					
(1962—67)					
1963	0.56	414.4	330.3	Profit—84.1	
1964	0.69	531.3	704.1	Loss—172.8	
1965	1.40	1064.0	1385.9	Loss—321.9	
1966	1.74	1252.8	1561.8	Loss—309.0	
1967	2.14	1872.5	1746.0	Profit—126.5	
1967	2.75	2805.0*	2140.5	Profit—665.0	
II. <i>Estimat</i> : (1968—80)					
1968—80	3.00	3000.0**	2140.0	Profit 860.0	per annum for each year 1968—80

\* @ Rs. 102 p.t (Average)

\*\* @ Rs. 100 p.t. (Average)

NOTE : The total amount of profit before Income Tax during 1962—80 will, therefore, be Rs. 11,252 lacs. After claiming Development Rebate for Rs. 16,00/- lacs and creating Development Rebate Reserve for Rs. 1,200 lacs, the Income Tax on the profit @ 50.6% will be Rs. 4884 lacs. The net profit after tax will be Rs. 6368 lacs which will be distributed between shareholders as follows :—

Government—Dividend	Rs. 3184 lacs	BOC/AOC Dividend	Rs. 3184 lacs
Tax on Dividend	Nil	Tax on Dividend (—)	796 "

Rs. 3184 lacs	Rs. 2388 lacs
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Tax on BOC's Dividend	Rs. 796 lacs
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Rs. 3980 lacs
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## APPENDIX VI

(Vide para 4.30)

*Reports and returns submitted by Oil India Limited to the Ministry of Petroleum & Chemicals.*

The following reports and returns are submitted by Oil India Limited to the Ministry of Petroleum and Chemicals :—

- |  |           |
|--|-----------|
| 1. Operations Report in Oil India Limited areas (under Petroleum & Natural Gas Rules, 1959)      | Monthly   |
| 2. Oilfield Statistics (under Petroleum & Natural Gas Rules 1959)                                | Monthly   |
| 3. Drilling Progress in Oil India Limited areas (under Petroleum and Natural Gas Rules 1959)     | Monthly   |
| 4. Monthly Progress Report on drilling and production (under Petroleum & Natural Gas Rules 1959) | Monthly   |
| 5. Statement showing utilisation of Sterling Loan.   | Monthly   |
| 6. Statement of foreign exchange commitment outstanding—Quarterly.                               | Quarterly |
| 7. Oil India Limited Annual Report   | Yearly    |
| 8. Staff position (Senior Executives) showing Indian/Non-Indian employees                        | Yearly    |



## APPENDIX VII

### *Statement showing summary of Recommendations/Conclusions*

Serial No.	Reference to para No. in the Report	Summary of Recommendations/Conclusions
1	1-18	The Committee note that Government secured equity participation of 33-1/3 % in Oil India in 1958 which was subsequently increased to 50 % in 1961 at the time of granting Petroleum Exploration Licences over an additional area of 1886 sq. miles to that Company. The Committee consider that in terms of Industrial Policy Resolutions of 1948 and 1956, Government should have insisted upon securing majority participation with private enterprise in Oil India i.e. 51 % instead of the existing 50 % share as 'Mineral Oil' are included in Schedule 'A' industries in the Industrial Policy Resolution, 1956.
2	1-19	In the opinion of the Committee, a geophysical licence held by the Assam Oil Company in pre-independence days did not automatically entitle them to a prospecting licence. After the attainment of Independence such licensing or change in type of license was subject to the provisions of the Industrial Policy Resolutions 1948 and 1956, which enjoined majority participation by Government or other measures so that Government had the requisite powers to guide the policy and control the operations of undertakings in such ventures. The Committee are unable to find any justification for the grant of exploratory licence over an additional area of 1886 sq. miles in Assam and NEFA—which is stated to be a promising area—to Oil India Ltd. in 1961 merely on the ground that it secured 50 % participation in the Company. This is all the more regrettable as the Oil and Natural Gas Commission had been set up by then and had acquired sufficient know-how and experience in exploration and had even struck oil at Ankleshwar. The area in question should have been earmarked for exploration by O.N.G.C. rather than given to Oil India Ltd. Further the oil produced in that area was meant to be used by the public sector refineries at Gauhati and Barauni. It was therefore only appropriate that production of this crude should have been in the public sector. If the coopera-

tion of private enterprise was still considered necessary it should have been on the basis of majority participation and control of the undertaking by Government as specifically required in the Industrial Policy Resolution, 1956. The Committee suggest that even now Government should examine the possibilities of securing majority participation in Oil India Ltd.

- 3      2·8      The Committee note that the letter of grant of mining lease over Naharkatiya was given in January, 1954 and those over Naharkatiya Extension, Hugrijan and Moran were given in January, 1961. Similarly the letters of grant of exploration licences over the Dum Duma and Ningru areas were given in January, 1963 and November, 1963 respectively and in terms of clause 5 of the Second Supplemental Agreement will be valid for a term of six years i.e. till January 1969 and November, 1969. They note that these areas are still being operated under letters of grant of mining leases and exploration licences. The Committee are concerned at the inordinate delay in the execution of formal mining lease deeds and petroleum exploration licences for these areas. They are not convinced by the reasons given for the delays in executing the formal deeds. It appears that serious efforts have not been made to resolve the difficulties in the way of finalisation of these deeds because the non-execution of the leases and licences is stated to have had no prejudicial effect on finance or otherwise. The Committee consider that there should not be a long time-lag in the giving of letters of grant and the execution of formal deeds. The Committee urge that Government should take effective measures to resolve the difficulties in the way of finalisation of these leases and licences and that the same should be executed without further delay.
- 4      2·9      The Committee further note that there has also been delay in the giving of letters of grant of exploration licences for the Dum Duma and Ningru areas. Although the application for these areas was made by the Oil India Ltd. in September, 1961 the letters of grant were given in January and November, 1963 respectively. Since according to the Second Supplemental Agreement of July, 1961 the term of the exploration licences over these areas was fixed at the maximum of 6 years, the delay in the issue of letters of grant of licences has naturally affected the progress of exploration in these areas.

- 5      2·10      The Committee also note that mining lease over Naharkatiya Extension Area has been given for 30 years while the same over Hugrijan and Moran has been given for 20 years only. According to Rule 12 of the Petroleum and Natural Gas Rules, 1959, the term of a lease is ordinarily 20 years. The Committee would like to be informed of the reasons of giving the mining lease over Naharkatiya for a period exceeding 20 years.
- 6      2·14      According to the Second Supplemental Agreement the Oil India Ltd. should have surrendered by 16th January, 1967, 968 sq. miles in the Dum Duma area and by 27th November, 1967, 446 sq. miles in the Ningru area leaving a balance of 323 sq. miles in the Dum Duma area and 149 sq. miles in the Ningru area *i.e.* a total of only 472 sq. miles. Against this the area held by the Oil India Ltd. is still 761 sq. miles. It indicates that Government has not been vigilant in getting the terms of the Second Supplemental Agreement implemented in this regard. Viewed against the slow progress in the work of exploration and prospecting *in these areas* by Oil India Ltd. and the need to establish large reserves of petroleum in the country, the Committee would like the Government to keep a close watch over the progress of exploration and prospecting by Oil India Ltd. in these areas and to have them relinquished in accordance with the agreement so that these "promising areas" could be explored by O.N.G.C. or other suitable organisations, to meet the country's needs.
- 7      2·23      The Committee observe that even after seven years and  
2·24      of the signing of the Second Supplemental Agreement and five years after the giving of letters of grant for prospecting, no reserves of oil have been found in the Dum Duma and Ningru areas which were stated to be very "promising areas" and for which Burmah Oil Company was very anxious to take prospecting licences. The drilling of 8½ wells in these areas during these years speaks for itself and is by no means a satisfactory achievement particularly for an experienced organisation like Oil India Ltd. It thus appears that the Oil India Ltd. have mainly concentrated their efforts in the proved areas for the production of crude. It leaves one with the impression that no serious efforts to explore oil in these new areas have been made. Clause 18 of the Second Supplemental Agreement (1961) gives the impression that at that time the prospecting pro-

gramme in this area was considered as urgent. The **Burmah Oil Company** was required under its terms to submit an immediate programme costing approximately Rs. 2 crores covering 2 years for prospecting in these areas. But when it came to action, this *immediate* programme was delayed by about 2 years on account of the delay in giving the letters of grant for exploration licences. Even thereafter, the progress of exploration in these new areas has been very slow. Due to various factors only one rig was deployed by Oil India Ltd. in these two areas. It may be that Oil India Ltd. is in no hurry to prove more reserves of oil in this area as they are already in a position to meet their commitment to supply 3 million tonnes of oil annually to the Gauhati, Barauni and Digboi refineries from their proved reserves. When a company is assured a guaranteed return of 9 to 13 per cent on their equity capital there is no incentive left to intensify exploration efforts immediately.

The Committee consider that in order to reduce the wide gap between the demand and supply of crude in the country as well as the need to meet the additional requirements of the Barauni and Haldia refineries, it is imperative that oil potentiality of these areas is assessed urgently by accelerating and intensifying the exploration programme. If Oil India Ltd. is unable to step up their exploration programme on account of their various limitations, Government should seek the relinquishment of these areas so that the exploration work in these promising areas may be entrusted to the Oil and Natural Gas Commission.

- 8        2·30        The Committee are happy to note that targets for drilling of wells in the mining lease areas, have been mostly achieved by Oil India Ltd. except for shortfall to the extent of 6% which is expected to be made good during the period 1966-1970.
- 9        2·34        The Committee commend the efforts of Oil India Ltd. in successfully adopting some of the drilling techniques especially the technique of deviation drilling of inaccessible locations and dual completion drilling with a view to producing oil simultaneously from two separate oil horizons in the same well. They are also happy that the Company has taken effective measures to increase the operational time of rigs.
- 10      2·40        The Committee are glad that the Oil India Ltd. has been in a position to supply crude at the stipulated quantity

to the Gauhati and Barauni refineries. They regret that the shortfall in production has been due to the inability of these refineries to operate at their rated capacities.

- 11      2.52      The Committee regret to note that on account of the teething troubles of the Gauhati Refinery and the inordinate delay in the commissioning of the Barauni Refinery, the off-take of crude from Oil India Ltd. was reduced considerably during the years 1962 to 1966 which resulted in the payment of heavy subsidies to the Oil India Limited. It is unfortunate that the initial difficulties in the commissioning of the refineries which were new industries in the public sector, were not anticipated by Government at the time of entering into the Second Supplemental Agreement. The Committee are surprised that neither the Indian Refineries Limited which was responsible for the commissioning of the Barauni Refinery nor the Administrative Ministry concerned became aware of the delays of about 2 years in the commissioning of the first phase of the Barauni Refinery, in July, 1961 when the Second Supplemental Agreement was entered into. Considering that practically all public sector projects have experienced delays in commissioning and suffered from teething troubles, the optimism of the Government that the public sector refineries at Gauhati and Barauni would start functioning and achieve their rated capacity on schedule, was hardly justified. The Committee feel that this is no hindsight. It has been the general experience of Government that delays occur in the setting up of public sector projects. Government could have been more careful in assuming that the refineries would be commissioned in time and would be in a position to take supplies of crude at the stipulated rates. This aspect has assumed particular importance in this case as the delays in commissioning of the refineries have resulted in payment of heavy subsidies to the Oil India Limited, which could have been avoided.
- 12      2.55      The Committee have already recommended intensification of exploration work in Dum Duma and Ningru areas in Assam and NEFA where the prospects of finding oil are considered to be bright. They hope that with determined efforts it would be possible to find reserves of oil in these areas which would enable additional crude supplies to be made to the Barauni refinery. The Committee urge in the meantime Oil India Ltd. and ONGC together should make concerted efforts to increase their output of

crude so as to meet the full requirements of 3 million tonnes of crude for Barauni refinery by indigenous supplies.

- 13     2.62     The Committee are happy to note that the Crude Conditioning Plants of the Oil India Ltd. are the first of their kind in the World and have been in operation for the last four successive cold weather period without giving any trouble.
- 14     2.71     The Committee are glad to learn that the pipeline project of the Oil India Ltd. is one of the most modern pipelines of its kind in the World and that the design has proved its worth in practice.
- 15     2.82     The Committee note that the cost of production of gas in Oil India Ltd. is Rs. 17.54 per 1000 cubicmetres while the same for the Ankleshwar and Cambay gas of the ONGC has been worked out at Rs. 36.73 and Rs. 42.88 per 1000 cubicmetres respectively. The Committee are concerned at this wide disparity in the cost of production of gas by the two organisations. They would like the Government to examine whether the elements of cost are worked out on the same basis in the two organisations and if not, to ensure that there is uniformity in working out the cost of production in both these organisations.
- 16     2.83     The Committee are surprised that the Oil India Ltd. is supplying gas to the Assam State Electricity Board at 50% of its cost of production and at the actual cost of production to the Assam Oil Company. The Committee see no reason why gas should be sold at a loss to the Assam State Electricity Board and at cost price to the Assam Oil Company. Considering that Government had to pay subsidy amounting to over Rs. 18 crores to the Oil India Limited to make up the guaranteed net return to the Company the sale of gas at half the cost price to the Assam State Electricity Board and at cost price to the Assam Oil Company is unbusinesslike. The Committee note that the sale price to the Assam Oil Company will be brought on par with that of Fertilizer Corporation of India as soon as the supplies are commenced to the latter. They urge that the question of revising the sale price of gas to Assam State Electricity Board may also be examined.
- 17     2.88     The Committee urge that all possible avenues should be explored by Oil India Limited for the utilization and sale of the surplus gas which is being flared at present.

18 3.13 The Committee note that the equity and loan ratio in the Oil India Ltd. is 1 : 2. They understand that for public undertakings, Government in 1960, decided on the equity loan ratio as 1 : 1. The Committee consider that the question of deciding equity and loan ratio in Oil India Ltd. is very important as among other things, it has a bearing on the payment of guaranteed return of 9 to 13% on the equity capital. Since the increase in the loan capital also involves payment of interest and repayment of loan instalments which are also charged to revenue account and since most of the loan capital of Oil India Ltd. has been provided by Government or governmental agencies, the Committee would urge that the economics of increasing loan capital or equity capital of this company, a proper ratio between the two and their long term and short-term impact on the price of crude oil as well as on the payment of guaranteed dividend should be thoroughly examined by Government and a suitable equity loan ratio determined in consultation with the Burmah Oil Company at an early date.

19 3.26 The Committee note that while the cost of production of crude has been estimated by Oil India Ltd. on a discounted basis over a period of 15 years, the same in ONGC has been worked out on an annual basis. The Committee have in their 50th Report (Fourth Lok Sabha) recommended the adoption of a uniform procedure for the collection, analysis and compilation of costs by these two organisations.

The Committee regret to observe that the breakup of the assumed cost of finding, production and transport of crude oil in Oil India Ltd. which was taken as Rs. 48 for the purpose of the Formula given in Clause 9 (B) (c) of the Second Supplemental Agreement, is not officially available in any document with the Government of India. The breakup, given by Oil India Ltd. includes the additional element of royalty which was not included in the original assumptions. Further against the assumed cost of Rs. 48 included in the Formula in 1961, the estimated cost of production of oil consisting of 7 elements has now been worked out at Rs. 40. It appears to the Committee that at the time of working out the complicated pricing formula in 1961, the details of the various elements had not been carefully worked out and considered by Government. The Committee would like to be informed of the reasons why the assumed cost of production of crude in 1961 was taken as Rs. 48 and what were

its financial implications when the same works out to about Rs. 40 per tonne now.

- 20      3.28      The Committee are unable to appreciate why the price of crude charged by the Oil India Ltd. from the Gauhati, Barauni and Digboi refineries during the years 1962 to 1966 was worked out at abnormally high rates ranging from 100.96 to Rs. 152.42 per tonne when the cost of production of the crude on a discounted basis has been estimated at Rs. 40 per ton only. As the increase in the sale price of crude has resulted in the payment of heavy subsidies by the Government on account of the low offtake of the crude by the refineries at Gauhati and Barauni, the Committee would like to be informed whether feasibility of keeping sale price of crude low by spreading the development and exploration expenditure over a longer period consistent with the life of oil fields, was examined by Government specially when the crude oil remained underground and the life of the oil-field got prolonged by the lower offtake of crude by the public sector refineries.
- 21      3.61      The Committee are unable to find any justification for  
to      replacing the original pricing formula given in Clause 13  
3.64      of the Promotion Agreement 1958, by the complicated  
pricing formula given in Clause 9 of the Second Supplemental Agreement, 1961 which guaranteed a net return of 9 to 13% to the Oil India Ltd. on the paid up capital. The changing of the original pricing formula has resulted in the following :
- (i) Government had to pay a subsidy of over Rs. 18 crores upto the year 1966-67 to ensure the minimum guaranteed dividend to the Oil India Limited. If the Government's share of dividend from Oil India Ltd. is also taken into account, the net outgo would still be over Rs. 10 crores during this period. Against this, BOC/AOC have received dividend amounting to Rs. 8 crores during the same period and have paid subsidy of about Rs. 5.7 crores, thereby giving them a net benefit of about Rs. 2.3 crores.
- (ii) Government/Indian Refineries have been made responsible for the payment of Sales Tax on the sale of crude by Oil India Ltd. to the Gauhati and Barauni Refineries which at the rate of Rs. 12 per tonne would amount to a recurring liability of over Rs. 3 crores per year on the supply of 2.75 million tonnes of oil. Sales Tax liability was not



to be borne by the refineries in the original pricing formula but was to have been included in its sale price by Oil India Ltd.

(iii) The guaranteeing of net return on paid-up capital has tended to slow down exploration work in the Exploration Licence Area as all expenditure on exploration work is also treated as revenue expenditure and increases the price of crude. The net return on share capital has been guaranteed from 1962 onwards *i.e.* the very first year of the starting of supply of crude to Gauhati refinery which was not provided for in the original Promotion Agreement.

(iv) Since Oil India Ltd. has been assured a minimum guaranteed return of 9 to 13% on the supply of 3 million tonnes of crude per annum, there appears to be no incentive to Oil India Ltd. to effect economy and to accelerate exploration efforts for additional crude.

Government have advanced the following reasons for changing the pricing formula as laid down in the Promotion Agreement of 1958 to the existing formula incorporated in the Second Supplemental Agreement of 1961 :

The original formula provided for two alternative methods for fixing price of crude *viz* import parity price or cost plus basis. The import parity basis was not considered suitable as the indigenous crude would have to be paid for at import parity even if it could be produced at a cheaper rate. It has also been stated by Government that India was importing crude at that time at full posted price as no discounts were available. The cost plus basis might have meant enormous profits to Oil India Limited in case they found a prolific field in the new areas. So it was felt that the price which would give a certain discount on import parity and at the same time not allow profits of Oil India Ltd. to exceed a certain limit, was considered the best solution. It was also expected that the price of crude based on the new formula would be lower than import parity when the offtake reaches 3 million tonnes per annum. It has been contended that the payment of subsidy is almost entirely due to delays in commissioning of Gauhati and Barauni refineries.

The Committee have considered these reasons. They feel that the original pricing formula laid down in Clause 13 of the Promotion Agreement 1958 was quite comprehensive

and was advantageous to the Government as under that formula Government had option either to fix the price of crude at the import parity or cost plus the reasonable commercial return. This gave adequate powers to Government to peg the profits of the Company to any figure considered reasonable by them and therefore could well have been used by Government to keep the profits upto 13% or even lower. Under this formula Government was also to examine the costs, as well as to determine the quantum of costs and elements to be taken into account in calculating such costs in agreement with the Oil India Limited. Moreover Government had guaranteed neither any net return to the Oil India Ltd. nor assured offtake of specific quantities of crude by the Barauni and Gauhati refineries from any specific year. There was therefore no question of payment of any subsidy under the Promotion Agreement of 1958. The Committee have already commented on the optimism shown by Government in assuming that the refineries would be commissioned on schedule and would be able to process the agreed quantities of crude. The net return if at all could have been related to the production and supply of specific quantity of oil to the refineries rather than to the year 1962 irrespective of the quantity of crude supplied. Further discounts began to be made available by the coastal refineries on the imported crude with effect from June, 1960 and Government was aware of the availability of discounts in the world oil market at the time of entering into the Second Supplemental Agreement in 1961.

Having regard to these factors, the Committee feel that the change made in the pricing formula in 1961 was uncalled for and unbusinesslike. The Committee recommend that the circumstances leading to the change in the pricing formula in 1961 which has proved disadvantageous to the Government and public sector refineries should be thoroughly examined with a view to fix responsibility. They would also like the Government to ensure that before such agreements are entered into in future. The advantages and disadvantages thereof should be carefully examined.

22      3.65

The Committee are concerned to note that Government paid subsidies to the Oil India Ltd. amounting to over Rs. 18 crores without getting the accounts examined by their own auditors. They note that Clause 13 of the Promotion Agreement regarding the pricing of crude pro-

vided for the examination of the cost of crude including the element of cost by the Government. The Committee would like that the accounts of the Company for the years when subsidy had to be paid may be examined by Government through its own auditors.

- 23 3.66 The Committee note that according to the calculations made by Government under the new pricing formula, Government will get a total return of approximately Rs. 64 crores during the period 1962 to 1980 while the return to the BOC/AOC has been estimated at Rs. 26 crores for the same period. Under clause 13 of the Promotion Agreement, 1958, as the basis, the return to Government has been estimated at Rs. 40 crores against the BOC/AOC Rs. 24 crores. The Committee are not satisfied with the details contained in these statements as the assumptions on which these have been based have not been fully enumerated therein. It appears that while making these assumptions neither the liability of Sales Tax amounting to over Rs. 3 crores a year (amounting to about Rs. 40 crores upto 1980) which has become the responsibility of the Government/public sector refineries, has been taken into account nor the interest on the amount of Rs. 18 crores paid as subsidy by Government has been considered. The Committee would therefore like that these assumptions also should be thoroughly got examined by Government through the Comptroller & Auditor General of India so as to come to a correct assessment of the position.
- 24 3.67 The Committee note the assurance given by the Secretary of the Ministry that Government will start recouping the subsidy paid by them to Oil India Ltd. from 1969 onwards. The Committee consider that as Government has paid heavy subsidies amounting to Rs. 18 crores under the new pricing formula, it would appear to be appropriate that the recoupment of the amount paid is made as early as possible. They would therefore suggest that the feasibility of limiting the net return to the Oil India Ltd. to 9 per cent till the subsidy is fully recovered may be examined. This would appear to be reasonable as the net return on investment in oil industry even in Middle East where oil potential is large, is stated to be a little over 11 per cent during recent years.
- 25 3.68 The Committee also consider that the liability for the payment of over Rs. 3 crores per year by Government on

account of Sales Tax on the crude supplied to public sector refineries is an unconscionable and inequitable burden on the Government which was not payable under clause 13 of the Promotions Agreement. They would therefore suggest that the feasibility of including sales tax in the sale price of crude by Oil India Limited as is done by ONGC, may be examined.

- 26      3.82      The Committee note that the total benefit to the Assam Oil Company on account of the concessional supply of crude oil and gas under Clause 20 of the Promotion Agreement, 1958 is estimated at about Rs. 9 crores. This benefit is stated to be in consideration of the Assam Oil Company placing at the disposal of the Oil India Ltd. the geological and geophysical data accumulated in the past in the course of exploration and development of Naharkatiya etc. areas, the advantages of its past research relating to the interpretation of this data etc. Considering that the Assam Oil Company has been reimbursed fully on account of the costs of the surveys and explorations costs of prospecting and exploring operations in the said areas as well as the costs of assets and properties transferred to Oil India Ltd. for which over Rs. 13 crores were paid to the AOC as also the fact that the employees of the AOC connected with this work have all been taken over by the Oil India Limited, the Committee feel that the benefit of this magnitude for the supply of data alone does not appear to be contemplated or justified under Clause 20 of the Promotion Agreement. The Committee are unable to agree with the contention of the Ministry that this benefit is in the nature of an 'over-riding royalty' which is a normal practice in the oil industry, for a payment to be made for the discovery value when a new partner is taken into a new producing oil venture. This analogy does not appear to apply in this case as participation of Government in this venture cannot be compared to the taking of a new partner. The giving of mining lease and prospecting licences to the Assam Oil Company in these areas was subject to the provisions of the Industrial Policy Resolutions and was conditional on the participation of Government in this venture. The Committee consider that the concessions sought to be given to the Assam Oil Company under Clause 20 of the Promotion Agreement perhaps related to the supply of the specified quantities of crude and gas on cost basis only i.e. without charging any profit thereon. The Committee are not convinced that out of the five elements of cost i.e., exploration costs, deve-

development costs, production costs, royalty and transportation costs, which are normally taken into account for calculation of cost of production of crude, the AOC was required to pay only for the two elements *i.e.* production costs and royalty. The Committee would therefore urge that the original papers leading to the finalisation of this Clause may be examined in detail to see whether all the five elements of cost which make up the cost of crude were clearly spelt at that time and whether the Government had specifically agreed to the charging of the two elements only. Further the Committee would also like to know whether the financial implications of this concessional supply were fully worked out at the time of finalisation of this Clause. The Committee recommend that since this matter relates to the interpretation of the Clause of the agreement which has far-reaching financial implications the whole matter may be examined in consultation with the Ministry of Finance, Ministry of Law and the Comptroller and Auditor General at an early date so as to find out the exact implications of this Clause in the Agreement and to determine the price payable by Assam Oil Company on account of the concessional supply of crude and gas from 1959 onwards.

- 27      3.85      The Committee note that the payments on account of the services rendered by Assam Oil Company to Oil India Limited have come down from Rs. 95.71 lakhs in 1960 to Rs. 7.38 lakhs in 1966. They hope that these payments will be kept to the absolute minimum.
- 28      3.88      The Committee note that the Oil India Limited has paid over Rs. 6 crores to the Assam State Government on account of Mining lease and Exploration licence fees and royalty.
- 29      3.92      The Committee note that devaluation of the rupee in June, 1966, has resulted in increasing the formula price of crude from Rs. 70.81 to Rs. 114.75 per tonne. They also note that devaluation has also resulted in increasing the liabilities of Oil India Limited in respect of repayment of loan taken from Bank of Scotland and interest thereon, the cost of maintenance imports and replacements etc. The devaluation of Sterling in November, 1967 has, however, resulted in reducing these liabilities to some extent. The Committee feel that the net effect of devaluation of the rupee and the subsequent devaluation of Sterling has been that the formula price of crude has gone up much more

than warranted by the increase in the liabilities of the Company on account of devaluation. According to the representative of the Ministry, the overall increase in crude price on account of devaluation alone is estimated at Rs. 5/- per tonne. The Committee would therefore like the Government to work out the full details of the impact of both the devaluations (*i.e.* rupee and sterling) on the operations of the Oil India Limited so as to determine the overall benefit to Oil India Limited as a result of increase in the formula price of crude. As this increase in crude price is unconscionable the feasibility of mopping up the same by suitable measures may be examined by Government.

- 30      3-96      The Committee note that under the Companies Act 1956, the Comptroller and Auditor General (C. & A. G.) is not responsible for the audit of the accounts of the companies which are not Government companies. Oil India Limited is not a Government company as defined in the Companies Act, 1956 and hence its accounts are not audited by the Comptroller and Auditor General of India. The Committee feel that as Government holds 50 per cent shares in Oil India Limited and has invested Rs. 14 crores in the share capital of this company and has paid over Rs. 18 crores as subsidy, it would have been appropriate for Government to have the accounts of the company audited by the C. & A. G. before the payment of subsidies. The Committee have already recommended that the accounts of the Company since 1962 may be examined by Government auditors. The Committee further feel that Government should consider the advisability of getting the accounts of companies where they hold 25% or more shares and where the investment exceeds one crore, test audited by the C.&A.G.
- 31      4-6      The Committee note that except the Chairman and the Financial Director, the other nominees of the Government on the Board of Directors of Oil India Ltd. have held office for short periods. The Committee consider that it would be advantageous if the Directors hold office for a minimum of three years. They, therefore, urge that at the time of appointing their nominees on the Board of Oil India Ltd., Government should keep this aspect in view.
- 32      4-7      The Committee further suggest that it would be advisable if a technical member of the Oil and Natural Gas

Commission is also represented on the Board of Directors of Oil India Ltd. as a Government nominee so that both the organisations may benefit from each others, experience in the filed of exploration and production of oil.

- 33      4-9      The Committee consider that the presence of most of  
and      the Directors of the Company at Delhi, particularly the  
4-10      Managing Director and Financial Director, is the main  
reason for holding the meetings of the Board here. This  
has naturally resulted in the setting up of a big office at  
Delhi to provide secretarial assistance to these functionaries.  
The appropriate place for a Managing Director and Finan-  
cial Director is the headquarters of the Company. The  
holding of meetings of the Board at Duliajan will not only  
eliminate the avoidable visits of persons from Assam to  
Delhi in connection with such meetings but will also  
provide opportunities to the Directors to be in touch  
with what goes on actually in the field.

The Committee, therefore, consider it desirable that normally meetings of the Board of Directors of Oil India Ltd. should be held at the registered office where full assistance of the personnel concerned of the Company will be available readily. Meetings at places outside the registered office should be held only in exceptional circumstances.

- 34      4-20      The Committee consider that the duties of the Financial  
Director are onerous and very responsible. These are  
more so in this Company which is a joint venture and  
where Government have invested Rs. 14 crores in equity  
capital and has given heavy loans. The Committee are  
unable to appreciate how a part-time Financial Director  
operating from Delhi, could devote the time and attention,  
required for the proper and closer supervision over the  
financial matters of this Company. They note that the  
Financial Director could not visit the Company's head-  
quarters since June, 1963. The Committee are not con-  
vinced by the contention of Government that they appoin-  
ted part-time Financial Director because the Burmah Oil  
Co. had also appointed a part-time Managing Director.  
In the opinion of the Committee, a whole-time Financial  
Director alone can effectively discharge the onerous func-  
tions expected of him. The Committee recommend that  
early action should now be taken by Government to  
appoint a whole-time Financial Director at the headquar-  
ters of the Company.

- 35 4-21 The Committee suggest that when the next review regarding provisions relating to the appointment of Managing Director and Financial Director is made in 1968, the Managing Director, if appointed by Government, should be a whole-time employee, located at the Headquarters of the Company in Assam.
- 36 4-25 The Committee note that there is wide disparity between the remuneration paid to the Managing Director, a nominee of the Burmah Oil Company and the Financial Director, a nominee of the Government of India inasmuch as the former is paid about Rs. 9,000 per month and the latter Rs. 2,000 per month only. The Committee consider that as the two functionaries are the nominees of the two equal partners their remunerations should be uniform. The Committee note that the remuneration etc. payable to Government servants are governed by Government Rules and Regulations. The Committee therefore suggest that the feasibility of restricting the remuneration of these functionaries in such a manner as to be within Government Rules and Regulations, may be examined. Any other remuneration which may be justified, should in fairness be borne by the sponsoring partner.
- The Committee would also suggest that the feasibility of recovering the difference between the remuneration of the Managing Director and the Financial Director which approximates to a lakh of rupees per year, since 1961 onwards, and crediting the same to the Government account, may be examined.
- 37 4-27 The Committee are unable to appreciate the appointment of a part-time Technical Consultant to Oil India Limited on a monthly retainer fee of Rs. 2,500/- plus Rs. 1,000/- as house rent. They consider that the advisability of doing away with such retainer needs examination.
- 38 4-31 The Committee realise that Government have no authority to issue any directions to Oil India Limited regarding its administrative and management affairs as it is a joint venture. The Committee, however, feel that since Government are equal partner in this venture, it is necessary that policies of Government particularly with regard to scales of pay to the employees, scales of amenities etc. are reflected in the working of such companies. To ensure this apart from appointing whole-time Directors,



Government should also consider the advisability of deputing some Government officers in top positions in the managerial and financial cadres of such companies. The Committee feel that this arrangement would be to the mutual benefit of both the parties.

- 39      4-36      The Committee note that the Oil India Limited are paying \$38,000 per annum to Messrs DeGolyer & MacNaughton on account of their services as Consultants while similar work in the Oil and Natural Gas Commission is being done by the Officers of the Research and Training Institute, Dehra Dun. The Committee feel that in view of the tight foreign exchange position of the country as also with a view to encourage Indian talent, the question of utilising the services of Indian experts by the Oil India Limited for this purpose may be examined.
- 40      4-38      The Committee note that, apart from the payments made to M/s DeGolyer & MacNaughton regular payments are also being made in foreign currency to M/s Schlumberger Sea Co. Inc., M/s Seismograph Services Ltd., M/s Burmah Oil Company, London and M/s AB Osterman Overseas Aviation Ltd., Sweden on account of various services rendered by them to Oil India Ltd. The Committee need hardly stress the need to save as much foreign exchange as possible. They consider that since Oil & Natural Gas Commission has developed expertise for some of the services referred to above, the feasibility of doing away with foreign consultants by Oil India Ltd. and replacing them by the Indian experts of the Oil & Natural Gas Commission, may be considered.
- 41      4-48      The Committee note that the share of Oil India Ltd. in the expenditure on outside offices in New Delhi and Calcutta worked out to Rs. 8.40 lakhs and Rs. 5.86 lakhs respectively during the year 1966. The Committee are not convinced of the need for the Oil India Limited to have big offices at New Delhi and Calcutta with such heavy expenditure. One of the main reasons given in support of having an office in New Delhi is that Board meetings of the Oil India Limited are generally held in Delhi and that the Managing Director and Financial Director are stationed at Delhi. The Committee have already recommended that the Board meetings should invariably be held at the Headquarters of the Company in Assam.

- 42 4-49 The Committee also feel that the location of the office of the Managing Director and Financial Director of the Company at a place different from its Headquarter is not conducive to efficiency and economy and is contrary to normal industrial practice. Such an arrangement leads to duplication of technical and other staff at Delhi. The Committee have already recommended the stationing of these officers at the Headquarters of the Company in the interest of effective supervision and economy.
- 43 4-50 The Committee are also not satisfied with the justification given for the setting up of a Technical Cell of the Company in Delhi. Since the matters looked after by the Cell relate to oilfield operations of the Oil India Limited, it is all the more necessary that such a Cell should be organised at Dhuliajan. The Committee note that there is already a technical manager at Dhuliajan to look after all such matters. Further there appears to be little justification for a highly paid Public Relations Officer at Delhi, particularly when the crude produced by Oil India Ltd. is sold to public sector refineries.
- Such an officer if at all considered necessary is required at the headquarters at Dhuliajan. The Committee feel that with the shifting of the venue of Board meetings and the offices of Managing Director and Financial Director to Dhuliajan, there will not be any need for a big office at Delhi which will result in considerable economy.
- 44 4-51 Similarly the reasons given for having a big office of the Oil India Limited at Calcutta are not convincing. The Committee feel that there is considerable scope for economy in the expenditure of Calcutta office as many of its functions can be performed through specialised agencies. The Committee therefore recommend that the organisational set-up and the staff strength of the Calcutta office need to be reviewed with a view to effect economy.
- 45 4-52 The Committee further suggest that with the shrinkage of the work at New Delhi and reorganisation of Calcutta office, as recommended by them, the need of having common offices with Assam Oil Company at New Delhi, Calcutta may be reviewed.
- 46 4-57 Oil India Limited is incurring an annual expenditure of Rs. 12 lakhs on account of payment of bonus to its

employees though it was not payable under the Payment of Bonus Act, 1965. It is unfortunate that this liability has been incurred by Oil India Limited even when heavy subsidies were paid to it by Government to make up the guaranteed return of 9% during this period.

- 47     4·62     The Committee are happy at the progress achieved in the matter of Indianisation of the Oil India Limited. They hope that complete Indianisation of the posts in Oil India Limited will be achieved as early as possible.
- 48     4·64     The Committee agree that there is need for providing housing facilities to its employees by Oil India Limited. They feel that in the construction of houses utmost economy should have been observed. They hope that this aspect will be kept in view in future.

## APPENDIX VIII

(Vide Introduction)

### *Analysis of Recommendations/Conclusions contained in the Report*

#### I. Classification of Recommendations

A. Recommendations for improving the organisation and working.

Serial Nos. 31, 32, 33, 34, 35, 37, 38, 41, 42, 43, 44, 45, 47.

B. Recommendations for effecting economy.

Serial Nos. 16, 17, 24, 25, 26, 29, 36, 39, 40, 45.

C. Miscellaneous Recommendations.

Serial Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 23, 27, 28, 30, 46, 48.

#### II. Analysis of the Important Recommendations directed towards economy

S. No.	S. No. as per Summary of recommendations (Appendix VII)	Particulars
1	16	The Committee have urged the revision of sale price of gas to the Assam State Electricity Board.
2	17	The Committee have urged that all possible avenues should be explored for the utilization and sale of surplus gas which is being flared at present.
3	24	Regarding recoupment of the amount paid as subsidy to Oil India Ltd. the Committee have suggested that the feasibility of limiting the net return to 9% till the subsidy is fully recovered may be examined.
4	25	The Committee have suggested that the feasibility of including sales tax in the sale price of crude by Oil India Ltd. as is done by the Oil and Natural Gas Commission, may be examined.
5	26	In regard to concessional supply of crude oil and natural gas to the Assam Oil Company

1	2	3
		under clause 20 of the Promotion Agreement of 1958, the Committee recommend that the matter may be examined in consultation with the Ministry of Finance, Ministry of Law and the C & A. G. to find out the exact implications of this Clause and determine the price payable by Assam Oil Company on account of the concessional supply of crude and gas from 1959 onward.
6	29	The Committee would like the Government to work out the full details of the impact of the Indian rupee and pound sterling on the operations of the Oil India Ltd. so as to determine the overall benefit to the Company as a result in increase in the formula price of crude. As this increase in crude price is unconscionable the feasibility of mopping up the same by suitable measures may be examined by Government.
7	36	The Committee suggested that the feasibility of restricting the remuneration of the Managing Director and the Financial Director in such a manner as to be within Government's rules and regulations may be considered.
8	39	The Committee recommend that in order to save foreign exchange and also to encourage Indian talent, the question of utilising the services of Indian experts by Oil India Ltd. may be examined.

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
27.	Bahree Brothers, 188, Lajpat- rai Market, Delhi-6.	27	33.	Bookwell, 4, Sant Narankari Colony, Kingsway Camp, Delhi-9.	96
28.	Jayana Book Depot, Chappar- wala Kuan, Karol Bagh, New Delhi.	66			
				MANIPUR	
29.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi-1.	68	34.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal.	77
30.	People's Publishing House, Rani Jhansi Road, New Delhi.	76		AGENTS IN FOREIGN COUNTRIES	
31.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88			
32.	Hind Book House, 82, Jan- path, New Delhi.	95	35.	The Secretary, Establishment Department, The High Com- mission of India, India House, Aldwych, LONDON, W.C.-2.	