C.P.U. No. 251

COMMITTEE ON PUBLIC UNDERTAKINGS (1973-74)

(FIFTH LOK SABHA)

FORTY-NINTH REPORT

INDIAN OIL CORPORATION LIMITED (MARKETING DIVISION)

(Ministry of Petroleum and Chemicals)

LOK SABHA SECRETARIAT
NEW DELHI

April, 1974 / Chaitra, 1896 (Saka)

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CORRIGENDA

Forty-Ninth Report of the Committee on Public Undertakings (5th L.S.) on Indian Oil Corporation Ltd. (Marketing Div.)

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GLOSSARY OF TECHNICAL TERMS USED IN THE REPORT

BOC	Burmah Oil Company Limited
AV. Gas	Aviation gasoline
JP-4/ATF	Jet propulsion fuel/Aviation Turbine Fuel
HSD	High Speed Diesel
LDO	Light Speed Diesel Oil
MLO	Material Larvicide Oil
FO	Furnace Oil
TDO	Tea Drier Oil
RFO	Residual Fuel Oil
LSHS	Low Sulphur Heavy Stock
CRL	Cochin Refineries Limited
MRL	Madras Refineries Limited
SKO	Superior Kerosene Oil
IKO	Inferior Kerosene Oil
LPG	Liquefied Petroleum Gas
WGOP	Working Group on Oil prices
OPEC	Oil Prices Enquiry Committee
OPC	Oil Prices Committee
IOBL	Indian Oil Blending Limited
IOIL	Indian Oil International Limited
IBP	Indo Burma Petroleum Company Limited
HHS	Hot Heavy Stock

COMMITTEE ON PUBLIC UNDERTAKINGS

(1973-74)

CHAIRMAN

Shrimati Subhadra Joshi

MEMBERS

2. Shri Dinen Bhattacharya
3. Shri T. H. Gavit
4. Shri K. Gopal
5. Shri J. Matha Gowder
6. Dr. Mahipatray Mehta
7. Dr. Sankta Prasad

*8. Shri Nawal Kishore Sharma

9. Shri Ramavatar Shastri
10. Shri R. P. Yadav
11. Shri M. S. Abdul Khader
12. Shri Lal K. Advani

@13. Shri U. N. Mahida

14. Shrimati Purabi Mukhopadhyay

@15. Shri Suraj Prasad

SECRETARIAT

1. Shri Avtar Singh Rikhy—*Joint Secretary.*
2. Shri M. A. Soundararajan—*Deputy Secretary.*
3. Shri M. N. Kaul—*Under Secretary.*

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*Appointed to act as Chairman from 16-5-1973 to 11-7-1973 during the absence abroad of Shrimati Subhadra Joshi.

@Ceased to be a Member of the Committee consequent on his retirement from Rajya Sabha on 3-4-1974.

COMPOSITION OF STUDY GROUP ON OIL, DRUGS AND PHARMACEUTICALS.

1. Dr. Mahipatray Mehta—*Convener*
2. Shri Ramavtar Shastri—*Alternate Convener.*
3. Dr. Sankta Prasad
4. Shri R. P. Yadav
5. Shri T. H. Gavit
6. Shri Nawal Kishore Sharma
7. Shri Dinen Bhattacharya.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report, on their behalf, present this Forty-ninth Report on Indian Oil Corporation Limited (Marketing Division).

2. This Report of the Committee is based on the comprehensive appraisal of the working of the Indian Oil Corporation Limited (Marketing Division) as contained in the Report of the Comptroller and Auditor General of India for the year 1970-71—Union Government (Commercial), Part VII and also of an examination in depth of the working of Indian Oil Corporation Ltd. (Marketing Division) upto the year ending 31st March, 1973. The Committee on Public Undertakings took evidence of the representatives of the Indian Oil Corporation Ltd. (Marketing Division) on the 9th and 10th October, 1973 and of the Ministry of Petroleum and Chemicals on the 13th and 14th December, 1973.

3. The Committee on Public Undertakings considered the Report at their sitting held on 29th March, 1974. The Committee considered the comments of Indian Oil Corporation (Marketing Division) and the Ministry of Petroleum and Chemicals arising out of factual verification of the Report at their sitting held on the 18th April, 1974 and adopted the Report.

4. The Committee wish to express their thanks to the Ministry of Petroleum and Chemicals, the Indian Oil Corporation Limited, the Labour Unions of IOC (Marketing Division) and the non-official organisations for placing before them the material and information they wanted on connection with the examination of Indian Oil Corporation Limited (Marketing Division). They wish to thank in particular the representatives of the Ministry and the Undertaking who gave evidence and placed their considered views before the Committee.

5. The Committee also place on record their appreciation of the assistance rendered to them by the Comptroller and Auditor General of India in the examination of Indian Oil Corporation Limited (Marketing Division).

NEW DELHI;
April 19, 1974.

SUBHADRA JOSHI,
Chairman,
Committee on Public Undertakings.

I

INTRODUCTORY

A. Historical Background

1.1. The Indian Oil Corporation Limited was formed on the 1st September, 1964 by amalgamating the Indian Refineries Limited with the Indian Oil Company Ltd. The Company has two main Divisions known as the Refineries and Pipelines Division and the Marketing Division.

1.2. The Committee on Public Undertakings examined the working of Marketing Division of the Indian Oil Corporation Limited in their Thirty-Fifth Report (Third Lok Sabha—March, 1967). The action taken by Government on the recommendations of the Committee is contained in the Committee's Thirty-Ninth Report (Fourth Lok Sabha—April, 1969).

1.3. The present Report is based on the review made by the Audit Board in respect of the Marketing Division of the Corporation which was incorporated in Part VII of the Report of the Comptroller and Auditor General of India for the year 1970-71 Union Government (Commercial).

B. Objectives

1.4. The Indian Oil Company Limited (now Marketing Division of the Indian Oil Corporation Limited) was formed with the following main objectives:—

(i) To ensure within the shortest possible time the supply of all petroleum products requirements of all Government organisations (Central and State) all over the country;

(ii) to build up storage and other facilities for an ultimate handling of at-least half of the import trade of deficit petroleum products so that wherever advantageous, imports can be effected not only from sources already availed of by the trade, but from alternative sources as well.

(iii) to build up additional distribution facilities (including retail outlets) as may be warranted by the growing demand for petroleum products;

(iv) to take over at refinery points or at such other points, all the products of the refinerfies at Gauhati Barauni.

1.5. After the formation of the Indian Oil Corporation Limited, the following additional objective was laid down for the Marketing Division:—

"To take the products of the Cochin Refineries Limited either as agents or owners for marketing except the products which are required by the Cochin Refineries Limited for use in the refinery or for export."

1.6. With the commissioning of Koyali Refinery in October, 1965 the Marketing Division was entrusted with the marketing of the products of this refinery also. Subsequently, in March, 1968 it was also entrusted with the marketing of products of the Madras Refineries Limited (which went on stream in June, 1969) except those in respect of which any other party/parties was/were authorised by Government to make direct purchases from MRL.

Attainment of Objectives and performance analysis

1.7. The following table indicates the products availability to I.O.C. and to other marketing organisations in the country and the sale thereof within the country during the years 1968 to 1972. The product-wise details of the actual sales *vis-a-vis* the product availability and the revised sales targets are given in Appendix-I.

(In thousand M. tons)

1	Burmah-shell 2	Esso 3	Caltex 4	IOC 5	Others 6	Total 7	Percentage of IOC's share to the total 8
1968							
Indigenous production	3503·7	2434·7	1425·7	7084·9	484·7	14922·7	
Committed sale to BOC	..	..	..	(—)334·6	(+)334·6	..	..
	3503·7	2423·7	1425·7	6750·3	819·3	14922·7	45·2
Imports	121·1	101·9	48·3	639·9	..	911·3	70·2
Net product availability	3624.8	2525.6	1474.0	7390.2	819.3	15833.9	46.7
Internal Sales	4006·1@	2639·5@	1431·7	6376·8	552·6	15006·7	42·5
Percentage of sales to net product availability	110·5	104·5	97·1	86·3*	67·4	94·8	..
1969							
Indigenous production	3438·4	2334·7	1235·4	8736·1	494·3	16238·9	..
Committed sale to BOC	..	..	..	(—)341·2	(+)341·2	..	..
	3438·4	2334·7	1235·4	8394·9	835·5	16238·9	51·7

*See footnotes on on page 6,

1	2	3	4	5	6	7	8
Imports	70·9	66·8	28·9	850·9	..	1017·5£	83·6
Net product availability	3509·3	2401·5	1264·3	9245·8	835·5	17256·4	53·6
Internal Sales	4025·5@	2568·4@	1286·3@	7878·2	581·7	16340·1	48·2
Percentage of sales to net product availability	114·7	107·0	101·7	85·2*	69·6	94·7	..
1970							
Indigenous production	3234·7	2259·0	1083·0	10136·7	463·5	17176·9	..
Committed sale to BOC	..	..	..	(—)369·2	(+)369·2	..	..
	3264·7	2259·0	1083·0	9767·5	832·7	17176·9	56·8
Imports	49·3	40·6	21·1	844·9	..	955·9£	88·4
Net product availability	3284·0	2299·6	1104·1	10612·4	832·7	18132·8	58·5
Internal sales	4191@	2544·0@	1243·0@	8958·0*	651·0	17587·0	50·9
Percentage of sales to net product availability	127·6	110·6	112·7	84·4*	78·2	97·0	..
1971							
Indigenous production	3677·0	2667·4	1142·9	10208·8	530·8	18226·9	
Committed sale to BOC	..	..	..	(—)333·5	(+)333·5	..	..
	3677·0	2667·4	1142·9	9875·3	864·3	18226·9	54·2

* See foot-notes on page 6.

Imports	40·5	14·9	6·4	1863·9	..	1925·7$	96·8
Net product availability	3717·5	2682·3	1149·3	11739·2	864·3	20152·6	58·3
Internal sales	4116·0@	2651·0	1312·0@	10566·0@	844·0@	19489·0	54·2
Percentage of sales to net product availability	110·7	98·8	114·2	90·0*	97·7	96·7	..
1972							
1. Indigenous Production (Provisional)	3411·5	2397·6	1055·7	10841·7	497·7	18204·2	59·6
2. Committed Sale to BOC				(—)315·7	(+)315·7		
3. Imports	2·8	2·5	1·3	3249·0	1·2	3256·8	99·8
4. Net Product Availability	3414·3	2400·1	1057·0	13775·0	814·6	21461·0	64·2
5. Internal Sales	4140·2	2721·1	1261·4	12282·8	1015·7	21421·2	57·3
6. Percentage of Sales to net product availability	121·3	113·4	119·3	98·2	124·7	99·8	..
1973							
1. Indigenous production (Provisional)	4282·4	2779·1	1013·3	10557·7	490·8	19123·3	55·2
2. Committed Sale to BOC				(—)380·3	(+)380·3	..	
				11052·3	1068·8	..	
3. Imports (Prov.)	2·4	1·4	neg	3835·4	0·9	..	3840·1
4. Net Product Availability	4284·8	2780·5	1013·3	14012·8	872·0	..	22963·4

* See footnotes on page 6.

1	2	3	4	5	6	7	8
5. Internal Sale (Provisional) .	4134·1	2440·0	1119·2	13568·8	1089·9	22352·0	60·7
6. Percentage of sales to net product availability . .	87·8	110·5	96·8	125·0		97·3	

IOC's sales include, for all years its 'own use' for tank trucks and chartered vessels.

* Balance represents IOC's outright sales to other oil companies, imbalances in Product Exchange Transactions, exports, sales through IBP, normal operational losses and inventory carry-overs.

@The sales exceeded the product availability because of product exchange transactions.

£ These figures are exclusive of the imports a made by small companies viz. Castrol, Gulf, etc.

@@ This includes sales through Indian Oil International Limited (subsidiary company) the extent of which is not available with the Management.

1.8. It would be seen from the table that the Corporation's share in total internal sales has been gradually increasing and was 57.3 per cent. in 1972. The Committee were also informed that there were no imports of fuels made by any other oil company during 1972-73. The import of lubricants also had been canalised through I.O.C. except for a few proprietory brands like highly specialised finished lubricants for aviation and marine, which had to be approved by the respective engine manufacturers of aircraft and ocean vessels. The import of deficit products was made by I.O.C. from countries around Persian Gulf mainly Iran, Iraq, Kuwait, Saudi Arabia and Bahrain and under India's bilateral trade agreement from USSR and Rumania. Thus, one of the objectives of the I.O.C. namely handling of at least half of the import trade in deficit petroleum products has been achieved.

1.9. It would also be seen from the table that although the Corporation's share in the internal sales was rising every year, it was less than its product availability while the sales made by the other major marketing organisations (except Caltex during 1967 and Esso during 1971) were generally more than their products availability. This was mainly due to handing over the products of I.O.C. to other oil companies under product exchange arrangement. This has been dealt with in detail in another Chapter of this Report.

C. Sales to Government Organisations

1.10. The following table shows the figures of actual sales of petroleum products (excluding bitumen) to Government Organisations as estimated by the Corporation during the last 3 years as also the sale of I.O.C.:—

(Figures in '000 MTs)

	1970	1971	1972
1. Industry Sales (excl. Bitumen) to Civil Government Departments:			
Government Undertakings, (Semi-Government bodies) including Defence	32,52·6	39,99·3	45,08·6
2. IOC's sales for the same categories as above. .	32,15·5	38,53·5	43,02·3
3. Market participation	98·8%	96·4%	95·4%

1.11. It would be seen from the above table the IOC's share in total sales to Government organisations including public sector organisations was 988 per cent. in 1970. It however came down slightly in 1971 and 1972 as compared to 1970.

1.12. The reason for this drop was stated to be that Madras Fertilizers Limited, with a rated Naptha consumption of 2,20,000 metric tonnes per year, went on stream in 1971. The Naphtha requirement of Madras Fertilizers Limited (MFL) was being directly supplied by Madras Refineries Ltd. (MRL) as laid down in the Formation Agreement of MFL *vide* Article 5.1, reproduced below:—

Article 5.1

"The Naphtha required by the Company for the production of Fertilizer shall be purchased from Madras Refineries Ltd., for so long as any part of the foreign exchange loans of Madras Refineries Ltd., and the Company, or either of them, are outstanding. The Government of India will make the company its nominee to purchase such Naphtha from Madras Refineries Ltd., at a price no less favourable than that charged to any other nominee consistent with the terms of Section 4.10B of the Refinery Formation Agreement among the Government of India, National Iranian Oil Company and Amoco."

1.13. Further, in addition to the sales made by IOC to Government organisations, IBP, which is also a Public Section Undertaking, sold the following quantities of petroleum products to the Government organisations during 1971 and 1972:-

1971	8,500 tonnes
1972	5,600 tonnes

1.14. It would be noticed from the above that IOC had met almost the entire requirements of Government consumers (excluding MFL) except for a small quantity supplied by the private oil companies which is shared by Defence and State Transports. Some State Transports float tenders thus enabling the private oil com-

panies to undercut IOC. In addition, some State Transports e.g., J. & K., and also the Denfence (in Assam) buy small requirements of POL products from other oil companies as well, for operational reasons.

1.15. It would thus be sen that the objective of the Corporation to ensure supply of petroleum products requirements to Government organisations (Central and State) has also been, more or less, achieved.

D. Profitability of Market Participation

1.16. Although the market participation of the Corporation increased from 46.53 per cent in 1968 to 64.6 per cent in 1973 on the sale of major petroleum products (MS, Kerosene, Av. Gas, ATF/JP-4, HSD, LDO/MLO, FO/TDO, RFO/LSHS excluding items like lubricants, greases and specialities), the aggregate profit margins available to the Company had not kept pace with the market participation. The comparative position of the Corporation's participation in marketability of these products and the profit margins availabe thereon *vis-a-vis* other oil companies is given below for the year 1968 to 1973:—

	Percentage of market participation			Percentage of Profit Participation		
	IOC	Others	Total	IOC	Others	Total
1968 .	46·53	53·47	100	42·57	57·43	100
1969 .	52·70	47·30	100	47·88	52·12	100
1970 . .	54·79	45·21	100	48·29	51·71	100
1971 .	57·63	42·37	100	51·51	48·49	100
1972 .	60·5	39·5	100	53·9	46·01	100
1973 . .	64·6	35·4	100	57·3	42·7	100

1.17. The Corporation's participation in profits always fell short of its market participation. This was attributable to lesser market participation in more profitable products (HSD and MS) and greater market participation in less profitable products (AV, Gas, LDO/MLO.

Kerosene, JP-4|ATF, FO|TDO, RFO|LHS) as indicated below:—

Product	Percentage of market participation					
	1968	1969	1970	1971	1972	1973
(A) *More profitable products*						
MS . . .	18·6	20·0	22·1	25·1	26	29·0
HSD. . .	42·4	47·5	48·4	51·5	51·5	54·3
(B) *Less profitable products*						
AV/Gass .	67·7	82·9	89·6	95·1	90·5	98·4
FO/TDO .	43·5	49·8	60·1	60·3	71·7	79·0
RF O/LSHS .	100·0	100·0	87·8	84·7	78·8	82·6
LLDO/MLO .	39·6	49·5	50·5	60·4	66·9	68·4
JP-4/ATF .	51·5	62·8	67·2	70·5	67·6	72·7
Kerosene . .	55·5	60·4	56·6	62·5	63·2	66·9
(C) *Average (above products)*						
	46·5	52·7	54·5	57·6	69·1	64·6

1.18. The profit margins available to the Corporation and other oil companies in the sale of the more profitable items (MS and HSD) from 1968 to 1970 is tabulated below:—

(Rs. in lakhs)

	IOC				Other oil companies			
	MS	HSD%	Total	%to	over all total	MS	HSD	% to over all total
1968 .	64	288	352	34·4	280	392	672	65·2
1969 .	73	351	424	38·4	291	388	679	61·6
1970 .	80	331	411	39·3	282	354	636	60·7
1971 .	93	352	444	42·2	276	332	608	57·8
1972 .	100	385	485	42·8	286	363	649	57·2
1973 . .	113	457	570	46·3	278	384	662	53·7

1.19. It is evident from the above tables that the performance of the Corporation in the marketing of more profitable products

especially motor spirit has not been satisfactory. This also affected the profit participation of the Corporation and it was only 57.3 per cent in 1973 as compared to market participation of 64.6 per cent in major petroleum products.

1.20. The Committee find that there has been gradual increase in the volume of sales of IOC and it reached a figure of 12.28 million tonnes in 1972 which represented a market participation of 57.3 per cent as against 42.5 per cent in 1968. The Corporation has also by and large achieved two of its objectives of meeting all petroleum products requirements of Government organisations (Central and State) and the handling of at least half of the import trade of deficit petroleum products. In fact, the import of all petroleum products is now being canalised through IOC except for a few proprietory brands of highly specialised finished lubricants for aviation and marine industries. A review of the productwise sales of the Corporation, however, reveals that it has less market participation in more profitable products (HSD and MS) and greater market participation in less profitable products. In the case of Motor Spirit the share of IOC was only 26 per cent in 1972 as against the overall market participation of 57.3 per cent. In the case of retail sales of M.S. its share was barely 19.4 per cent in 1972. The Committee are constrained to observe that the Corporation's participation in profits fell short of its market participation as compared to other oil companies. The reasons for unsatisfactory performance in the sale of M.S. have been dealt with in detail in the subsequent paragraphs of this Report.

II

STORAGE AND DISTRIBUTION FACILITIES

2.1. One of the objectives of the Corporation was to build up additional distribution facilities (including retail outlets) as may be warranted by the growing demand for petroleum products.

2.2. The following table shows the targets for the construction of storage and distribution facilities *vis-a-vis* achievements for the period 1970-71 to 1972-73:—

	Target	Achievement 1970-71	% Achievement	Target	Achievement 1971-72	% Achivement	Target Achievement	Achievement 1972-73	% Achievement
1. Tankage at Installations ('000 Kls)	122·4	73·1	59·7	331·0	110·9	33·6	181·9	77·9	42·8
2. Tankage at Bulk Depots ('000 Kls)	110·1	35·8	32·5	138·1	40·9	29·6	117·5	49·4	42·0
3. Tankage at consumer and Relay Depots ('000 Kls)	32·0	0·1	0·03	16·3	1·3	8·0	7·5	2·2	29·3
4. Consumer Pumps (Nos.)	175	94	53·7	202	159	78·7	163	197	120·9

2.3. It was stated that the entire shortfall could not be attributed to the engineering short comings but to other factors beyond the control of I.O.C.

2.4. The major reasons for the shortfall in physical achievements of targets were stated by the IOC to be as follows:—

"(1) Along with the rest of the country, IOC too felt the effect of the shortage of steel, specially during 1969-70 and 1970-71. The shortages delayed several of the projects. Shortages of pipes also have been hampering construction work.

(2) Land is a very big problem in regard to resitement or expansion of our depots. The land has to be suitable from the point of accessibility, it should be possible to construct a railway siding economically and fitting into railway operational convenience, and the soil conditions should be suitable. We first try and secure railway land and if this fails, we try for private land. Normally it takes any where between one year and three years to finalise matters relating to land acquisition.

(3) Limitations of siding facilities is yet another major problem. In many cases, land is not available to extend the siding at Depots. In such cases alternate sites are considered with reference to railways operating convenience, directional flow of product etc., and quite a number of times it has happened that we have had to shift our Depot to alternate location. Such alternate locations may have to be considered from private parties. These processes involve a time lag extending sometimes to two years and above.

(4) The construction programmes often include such locations when the Railways have a long conversion programme from Meter Gauge to Broad Gauge remodelling their entire marshalling yard, etc., which introduces such undeterminable factors holding up progress in the construction work."

2.5. The Committee were also informed by IOC that cases of non availability of Railway land and delay in feasibility report, etc., hampering the completion of planned construction programme were brought to the attention of the concerned Railway. Additionally, the Transport Adviser in the Chairman's office took up the matter suitably with the Railway Board to expedite and remove bottle-

necks. The assistance of the Ministry of Petroleum and Chemicals was sought as and when it was considered necessary.

2.6. During the course of oral evidence, the Secretary of the Ministry stated in this connection, as follows:—

"There have been difficulties in the way of IOC developing the storage and distribution facilities satisfactorily, but I would say that the Ministry does not consider that the progress has been very saisfactory; it has been slow and this has been pointed out to IOC a number of items. Wherever the IOC has come forward for assistance in this matter, the assistance has been forthcoming. It is time consuming and its needs a lot of careful planning. But I don't consider the progress as satisfactory; they should have done better."

A. Retail Outlets

2.7. The Committee find that the production of motor spirit by public sector refineries and the demand of industry during the years 1967 to 1972 was as follows:—

(Figures in 000 Mts.)

Year	Public Sector Refineries' Production	Industry's Demand	%
1967	984·4	1181·6	83·3
1968	1148·0	1256·0	91·4
1969	1196·2	1329·9	89·9
1970	1191·3	1410·3	84·5
1971	1228·4	1515·6	81·1
1972	1114·1	1585·8	70·3

2.8. The motor spirit is mostly sold through retail outlets. With a view to studying the growth of retail outlets in the country in the past and to report on the disirability and methods of regulating their future growth, the Government appointed a Retail Outlets Committee under the Chairmanship of Shri R. R. Morarka in June, 1966. The Committee in its report, submitted in November, 1967, made various recommendations to regulate the future growth of

retail outlets in the country with a view to achieving the following objectives:—

(a) to progressively bring about a more equitable relationship between the product availability with the individual oil companies and their accesses to the retail trade.

(b) to channelise investments on retail outlets in a more purposeful manner;

(c) to improve the throughput of retail outlets;

(d) to encourage setting up of retail outlets in the new areas which are now developing;

(e) to reduce costs and contain prices.

2.9. The Retail Outlets Committee submitted its report on 14-11-1967. The Government vide their resolution dated 17-12-1967 Retail Outlets Committee with effect from the date of the publication of the resolution.

2.10. In their Report, the Retail Outlets Committee *inter-alia* recommended as follows in respect of establishment of outlets by I.O.C. and other oil companies:

"The Committee is of the view that the situation in which IOC finds itself, where it is not adequately represented in retail trade in relation to its product availability. requires some special consideration for the establishment of new retail facilities, without disturbing the existing channel of distribution, dealership etc. To achieve this end. the private oil companies should exercise voluntary restraint in a large measure in the matter of setting up new retail outlets during the next five years, *i.e.*, from 1st January, 1968 to 31st December, 1972, to enable the IOC to achieve a faster growth rate. The Committee feels that this can be achieved by the Industry installing and commissioning the new outlets in the five years period, as per details given below:—

	IOC (95%)	Other Oil Companies (5%)	Total (100%)
4 Metropolitan cities and the 26 selected towns	465	24	489
Rest of the area	2435	139	574
Total for 5 years	2900	163	3063
Average per year	580	32	612"

2.11. The targets set by the Corporation for the commissioning of new retail outlets during 1968 to 1973 and the actual number commissioned were as under:—

Year	GROUP A		GROUP B		GROUP C		TOTAL	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
1968	70	32	63	53	447	542	580	627
1969	89	30	63	48	428	454	580	532
1970	83	17	36	28	515	261	634@	306
1971 . .	117	10	41	23	696	137	854@	170
*1972	14	13	39	22	162	121	245	156
1973 . .	30	4	49	16	207	40	286	60

NOTES:—(1) Group 'A' consists of the four metropolitan cities, viz. Bombay, Calcutta, Delhi and Madras.

(2) Group 'B' consists of 30 selected towns.

(3) Group 'C' consists of the rest of the country excluding Assam.

(4) New retail outlets commissioned include 66 outlets (27 in 1968 and 39 in 1969) acquired from other oil companies.

@ Higher Targets were fixed in 1970 and 1971 to make up shortfalls in previous years.

2.12. It would thus be seen that the Corporation had generally not been able to achieve the targets set for Group 'A', 'B', and 'C' areas. As Motor Spirit is mostly sold through retail outlets, the non-development of adequate retail outlets affected the sale of motor spirit.

The Corporation's share in the retail sale of this product *vis-a-vis* other oil companies is given below:

(In thousand Kls.)

Year	Total retail sale	Increase over previous year	OIC'S retail sale	Increase over previous year	Other oil Companies retail sale	Increase over previous year
1967	1425·0	..	125·0	..	1300·00	..
1968	1540·3	115·3	176·7	51·7	1363·6	63·6
1969	1656·3	116·0	229·8	53·1	1426·5	62·9
1970	1776·5	120·2	288·0	58·2	1488·5	62·0
1971	1878·8	101·9	338·5	50·5	1539·9	51·4
1972	1986	108	386	48	1600	60·1
		561·4		261·5		300·0

*Figures not vetted by Audit.

2.13. The gradual increase in the Company's share represents only a portion (less than 50 per cent) of the increase in the total sales of the country from year to year; its overall share in the total retail sale was only 18 per cent in 1971 and 19.4 per cent in 1972. The Corporation had to sell substantial portion of its net product availability through other oil companies under the product exchange arrangements sacrificing the profit in favour of other oil companies. In addition the Corporation had to enter into agreements for sale of lubricants to other oil companies by sacrificing profit thereon.

2.14. As regards the reasons for non-achievement of the targets set up for retail outlets, the Committee were informed that the target of 250 outlets per year for IOC was fixed on the assumption that the Motor Spirit trade in the retail sector would increase annually at the rate of 6 per cent from 1968 onwards. An examination of the past retail growth for Motor Spirit indicated that whilst the annual increase was 7.5 per cent in 1969 and 7.3 per cent in 1970, it came down sharply to 5.7 per cent in 1971. This sharp decline in the growth rate became evident even during the first half of 1971. In addition, a large number of representations were received from the various dealer organisations for increase in the dealer commission which had remained static since 1954 whilst the percentage return on dealer investment had shown steady decline, largely due to increased statutory duties on MS and HSD. This adverse situation was not visualised by the Retail Outlets Committee.

2.15. In view of the above trends, discussions were held with the Ministry in July 1971 to consider whether any reduction should be made in the number of retail outlets to be put up each year by IOC. Taking these factors into account and in consultation with the Ministry, the target for 1971 was reduced to 250 retail outlets, as this was felt to be more in keeping with future marketing needs. For the year 1973, the annual target for commissioning new retail outlets was intially kept at 286 in the ROC area (plus six in the non-ROC area) including the shortfall for the year 1972. However, the position was further reviewed and it was decided to eliminate the shortfall of 8 outlets of the year 1972 from the original target.

2.16. This target of 200 was reviewed again during October, 1973 and fixed at 160 in the context of (a) the stringent need to curtail expenditure in view of the difficult economic situation facing the country, (b) the imperative need for checking proliferation of retail outlets and thus improving the average per pump throughout taking into consideration once again the growth factor of Motor Spirit, and (c) possible curb on future consumption of petroleum products

through fiscal measures or statutory rationing which might become inevitable in view of rising crude prices and difficult availability position in the world market. This would further reduce dealer profitability. It was added that the growth rate for Motor Spirit had further come down to slightly less than 4.0 per cent during the first half of the year (1973) as compared to the same period in the previous year. Thus the main reasons for reduction in targets in 1971 and later were stated to be the decline in the growth rate for Motor Spirit and the decrease in dealer profitability/returns as a result of increased excise duties.

2.17. The Committee were informed during evidence by the representative of the Ministry that the public sector refineries were producing three times the motor spirit produced by the private oil companies which was roughly of the order of 1.1 million tonnes per annum. With this large availability of motor spirit, the public sector or the IOC (Marketing Division) was unable to develop its market because it could not penetrate the high consumption areas especially in 'A' and 'B' class cities where the most remunerative sites had either been occupied for a long time with well advertised business by the foreign companies or they had already been brought on the list by the foreign companies. So, IOC's entry was largely in the periphery of the consumption concentration and in the peripheral areas its business grew rather slowly.

2.18. The representative of the Corporation also informed the Committee during evidence that the IOC was not in a position to get suitable sites in the strategic areas in metropolitan cities and other major towns where there was high concentration of petrol trade. In the four metropolitan cities which accounted for 30 per cent of the total trade in India, the price of land was also prohibitive.

2.19. As regards 'C' class cities the Committee were informed that IOC had reached a stage where it was difficult to find a dealer to run the pumps because the throughput per pump was very small and the profitability was low. It was no use multiplying the outlets indiscriminately.

2.20. In this connection, the Committee found that in respect of Retail Outlets of oil companies on public land, the Retail Outlets Committee recommended as follows:—

> "The oil companies have a number of outlets on public land, i.e., land belonging to the Central and State Governments, Local Authorities, etc. as distinct from land belonging to private parties. The actual number of retail outlets on

public land was not obtained by the Committee as this information was considered to be of a confidential nature, not to be divulged for competitive reasons. The Committee recommends the adoption of the following procedure in respect of retail outlets on public land in the urban areas covered by the four metrolpolitan cities, the 26 selected towns (excluding retail outlets on public land in the Metropolitan area of Delhi and on land belonging to Port Trusts) and the 4 towns with a population of 2.5 lakhs and above i.e. Bareilly, Jullundur, Meerut and Surat:—

(a) The private oil companies will give intimation to the Indian Oil Corporation Ltd. (Marketing Division), Bommay, in writing regarding the expiry of the lease of their retail outlets on public land at least 12 months in advance of the date of expiry.

(b) The receipt of the intimation referred to in (a) above, will be acknowledged by the IOC in writing. Thereafter, within a period of 2 months from the receipt of this intimation IOC will indicate in writing its willingness or otherwise to take over the site under reference on expiry of the lease. Failure to intimate willingness within the period of 2 months referred to herein, would automatically entitle the concerned oil company to seek renewal of the lease in question. IOC will intimate to the concerned officials that it is not interested in taking over the site on the expiry of the lease.

(c) If IOC expresses interest in taking over the site on expiry of the lease, the oil company concerned will not ask for its renewal, but will arrange to hand over the possession of the site to the IOC on the date of expiry of the lease.

(d) In all cases where IOC exercises the option to take over the retail outlets of the other oil companies on public land on expiry of the lease, the other oil companies will be free to develop alternate sites in lieu of such outlets taken over by the IOC.

The Committee recommends that the arrangement referred to above may be made effective from 1st January, 1968. In respect of such of the outlets whose lease expires prior to 31st December, 1968, it will not be possible for the other

oil companies to give to the IOC 12 months clear notice. For these outlets a consolidated intimation may be given by the other oil companies to the IOC latest by the end of December, 1967. IOC may, thereafter, intimate its willingness or otherwise to take over the retail outlets out of this consolidated list by the end of February, 1968. In respect of the outlets which the IOC agreed to take over, the lease period may be extended till the end of December, 1968."

2.21. As regards the action in this regard, the Secretary of the Ministry stated during evidence as follows:—

"According to the information that I have, they (private oil companies) offered 52 outlets, of which 24 have been taken over by the IOC. We enquired from the IOC as to why they did not take over the remaining ones. We came across 3 reasons: one, the outlets were no longer considered remunerative. Secondly, the Municipal or State authorities demanded rent as high as Rs. 40,000/- or Rs. 50,000/- per month in cities like Bombay and Calcutta. The IOC thought that they could not afford to pay this high rent on a new outlet. Thirdly, the IOC felt that their own existing outlet was close-by; and as such, they could not like to have another competing outlet within a few yards. For these reasons, they did not take up all the 54 offers but took up only 24 of them."

2.22. Subsequently, in a written reply the Ministry furnished the following break up in respect of retail outlets of private oil companies on public lands whose lease expired from 1967 to 1973:—

S.No.	Year of Lease Expiry	No. of sieas whose lease expired	No. of sites taken over	No. of sites not taken over	Reasons for not taking over	
1	2	3	4	5	6	
1.	1967	Nil	Nil	Nil	N.A.	
2.	1968	28	13	15	Not interested	10
					NOC not Given	1
					R/O falling within 100 metres	1
					Court cases	2
					Lease extended	1
					TOTAL	15

1	2	3	4	5	6	
3.	1969	8	5	3	Objectionable site	1
					Not interested	1
					Lease in name of dealer .	1
					TOTAL :	3
4.	1970	7	1	6	Not interested	2
					Landlord not willing to extend lease . .	4
					TOTAL :	6
5.	1971	6	2	4	Not interested	3
					landlord not willing to extend lease . .	1
					TOTAL .	4
6.	1972	3				
7.	1973	10	9	1	Not interested	1

2.23. The Committee also enquired whether the Ministry approached the State Governments or authorities concerned in the four metropolitan cities, which were expanding, to get some land reserved for the marketing purposes of the I.O.C. The Secretary of the Ministry stated that they had done so. In most States, new outlets were being given only to the IOC. Particularly in Delhi, all the new sites were being given to the IOC; the only place where they had not succeeded was Bombay, where in spite of Ministry's approaching the State Government at the highest level, they had decided that they would not be prepared to give sites at any concessional rent. The Ministry pointed out that since the present idea of the IOC was to give all new outlets to graduate engineers, unemployed graduates and to Defence personnel, they should be given some concession for 3 to 5 years. The Maharashtra Government, however, did not agree to it. The new entrants, particularly, the sections of people mentioned above, would find it extremely difficult to conform to the high rates of rent.

2.24. In this connection, the Committee also found that the three private oil companies filed a petition in December, 1968 in Bombay High Court with regard to the orders issued by the Ministry in pursuance of the recommendations of the Retail Outlets Committee

and an out-of-court settlement was reached with these companies in October, 1972. As to the reasons for arriving at this settlement, the Secretary of the Ministry stated that there was some difficulty in the case of Burmah Oil Company and secondly, being of a civil character it would have taken a long time. The settlement arrived at was vetted by the Ministry of Law and Attorney General. Certain concessions even beyond the Morarka Committee's recommendations were obtained from the oil companies and in the last 3 years or so, their outlets had been shrinking in number, though they had not given up high profit outlets unless the leases expired and they were taken over by I.O.C.

2.25. As to the effect of this settlement, it was stated that the main changes made by this settlement were as follows:

"(i) The average number of retail outlets to be put up by IOC each year from 1st January, 1972 had been reduced from 580 in the ROC Report to 250 in the out-of-court settlement. For this purpose, IOC targets are inclusive of IBP.

(ii) Similarly, the number of retail outlets to be put up each year by the private oil companies has been correspondingly reduced to 1/19th of the total number of new outlets commissioned by IOC/IBP.

(iii) The recommendations of ROC, except as altered in the out-of-court settlement, are now valid upto the extended date of 31st December, 1975. The settlement also provides for such further extensions as decided upon by the Government of India after giving due notice of such intention in accordance with Clause 16 of the settlement.

Some of the other agreements made in the out-of-court settlement pertaining to interpretation of various disputed clauses in the ROC report are as follows:—

(a) The right of the private oil companies to put up or resite outlets on public land (except in the metropolitan area of Delhi) anywhere in India has been recognised, subject to IOC having the first option to acquire such public land. Even where such public land is taken on lease by the Private Oil Companies (except in the case of the metropolitan area of Delhi), the lease period including renewals will be for a maximum period of ten years, whereafter IOC will be offered the site.

(b) The right of the private oil companies to put up or resite outlets on public land in metropolitan area of Delhi has been conceded, subject to the total number of such retail outlets being not more than the number as on 1-1-1968.

(c) It has been accepted by all the parties to the dispute that the right of any public land-owning authority to grant or refuse renewals/extension of leases cannot be fettered in any way and it is for this authority to decide in this matter. There is thus no automatic right to renewal by the occupying oil company.

(d) It has been accepted by the private oil companies that all retail outlets belonging to them on public land in the 33 selected cities (Groups A and B excluding Delhi) where the leases expire prior to 1-1-1968 would be offered to IOC, except those where renewals have been concluded or advance rental has been paid by the private oil companies and accepted by the land-owning authority. In all such cases, the private oil companies will offer the site to IOC on expiry of the renewal period or adjustment of the advance rental, as the case may be.

(e) It has been agreed that land belonging to Public Sector undertakings should be treated as private and not public land for purposes of the ROC Report."

2.26. The Committee were also informed that there were 19 retail outlets of the private oil companies on land belonging to public sector undertakings. The main reasons for these not being transferred to I.O.C. was that the Central/State Public Sector Undertakings were bound by their prior commitments to private oil companies. Now that in the out-of-court settlement it had been agreed that the land belonging to public sector undertakings would be treated as private and not public land for the purpose of ROC Report, it was up to them as land owning authorities to offer sites to IOC after expiry of the present leases.

2.27. The Committee regret to note that the IOC has not been able to achieve the objective of building up adequate storage and distribution facilities for retail sale commensurate with the growing demand for petroleum products. Although the production of motor spirit in public sector refineries increased from 9.84 lakhs tonnes in 1967 to 11.14 lakh tonnes in 1972, the setting up of retail outlets for

the sale of motor spirit has not been adequate with the result that the IOC's share in the total retail sale of motor spirit was only 19.4 per cent in 1972 as against 8.77 per sent in 1967. ..

2.28. The Committee find that although the Retail Outlets Committee had suggested the setting up of 580 retail outlets per year from 1968 to 1972, this target was revised to 250 outlets only per year from 1971 onwards, initially as a result of discussion with the Ministry and later, on account of an out-of-court settlement by IOC with other private oil companies. The Committee find that even this reduced target of 250 outlets was not achieved by the Corporation since 1971. The representative of the Ministry admitted during evidence that the progress in developing the storage and distribution facilities has not been satisfactory and the Corporation should have done better. The Committee are constrained to observe that because of non-availability of adequate retail outlets, the Corporation had to sell substantial portion of its products through other oil companies under the product exchange arrangements, foregoing the profit margin to the extent of Rs. 11.93 crores during the years 1966-67 to 1972-73 on motor spirit alone. In addition, the Corporation had to enter into agreements for the sale of lubricants to other oil companies by sacrificing profit margin thereon. This aspect has been dealt with in detail in subsequent paragraphs of this Report.

2.29. According to the Corporation, the main difficulty in setting up retail outlets and in improving its over-all participation in retail sale was non availability of suitable sites in strategic areas in major towns where there was high consumption of motor spirit. In this connection, the Committee find that in respect of retail outlets of private oil companies on public land in the four metropolitan cities and 26 other selected towns, the Retail Outlets Committee had recommended the transfer of the retail outlets to the IOC on the expiry of the existing leases. Out of 62 retail outlets on such land which were offered by other oil companies in pursuance of this recommendation of the Retail Outlets Committee, the IOC had taken over only 33 outlets up to 1973. The Committee were informed that out of the remaining 29 outlets the IOC was not interested in taking over 17 of them. The Committee recommend that the detailed reasons as to why the IOC was not interested in taking up these 17 outlets should be gone into by the Ministry and a report submitted to them.

2.30. One of the reasons advanced for not taking up some of new outlets was that the rent demanded for the lands by the Ministry

or State authorities concerned was prohibitive. The Committee strongly urge that Government should take concerted measures to persuade the State Governments/Municipal Authorities to give all possible facilities and consideration to the IOC in the acquisition leasing of land at reasonable rates for setting up the required retail outlets.

2.31. The Committee also recommend that Government/Corporation should formulate a perspective plan of establishment of retail outlets consistent with the production and availability of motor spirit and the actual implementation of the plan should be reviewed periodically so that the reasons for shortfall in this regard could be identified and the remedial measures taken in time. The Committee would also like that establishment of outlets should be such as to enable greater participation by IOC in retail trade of products having greater margin of profit.

2.32. The Committee were informed that there were 19 retail outlets of the private oil companies on land belonging to public sector undertakings. The main reason for these not being transferred to IOC was stated to be that the Central/State Public Undertakings were bound by their prior commitments to private oil companies. As it has now been decided in the out-of-court settlement that the land belonging to public sector undertakings would be treated as private and not public land, it was upto the public undertakings as land owning authorities to offer sites to IOC after expiry of the present leases. The Committee are surprised at this complacent attitude of the Ministry and urge that Government should immediately undertake a review of each of the 19 retail outlets with a view to finding out suitable ways and means of assisting the IOC to set up retail outlets there at the earliest. The Committee would like to be informed of the concrete progress made in this behalf within six months. Government should also ensure that all new retail outlets on lands belonging to public undertakings are offered first to the IOC which has an All India network and should be able to meet in full the requirements of public sector.

B. Performance of Retail Outlets

2.33. The average throughput of MS per retail outlet per month of the major oil companies in 1966, the average throughput of the industry and the improvement recommended by the Retail Outlets

Committee to be achieved by 1972 over the 1966 average throughput are given below:

(Figures in Kls.)

	Average throughout per retail outlet per month in 1966.						% of increase in throughput by 1972 as recommended by retail Outlets Committee
	Burmah Shell	ESSO	Caltex	IBP	IOC	Industry	
Group 'A'							
Bombay.	65	84	63	42	37	67	—*
Delhi .	51	42	33	46	31	42	10·0
Calcutta	40	43	33	33	11	36	10·0
Madras . . .	21	26	29	..	13	23	25·0
Group 'B' . .	19·3	19·4	18·8	12·4	10·3	18·4	10·0
Group 'C' . .	11·2	10·9	10·2	7·2	8·7	11·0	17·5**

*No target was fixed from Bombay as the throughput was the highest compared to any other area.

**The ROC did not make any recommendation in Group 'C' for MS. However a 17·5% increase in HSD was recommended by the Committee.

2.34. The Corporation's progress in regard to throughputs during the years 1967 to 1972 and the industry's average in 1972 are given below:—

(Figures in Kls.)

	Corporation's average throughput per month						*Industry*
	1967	1968	1969	1970	1971	1972	1972
Group 'A' .							
Bombay. . .	40	40	46	49	38	37	74
Delhi . . .	34	35	39	43	43	45	67
Calcutta . .	17	20	18	15	16	22	31
Madras . .	22	20	22	24·	24	24	28
Group 'B'	16	15	15	17	18	19	23
Group 'C' . .	8	8	8	9	10	11	13

It will be seen from the above Table that the Company's throughput has generally increased gradually except in Bombay where it is going down since 1971 and in 1972 it was at the same level as in

1966. This had been attributed by the Management in September, 1972 to "........ highly intensive sales drives by private oil companies during the year consequent to their decision to go in for selective marketing in their on-shore refinery area" and also partly due to "non-retention by our dealers of sales volumes achieved through past incentive scheme in the face of this intensive campaign." It is also noticed that Corporation's throughout in 1972 was much below the industry's average and in the case of Bombay and Calcutta it was even below the industry's average in 1966.

2.35. The Management informed Audit (February, 1971/June, 1973) that "...... by and large, the average throughout has not declined despite the large number of retail outlets commissioned during the years 1967 to 1969. This in itself is an achievement considering that the total number of retail outlets operated by the Corporation increased from 1514 in 1967 to 2813 in October, 1970 and 3004 in March, 1971. Continued efforts are being made to improve the average throughout and it is expected that most of the increase stipulated by the Retail Outlets Committee will be achieved except perhaps in the case of Calcutta." While conceding that the Company's throughout in respect of MS was still below the industry's average of 1966, the Ministry stated (October, 1971) that "....... most of the retail outlets that are with IOC have been commissioned between 1967 to 1969 and they normally require two to three years to pick up sales in their particular market ...."

2.36. From the point of view of return on investment the Corporation made a study during 1969-70 of the performance of 1119 retail outlets commissioned prior to 31st March, 1967. It was noticed that while 173 outlets gave no return on investment, another 110 outlets showed poor return (less than 12 per cent) as per details given below:

Branch	Total No. of retail outlets covered by the study	Total No. of retail outlets showing nil return	Total No. of outlets showing error return
Western Branch	230	26	29
Southern Branch	323	38	32
Northern Branch	292	25	27
Eastern Branch	274	84	22
	1119	173	110

2.37. The maximum number of retail outlets showing 'NIL return was in the Eastern Branch where the average sale per retail outlets per year was also the lowest during the three years ending 31st March, 1970 as indicated in the following table:—

(Figures in Kls.)

	1967-68		1968-69		1969-70	
	MS	HSD	MS	HSD	MS	HSD
1. Average sale for the Company as a whole . .	105	253	119	272	125	306
2. Western Branch	115	230	120	245	126	255
3. Southern Branch	119	344	130	338	134	367
4. Northern Branch	92	266	119	316	134	365
5. Eastern Branch	94	151	104	170	106	213

2.38. The rate of growth was the highest in Northern Branch. Although its performance was below the All India average sales per retail outlets during 1967-68, it gave the maximum return on capital investment during 1969-70 as shown below:—

Branch	Average Investment per retail outlet	Average Investment per retail outlet	Percentage of return on investment
1. Western Branch . . .	31556	12541	39·74
2. Southern Branch . . .	28003	12808	45·70
3. Northern Branch . .	24322	11878	48·84
4. Eastern Branch	27091	4938	18·23

2.39. So far as the four metropolitan cities of Bombay, Madras, Delhi and Calcutta are concerned, the study covered 151 retail outlets and the position which emerged out of this study is given in Appendix II.

The Company informed Audit in June, 1973, that further examination of the study disclosed that while working out the return on investment certain expenditure which should have been taken into account was not taken This shows that the profitability indicated in the study was overstated the extent of which could not be quanti-

fied in Audit in the absence of details regarding the items of expenditure left out of consideration. The Ministry stated that a further study in depth would be undertaken and the results intimated in due course.

2.40. As reagrds the reasons for lower throughput of the retail outlets of IOC, the Committee were informed that in the four metropolitan and other major towns, for past several years, the private oil companies had established their retail outlets in key locations, situated strategically in highly commercial and residential areas. I.O.C., therefore, had to develop retail outlets primarily in the peripheries of these cities. In Bombay, the major concentration of trade had been traditionally in the heart of the city, where I.O.C., had been unable to obtain suitable sites because of high rentals. Therefore, the average throughput of motor spirit for I.O.C. in Bombay had always been below industry's average throughput.

2.41. As regards the reasons for I.O.C.'s average throughput for motor spirit per outlets in Bombay having come down to 38 Kl. in 1971 as compared to 49 Kl. in 1970 it was stated that this was mainly due to competitors, particularly Burmah shell and ESSO, indulging in intensive sales campaigns on a highly selective basis in their Bombay on shore refinery areas, and non-retention by IOC dealer of sales volumes achieved through past incentive scheme in the face of this intensive campaign. IOC's retail outlets in Bombay were primarily located in the periphery. Hence to counteract the effect of the intensive sales campaign launched by the private oil companies in Central Bombay and in the periphery area, IOC would have had to resort to extensive incentive schemes both to retain the existing outlet volume and also attract new customers through their limited number of retail outlets. The effect of such intensive campaigns, even if launched by IOC, would have been negligible as the private oil companies with their large network of well-established retail outlets could easily out-maneouvre IOC's efforts. Such competitive activity by both private and public oil companies it was stated would only have resulted in unhealthy competition thereby further reducing profits in the retail trade.

2.42. As regards Calcutta, it was stated that in addition to the difficulty of obtaining suitable sites, the unsettled political conditions, particularly in the years, 1969-71 kept IOC's motor spirit sale per retail outlet below industry's average throughput. However, the position was now improving and the IOC's average motor spirit sale per retail outlet in Calcutta had gone up in 1972 to 22 Kl. per month as against 16 Kl. per month in 1971.

2.43. The Committee were also informed that on an all India basis, IOC's motor spirit throughput over the years had shown steady increase from an average of 11 Kl. per month in 1966 to 13 Kl. per month for 1972 whilst industry average over the same period has risen from 15 Kl. to 17 Kl.

2.44. As regards the reasons for 283 outlets showing nil/poor returns as on 31-3-1970, the Committee were informed that the position as on 31-3-1971 in respect of these outlets improved to 209 nil/poor return outlets The reasons for these outlets showing nil/poor returns were stated to be as below:—

(1) Dealers' financial position unsound.
(2) Partnership dissolved/disputes among partners.
(3) Dealers disinterested due to other more lucrative occupations.
(4) Lack of electricity/facilities.
(5) Change of dealership.
(6) Change of potential.
(7) Court cases.
(8) Political disturbances.
(9) Shift in Octroi barriers resulting in increased price structure *vis-a-vis* competitors' outlets.
(10) Good sales, returns yet to materialise.

2.45. The Committee were also informed that at the end of May, 1973, IOC had 30 nil selling retail outlets as follows:—

Northern	2
Eastern	11
Western	8
Southern	6

2.46. As regards the reasons for the percentage return on investment in Eastern Branch in 1969-70 being the least it was stated that out of 106 retail outlets showing nil/poor returns, 56 retail outlets were commissioned after 31-3-1966. Retail outlets generally took about two years to three years to pick up sales and start giving some returns on investment. Thus, even if the sales from a particular retail outlet were satisfactory, the net income from sales from the outlet in the initial period might be lower than or not

substantially higher than the net expenditure (due to depreciation on investment) resulting in nil/poor return initially. This adverse situation was automatically corrected as sales gradually picked up during the subsequent years. The number of nil selling up during the subsequent years. The number of nil selling retail outlets in Eastern Branch as on 31-3-1971 was 43 and as on 31-7-1973 this number had been reduced to 13. The position was under close scrutiny and constant review and further improvement was expected.

2.47. It was also noticed that the return on company owned dealer operated retail outlets was lower than the return on retail outlets owned and operated by dealers. This was explained due to much larger quantum of investment involved in the former. In the case of company owned and dealer operated outlets, the Corporation arranged all the facilities including the procurement of the land on lease, development of the site, erection of building, provision of dispensing pumps, storage tanks and emblem signs and, wherever applicable service station equipment also. In respect of dealer owned and leader operated retail outlets, the Corporation provided only dispensing pumps, storage tanks, emblem signs and all other investment, were borne by the dealer. In the four Metropolitan cities the land rentals as well as investment involved in the above facilities were considerable and, in case of company owned retail outlets these were borne by the Corporation.

2.48. The Committee were also informed that as per current policy, the Corporation developed Company owned dealer operated retail outlets in all cases where the anticipated sale in the third year of operation was at least 4 kl. of MS and 16 kl. of HSD or a combined MS/HSD sale of 20 kl. per month in the third year of operation. In all other cases, it developed dealer owned dealer operated retail outlets. However, within this frame work, dealer owned dealer operated retail outlets had also been developed in cases where prior commitments had been given to businessmen earlier to the introduction of this policy.

2.49. Asked about the reasons for return on investment in Bombay, Calcutta and Madras being lower than in Delhi it was stated that in Calcutta and Madras a major portion of the retail outlets analysed in the study were put up after 31-3-1965 i.e., they had been in operation for less than two years whereas in Delhi a larger number of outlets had been put up prior to this date. New retail outlets took atleast two to three years to pick up sales and begin showing improved returns.

2.50. In respect of Bombay, although the majority of retail outlets examined were in operation for more than two years low return on block capital was due to high investment and high rentals involved in respect of Corporation owned retail outlets. In addition to this, the number of Corporation owned retail outlets studied as compared to dealer owned retail outlets were higher in case of Bombay whilst reverse was true in the case of the other three metropolitan towns.

2.51. The Committee were also informed that a further study of the retail outlets was taken up in October, 1973 and the results of the study were expected to be received by 2nd of March, 1974.

2.52. The Committee find that the average throughput of Motor Spirit per month per retail outlet of the Corporation was lower than the industry's average not only in the four metropolitan cities but in Group B and C towns also. In the case of Bombay and Calcutta, the average throughput of Corporation's retail outlet was lower than industry's average in 1966. Another disturbing feature was that in Bombay, the gradual improvement registered upto 1970 could not be maintained and the throughput went down to the level of 1966. The low throughput also affected the profitability of the retail outlets. A study of 1119 retail outlets during 1969-70 showed that 283 retail outlets gave nil or poor return on investment.

2.53. From the reasons advanced by the Corporation for the retail outlets showing nil or poor return on investment, the Committee cannot help observing that enough care was not taken either in selectig the dealers or the sites for location of the outlets. The Committee are not able to appreciate why IOC should not profit by their experience and take a judicious decision both in the location of the retail outlets and in selecting the dealers.

2.54. The Committee are also surprised to find that a study of the performance of the retail outlets was undertaken first in 1969-70 and thereafter, it is only now (October, 1973) that a second study has been taken up even though it was admitted by the Corporation that the study made in 1969-70 did not take into account certain items of expenditure and therefore, the profitability indicated by the said study was over-stated. The Committee desire that such sudies should be made more frequently and with greater care so that the reasons for poor performance of the retail outlets could be identified and suitable remedial action taken in time. The Committee need hardly point out that in view of the fact that there were difficulties in setting up new retail outlets particularly in major towns, there

is imperative need to improve the throughput of existing retail outlets so as to increase the sale of motor spirit and thereby the profitability of the retail outlets.

2.55. In this connection, the Committee would like that the Corporation should also examine the facilities offered and services rendered by the retail outlets of IOC in comparison with those given by other oil companies with a view to removing the shortcomings, if any, in the working of the retail outlets of the Corporation.

C. Award of Dealership/Distributorship for Rehabilitation of Defence Personnel

2.56. The Corporation prepared a scheme in January, 1972 for award of dealership/distributorship for the rehabilitation of Defence Personnel, their wives and dependents. The scheme was initially sanctioned for one year but was later on extended. The scheme envisaged selection by the Directorate of Resettlement, Ministry of Defence of suitable persons for the award of dealership/distributorship (dealership for retail outlets, dealership for Kerosene and LDO and distributorship for 'Indane' both for domestic and commercial use) and assist them in obtaining necessary finance.

2.57. The Ministry of Petroleum and Chemicals sanctioned in March, 1972 an interest free loan of Rs. 20 lakhs (which has been deposited in the Central Bank of India) to enable the Corporation to give interest free credit assistance to the selected persons.

2.58. Again 597 locations offered by the Corporation to the end of February, 1973, the Directorate of Resettlement sent nominations for 524 locations. Appointment letters were issued to 435 persons but dealership/distributorships materialised only in 82 cases for which financial assistance to the extent of Rs. 10 lakhs was provided by the Central Bank of India. The slow implementation of the scheme had been attributed by the Management (February, 1973) to the following—

(a) Receipt of incorrect address of the nominees from the DGR (Director General of Resettlement).

(b) Disinterest shown by the DGR nominees.

(c) Requests for change in the type of dealership/distributorships or change in location made by the nominees.

(d) Poor response from nominees and re-offer of dealership/distributorship to DGR for fresh nominees.

(e) Inadequate progress shown by the nominees within the stipulated period.

(f) Occasional delays in the grant of loans by the Banks in locations where the Bank does not have its banking arrangements.

(g) Difficulty in locating interested and suitable candidates for B site retail outlets showing low or marginal profitability. (B site retail outlets had been taken out of the scheme from September, 1972).

2.59. The Committee enquired about the number of cases in which the dealership/distributorship could not be finalised for each of the reasons mentioned above. They were informed that an analysis of the position upto August, 1973 of the number of cases of dealership/distributorships involved in the various factors revealed the following:—

(a) There were 16 cases of incorrect addresses notified by the Directorate-General of Resettlement. In all these cases, either corrected addresses were forwarded to IOC or fresh nominations were received from the DGR.

(b) There were 92 cases where the DGR nominees showed disinterest in taking up the dealerships/distributorships. Of these in 43 cases, the dealerships for dealer-owned/dealer-operated retail outlets could not be finalised as the nominees backed out. In the other cases, fresh nominations were received.

(c) There were 67 cases where the nominees requested for change in the type of dealerships/distributorships for which they were nominated or change in the location offered to them. In all such cases, either the nominees finally accepted the nomination or were accommodated in alternate locations or dealerships/distributorships requested for by him.

(d) There were 71 cases where the nominees showed poor response in respect of dealerships/distributorships for which they were nominated. In all such cases, fresh nominations were received from the DGR. Out of these in nine cases, all of Corporation-owned/dealer operated retail outlets, the original nominees as well as the subsequent nominees did not finally take up the dealerships offered to them.

(e) There were 79 cases where the nominees had shown inadequate progress within the stipulated period. Extensions of time, where necessary, had been given.

(f) There were three cases where the Central Bank of India was unable to grant loans because they did not have local branch in that area. The Bank has now made arrangements with other nationalised banks for extension of loans in all these cases.

(g) Altogether, proposals for 84 dealer-owned/dealer-operated retail outlets were offered to the DGR, of which 5 were subsequently dropped by IOC. Out of the balance 79, nominations from the DGR were received for 61 locations, out of which 43 nominees backed out after letter of intent was issued by IOC and in 18 cases the nominees are still to finalise a site and/or commission the retail outlet. In respect of the balance 18 locations (19 minus 61) the DGR was unable to locate interested and suitable candidates to take up the concerned dealerships.

2.60. The Committee were also informed that as at the end of June, 1973, the position was as follows:—

Locations offered	583
Nominations received	533
Allotments made	443
Dealership/distributorship commissioned	128

2.61. The Committee find that the Corporation prepared a scheme in January, 1972 for the award of dealership/distributorship for retail outlets, kerosene, L.D.O. and 'Indane' for the rehabilitation of Defence Personnel, their wives and dependents. As against 583 nominations received upto 30th June, 1973 for award of dealership/distributorship under the scheme, the allotment letters were issued to 443 persons and the number of dealership/distributorship actually commissioned was 128 only. The Committee regret to note the slow progress in the implementation of the scheme. They desire that the working of the Scheme should be reviewed in the light of experience gained so far and suitable measures taken to resolve difficulties experienced in the commissioning of dealerships/distributorships awarded under the scheme.

III

PRODUCT EXCHANGE ARRANGEMENTS

3.1. In order to avoid cross movement of Petroleum products, achieve economic distribution and maintain continuity of supplies, the Corporation entered into product exchange arrangements with other oil companies. The first agreement covering the products of the Noonmati (Gauhati) Refinery of the Company was entered into in 1962 and the provisions of this agreement were later on extended to the refineries at Barauni (July, 1964), Koyali (October, 1965 on *ad hoc* basis) and Cochin (October, 1966). In respect of the Madras Refinery, which went on stream in June, 1969, the products are exchanged on the basis of concurrent repayment. The provisions of the agreement are contained in a Manual called 'Noonmati—Barauni Product Exchange Manual' (NBPE).

3.2. The salient features of the agreement are discussed below:—

(a) Under these arrangements, the Corporation is entitled to withdraw products from the refineries of other oil companies against the supply made by it initially to them from its own refineries. If the Corporation is unable to withdraw all the products given to other oil companies for exchange, the balance is transferred to an "outright purchase account" and is settled in cash. On the otherhand, if the Corporation takes more quantity in a given month than it has initially given for exchange, the excess quantity has to be adjusted against the Corporation's withdrawable entitlement in the subsequent period. The arrangement is, thus, in favour of the other oil companies.

(b) The inability of the Corporation to take back all the products given for exchange up to 1965-66 was considered by the Committee on Public Undertakings in paras 132 to 134 of their Thirty Fifth Report (Third Lok Sabha—March, 1967).

3.3. The Committee had pointed out that during the four years 1962-63 to 1965-66, the Corporation was able to take back less than

50 per cent. of what was given to other oil companies by way of product exchange. The position in respect of subsequent years is given below:—

(In '000 Kls.)

		MS	SKO	IKO	HSD	LDO	FO	TDO	ATF
1966-67	U	848·4	182·8		620·7	156·8	185·6	..	..
	R	35·6	137.0	..	433·0	178·2	126·3	..	..
	S	812.8	45·8	..	187·7	(21·4)	59·3	..	..
1967-68	U	928·1	239.9	..	705·0	182·1	376·3	9·1	120·8
	R	44·3	122.2	..	604·1	210·9	354·9	..	72·0
	S	883.8	117.7	..	100.9	(28·8)	21·4	9.1	48·8
1968-69	U	1027·0	298·1	22·8	857·1	154·6	275·5	8·1	103·2
	R	32·3	264·0	..	826·8	181·8	603·0	..	136·0
	S	994·7	34·1	22·8	30·3	(27·2)	(327·5)	8·1	(33·7)
1969-70	U	1089·0	347·3	6·4	812·8	136·1	248·7	4·7	84·5
	R	16·2	273·0	..	825·6	149·3	358·3	..	165·0
	S	1072·8	74.3	6·4	(12·8)	(13·2)	(109·6)	4·7	(80·5)
1970-71	U	1045·6	538·9	..	891·0	219·4	148·6	..	107·8
	R	36·9	397·9	..	863·9	167·5	258·9	..	188·9
	S	1008·7	141·0	..	27·1	51·9	(110.3)	..	(81·1)
1971-72	U	1027.3	567·2	..	1026·7	94·4	220·1	..	96·3
	R	58·0	473.9	..	951·3	167·8	337·8	..	207·6
	S	969·3	93·3	..	75·4	(73·4)	(117·7)	..	(111·3)
1972-73	U	872·4	484·6	..	1023·5	30·9	311·9	..	123·7
	R	119·5	385·6	..	998·6	150·5	312·5	..	217·6
	S	752·9	99·0	..	24·9	(119·6)	(0·6)	..	(93·9)

NOTE :— Figures in brackets represent the quantity taken in excess by the Company.

U: Upliftment by other companies

R : Repayment by other companies

S : Shortfalls.

3.4. The difference between upliftment and repayment indicates quantities which were treated to have been sold on outright basis. This treatment was given only to Motor Spirit and imbalances in respect of other products were adjusted, in relaxation of the provision

made in the agreement as mentioned in sub-para (a) above in the following manner:—

(i) Yearly imbalances in HSD were carried forward for adjustment to the subsequent period and were also adjusted against deliveries of FO and LDO by other oil companies in the ratio of 1 tonne of HSD equal to 1.5 tonnes of FO or 2 tonnes of LDO.

(ii) Imbalance in SKO was adjusted against the imbalances of ATF and MTO in the ratio of 1 tonne of ATF equal to 1.3 tonnes of SKO (up to December, 1971 or 1 tonne of SKO thereafter).

(iii) Imbalances in LDO represent the following adjustments:—

(1) Direct sales by IOC of about 12,000 MT per annum from 1968-69 in lieu of MI charges payable on FO tanks hired from Caltex in Bombay.

(2) Carry over of previous year's imbalances and also adjustment of HSD imbalances since 1966-67.

(iv) FO represents partly the quantities made available to IOC on account of incremental crude produced by other oil companies and partly adjustments of imbalances in HSD since 1966-67.

(c) The Corporation is not entitled to recover any profit margin on the products treated as outright sale under these arrangements. The profit margin on motor spirit amounting to about Rs. 11.93 crores was foregone by the Corporation to other oil companies during 1966-67 to 1972-73. This in turn increased the repatriable profits of other oil companies.

3.5. Besides, under the agreement other oil companies have to make fortnightly deposits with the Company in advance in respect of notional railway freight from the normal port of supply to the proposed destinations and excise duty; no deposits have, however, been made in respect of cost and other elements on the ground that the extent of outright sale can be worked out only after the expiry of six weeks in the case of MS while in respect of other products carry forward from period to period is permissible. In respect of MS, it has all along been the experience and it is also common knowledge that a substantial portion of the MS given under 'Product Exchange' is ultimately converted into outright sales to other oil companies, the extent of such sale being never less than 0.8 million Kl. per annum since 1966-67. As a result of the existing

practice of not obtaining the deposits in respect of cost, the other oil companies have all along been enjoying an unintended credit facility of about Rs. 0.91 crore on an average.

(d) Under the Product Exchange Manual, MI charges were previously being recovered only in respect of despatches to locations other than Main Installations i.e. on despatches to Main Installations no MI charges were being recovered. Similarly for Motor Spirit in respect of locations other than Main Installation only bulk loading charges at 66 paise per Kl. were being recovered as against the full MI charges of Rs. 8.31 (upto 31st May, 1970) and Rs. 8.64 (from 1st June, 1970). As the quantity of motor spirit taken by the Corporation has always been less than that initially given by it for exchange it suffered the following losses on the quantities treated as outright sale to other oil companies:—

(Rs. in lakhs)

Years	Amount
1966-67	62·18
1967-68	67·61
1968-69	76·09
1969-70	82·07
1970-71	80·49
1971-72	74·32
TOTAL :	442·76

The amount for 1970-71 has been calculated on the basis of prices fixed from 1st June, 1970.

(e) Clause 1.4 of the Manual provided for a review and revision of the arrangements on termination of the then prevailing price formula by Government. In reply to a recommendation made by the Committee on Public Undertakings in their Thirty Fifth Report (Third Lok Sabha—paras 134 and 135) Government stated (September, 1967) that "the matters should be left to be regulated by the results of IOC's current negotiations over the product exchange manual". However, the Manual was not revised when new pricing formula (WGOP) became effective from February, 1966. Subsequently, on the introduction of revised pricing formula on the basis of Oil Price Committee report with effect from 1st June, 1970, the Corporation took up the question of revision of the arrangements with

other oil companies in two stages in January, 1971 and in February, 1972 respectively and has so far (January, 1973) been able to make them agree to the payment of full MI charges on Motor Spirit in respect of despatches to different places except to main installations of the other oil companies as shown below:—

1. ESSO	From 14-9-1971 for ABC (Assam, Barauni, Calcutta) area.
2. All Marketing companies	From 1-10-1971 for cosumption in zones 29, 43, 44.
3. Caltex	From 8-11-1971 for ABC (Assam, Barauni, Calcutta) area.
4. Burmah Shell	From 15-11-1971 for ABC (Assam, Barauni Calcutta) area.
5. All Companies	From 1-1-1972 Ex-Cochin Refineries Ltd.
6. All Companies	From 1-4-1972 Ex-Koyali/Sabarmati.

3.6. From 1st April, 1972 full MI charges for MS supplies are being recovered from all oil companies at all locations except that for supplies to the main installations only bulk loading charges at 66 paise per Kl. are being recovered. This is expected to give an additional revenue of Rs. 58 lakhs per annum.

3.7. The negotiations regarding the revision of other clauses of the product exchange agreement were started by the Corporation in February, 1972 and are still in hand.

3.8. Explaining the circumstances under which the IOC entered into product exchange arrangements with other oil companies, the Committee were informed by IOC that it was absolutely essential for IOC to make arrangements with the other oil companies so that the surplus Motor Spirit could be disposed off to the other oil companies and simultaneously meet the demand of the consumers in the country. The representative of the Ministry stated during evidence that the public sector refineries were producing almost three times the motor spirit produced by the private oil companies. With this large availability of motor spirit, the IOC was unable to develop its market because it could not penetrate the high consumption areas especially in 'A' & 'B' class cities where the most remunerative sites for retail pumps had either been occupied for a long time with well-established business by the foreign companies or those had already been brought or leased by the foreign companies. Therefore, IOC's entry was largely in the periphery of the consumption concentrations where its business grew rather slowly. Further to penetrate in the

market properly it would have had to set up not only its retail outlets but also its depots and sub-depots and storage points throughout the country. It was in this context that product exchange agreement was entered into in 1962. This agreement made available to the IOC, the storage depots, sub-depots of the foreign oil companies from where the IOC could draw the product and put it into the market. So it was an agreement aimed at penetrating the market. It was a tonne for tonne exchange of products. But it was out right sale in respect of products like Motor Spirit which could not be exchanged.

3.9. When pointed out that the Committee on Public Undertakings had commented upon this agreement in their 35th Report and recommended that these arrangements should be revised forthwith, the witness stated that Government went into this question and ultimately decided that while the product exchange agreement should be amended to become more favourable for the IOC, the arrangements itself were quite practicable and desirable and should be continued. In the course of negotiations over the last few years a number of clauses had been amended. These negotiations had been very protracted but as and when agreement was reached on any particular point, it was implemented.

3.10. The Committee were informed by I.O.C. that among the important items of revision proposed, the following major aspects had been satisfactorily resolved in IOC's favour:—

(i) Repayment of Deficit Products

The NBPE Manual provided that repayment of deficit products would be made only at the refinery ports by the private oil companies. However, agreement had already been arrived at whereby the other oil companies repay from 1st June, 1970 the deficit products at coastal ports and this (even with the change of the pricing permitting recovery of freight from the FSP) would still allow IOC the benefit of avoidance of losses in coastal transportation, penalty duty thereon and also to that extent of the freight costs incurred which were not reimburseable under the FSP rules. These expenses on repayment of deficit products to IOC at coastal ports were now being borne by other oil companies.

(ii) MI Charge on Motor Spirit (Clause 9.6 of NBPE manual)

The private oil companies were paying only "bulk loading charge" @66 paise per KL on the entire upliftment of MS ex the Inland Refineries and in the case of supplies to main port installations from these stock points, even this bulk loading charge was not payable.

However, by subsequent discussions and application of certain amount of pressure on other oil companies, through the media of discontinuation of supplies to others, IOC have been able to obtain their acceptance for:—

(a) Payment of full MI charge on Motor spirit supplies to others at upcountry points from IOC refineries.

(b) bulk-loading charge on Motor Spirit supplies to other oil companies at their main installation ex-these sources, and

(c) also bulk loading charge on supply of other products to their main installations ex the Inland refineries as against "nil charge" recoverable from them as in the original NBPE manual provisions.

The additional recovery to IOC under this account would approximately amount to Rs. 58 lakhs per year at the current level of supplies.

(iii) Under recovery on Rail Freight on out of pricing area supplies to other Oil Companies Ex-Inland Refineries

As against notional freight paid by the other oil companies, they have already agreed to pay from 1st June, 1970 the actual freight in respect of supplies made to them within the pricing area of the inland refineries, resulting in financial advantage to IOC of approximately Rs. 5 lakhs per annum. As for supplies to areas outside the pricing area of the respective inland refinery, a broad agreement had been arrived at that they would pay the actual freight from 1st April, 1972 subject to all items of revisions being satisfactorily resolved. As a result of the above, the under recoveries between notional and actual freight on supplies to other oil companies would substantially be reduced. The advantage to IOC as a result of this was estimated to be Rs. 8 lakhs per annum.

(iv) **Repayments: (Clauses 3.9 and 3.11 of NBPE Manual)**

As per the clauses noted in the NBPE Manual, the repayments were to be on the following basis—

(a) The other oil companies would repay IOC each month quantities of products not exceeding the quantities received by them in the second preceding month.

(b) If a ton for ton exchange is not maintained in any given month, such quantities, as are not taken back by IOC shall be raised to outright sale.

By protracted negotiations, the position had been substantially changed and the present arrangements implemented gradually since 1967 are:—

(a) Quantities that are not repaid in the second following month are being carried forward (except in the case of Motor Spirit) and no outright sale is permitted.

(b) IOC are also obtaining advance supplies from other oil companies as against obligations of the other oil companies to give repayment only to the extent what IOC has given to them in the second preceding month.

(c) Further, there is no additional charges such as ad hoc penalty of Rs. 9|MT being paid on such advance deliveries, whereas in accordance with the manual, such supplies will be termed as ad hoc assistance and quality for payment of assistance charges. Accordingly, the disability of IOC of forgoing its products (except MS) on the basis of raising to outright sale and the need to pay assistance charge have been eliminated and IOC has now the added flexibility of receiving advance supplies.

(v) Repayment of Dissimilar Products

As per the provisions of the manual supplies/repayments shall be only in like products. Since then by negotiations, agreement was arrived at in 1968-69 to repay in dissimilar products. This very greatly helped IOC in meeting out its trading obligations. To give an example, IOC's own production of ATF is short of its trading requirements and IOC has no MTO production but is marketing the same on the basis of obtaining these products in exchange, for some other products.

(vi) Distribution Charge

As per the provisions of NBPE manual, only MI charge, among the marketing margins provided in the price build up, would be payable (except for MS qualifying for bulk loading charge payment) IOC had also taken up claim for recovery of a part of distribution charge (element provided in the marketing margin in OPC) on direct supplies of products in tank wagons/tank trucks to consumers ex OC's refinery/pipeline tap off points.

The other oil companies accepted in principle payment to IOC of Rs. 2/KL on all road upliftments ex inland refineries/pipeline tap-off points subject to all other revisions in the NBPE being satisfac-

torily resolved. A rough estimate of the additional recovery would be approx. Rs. 15/18 lakhs per year.

(vii) **Payment of CIF value on supplies (Financing)**

The CIF values are paid on a monthly basis and the bills are to be made by 7th of the following month and to be paid within 15 days of receipt thereof. Accordingly, there is an average credit period of 35|37 days in respect of CIF.

Except for Motor Spirit, where the full quantities are not taken back, the credit is both ways, because IOC also enjoys the same credit on products taken from other oil companies. In the case of the Motor Sprit raised to sale there is a credit factor involved.

3.11. The Committee were also informed that question of revising the credit period in respect of MS raised to sale needed to be considered in the light of the latest arrangements with Caltex/Burmah-Shell for obtaining other products in exchange against MS. Under the same system of credit, IOC was likely to have larger funds in its hand with a credit period benefit of 35/37 days as the C&F prices of kerosene would be more than MS and secondly, the quanturnwise repayment would be slightly mere than the quantum of MS supplied to them. Therefore, the need to change the credit period at this point of time would not be to IOC's advantage.

3.12. The Corporation stated that with the above major features already covered, and others in the course of finalisation, other items which have to be further examined and discussed would broadly be limited to (a) concurrent repayment, (b) other minor items and (c) finalisation of such of those items listed above requiring to be formally completed. As soon as these have been completed, the NBPE manual would undergo a total formal revision incorporating all the agreements since entered into.

3.13. The Committee enquired whether it was anticipated that this kind of product-exchange arrangement would result in a heavy loss to IOC. The Secretary of the Ministry stated during evidence as follows:—

> " I would consider the loss theoretical. If you cannot sell the product and are forced to sell it through someone else then it is a loss in the sense you have not been able to develop market sufficiently. The 'A' class cities consume almost 29 per cent of M.S. It is a very high quantity in concentrated areas and that is commanded by the foreign oil

companies. The question is apart from taking some drastic legislative action what IOC can do to improve upon its performance. I think as a practical measure of market development the scheme has worked well. If we isolate MS then we would certainly come to the conclusion which you are mentioning that IOC could have made more money by selling the MS itself or compelling the foreign oil companies to buy the MS and surrender a larger part of the profit to IOC than merely the refinery margin and now some of the M.I. charges."

3.14. The Committee also enquired whether while entering into the product exchange agrement, it was considered that the exchange of products should be based on the margin of profit rather than on the equal volume of any product. The Secretary of the Ministry stated as follows:—

"I wuld concede that if you look at by way of profit margin, product by product the conclusion may be right that they gave away high profit products and took back what were the low profit products. But the exchange was product for product."

3.15. To an enquiry as to why in the case of M.S., the IOC did not take other products in exchange for it, the Secretary of the Ministry stated "I do not know whether even an effort was made to replace M.S. by other products. Now with effect from 1st December, 1973 for all oil companies there is no sale as such. There is only exchange."

3.16. The Secretary of the Ministry agreed that "In retrospect, there were several things that could have been done if we had knowledge of the petroleum field when we entered it."

3.17. The Committee were also informed that after commercial negotiations conducted between the IOC and CALTEX, IOC had secured access to 143 existing retail outlets and 30 consumer pumps belonging to Caltex. These retail outlets are mostly located in areas where IOC could not have made entry except at very high costs. They had taken over these outlets at a lesser value than they would have to invest had they built the outlets themselves. Further, under the agreement, there would now be no outright sale of M.S. I.O.C. would be selling to Caltex in all 85000 tonnes of M.S. each year. It would get back 62,500 tonnes of kerosene and HSD and the balance in the form of bitumen in the ratio of 1:2 for packed Bitumen and 1.4 for Bulk Bitumen.

In the exchange of products in the above manner against part of Motor Spirit supplies, it was stated that IOC would gain on the gross marketing margin basis, a return of 73.45 per cent of the gross margin of Motor spirit to be supplied to Caltex.

3.18. The Committee enquired as to why even in the case of this agreement with Caltex the exchange of products was not made on equal margin basis. They were informed that a more comparison of the gross marketing margin might not give a complete appraisal of the totality of the agreement. The formula at which the retail outlets of Caltex had been acquired gave substantial financial benefits to the IOC vis-a-vis the cost of building similar new facilities. If new retail outlets were to be built, it would take any thing from 3—5 years for the volume of business to develop. In this case, the benefits started accruing to the IOC from the date of take-over. In the overall package, weightage had to be given to these facts.

3.19. Further, when the last Oil Pricing Committee determined the Marketing margins, it took note of the fact that the costs in respect of administration, distribution, installation and profits (all four together are taken as marketing margin) of the foreign oil companies were higher whereas those of the IOC were lower. The Oil Pricing Committee took the average. As a result, the marketing margins available to the three foreign oil companies ceased to represent their actual cost. Taking all these factors into consideration, the present agreement might be considered to be equitable to both the parties.

3.20. The Secretary of the Ministry also stated during evidence that "the part played by the Ministry in this (agreement) was only to further the agreement by way of persuasion and a degree of pressure on the oil companies, but the Ministry really did not go into the details of the agreement and left it to the IOC to make its own agreement with Caltex." The Committee were also informed that at present negotiations were going on with Burmah Shell and after that, they would be taken up with Esso.

3.21. The Committee note that the IOC, as early as 1962, entered into produce exchange arrangements with private oil companies with the main object of avoiding cross movement of petroleum products and the consequent increase in cost on account of freight. In their 35th Report (Third Lok Sabha) in March, 1967, the Committee on Public Undertakings had commented upon this arrangement as inequitable and recommended that the arrangement should be revised forthwith, all exchange of products should be ex-refineries and the receiving oil companies should bear all incidence of freight, port price differential and any other expenditure involved. Government in reply to the recommendation stated in September, 1967,

that "the matter should be left to be regulated by the results of the IOC's current negotiations over the product exchange manual."

3.22. The Committee regret to note that under the product exchange arrangement with other companies, the Indian Oil Corporation was not entitled to recover any profit margin on the products treated as out-right sale with the result that it had to forego a profit margin on motor spirit amounting to Rs. 11.93 crores during the period 1966-67 to 1972-73. The Committee also note that although under the existing arrangement the other oil companies had to make fortnightly deposits with the IOC in advance in respect of notional railway freight from the normal part of supply to the proposed destinations and excise duty, no deposits had been made in respect of cost and other elements on the products treated as outright sale. As a result of this practice, the Committee find that the other oil companies had all along been getting unintended credit facility of about Rs. 91 lakhs on an average in respect of MS. The Committee also note that under the product exchange arrangements, no main installation charges were being recovered in respect of despatches to main installation and in respect of motor spirit supplies to locations other than Main Installations only bulk loading charges were being recovered as against the full MI charges. Consequent on this, the Committee find that the Corporation had already lost Rs. 4.43 crores during the period 1966-67 to 1971-72. The Committee regret to note that inspite of these defects, the Corporation took up the question of revision of the arrangements in two stages first in January, 1971 and later in February, 1972. Even then, agreement is stated to have been reached with the other oil companies only in regard to revision of some of the clauses. The Committee were informed that the formal revision of agreement would be taken up only after the negotiations in regard to other clauses of the agreement, which are still in hand, are completed. The Committee take a serious view of the inordinate delay in the revision of the agreement. The Committee are constrained to observe that inspite of their recommendation as early as 1967, no serious action was taken by the Ministry to set right the arrangement and instead left such an important matter to the Corporation without pursuing it in right earnest.

3.23. The Committee also note that under a recent agreement between I.O.C. and Caltex, the latter would be transferring 143 of their retail outlets to the I.O.C. The Committee, however, find that these outlets are generally not in areas where there was high consumption of motor spirit and only 10 of them are located in metropolitan cities. The Committee feel that IOC|Ministry should have, in the light of their experience so far, persuaded Caltex and secured more outlets in high consumption areas.

3.24. The Committee also find that although the outright sale of motor spirit to Caltex had been stopped, Caltex would be giving in

exchange products which would give IOC a gross margin of only 73.45 per cent of the margin on motor spirit supplied to them (Caltex). The Committee see no justification why Caltex could not have been persuaded to give products in exchange which would have given ICO an equal margin of profit.

3.25. The Committee are unhappy that even after the experience of the working of product exchange arrangements for several years the Corporation did not make serious efforts to secure better terms to the best advantage of the Corporation and the country. They strongly urge that negotiations with the oil companies should be completed without any further delay and the revised product exchange agreement finalised in right earnest keeping the interest of the IOC in view. The Committee should be informed of the precise progress made in finalising and signing the revised agreements within six months of presentation of the Report.

3.26. The Committee also recommend that the working of the product exchange agreement should be continuously reviewed by the IOC|Ministry and the findings thereof included in the Annual Report of the Corporation and the Government review thereon.

Installation Exchange Accounts with Burmah-Shell

3.27. With a view to minimising the cost of distribution on marketing and also to avoid capital investment on installation facilities, the Corporation made an arrangement (known as Installation Exchange Account) with Burmah-Shell in January, 1965 (formalised by an agreement in April, 1965). Under the agreement, the products drawn by the Corporation from Bumah-Shell ex-installations (except Sewree)|depots|air fields, have to be repaid at the same installation etc., by purchasing them from the Burmah-Shell Refinery at Bombay. If the repayments are not made within the same calendar month, Burmah-Shell raises debit notes to cover the C.I.F. element of price during the first week of the following month and the amount is required to be deposited within a fortnight of the receipt of the debit notes. These deposits are refundable when the Corporation returns the product to the Burmah-Shell.

3.28. As on 5th June, 1966, i.e. prior to devaluation, a quantity of 62,388 kilo-litres of petroleum products was outstanding for return to Burmah-Shell, the value of which was increased by Burmah-Shell by Rs. 40.21 lakhs consequent on devaluation of the rupee. This amount was withheld by Burmah-Shell from the Corporation's dues. The Corporation's request (July, 1967) for refund of the

excess amount was turned down by Burmah-Shell (September, 1967) on the ground that moneys held in deposit would be refunded on the return of the products. While the dispute still remained unresolved, the transactions under the Installation Exchange Account were continued till 31st December, 1967 by which time petroleum products to the extent of 1,85,362.8 kilolitres had fallen due for return by the Corporation to Burmah-Shell. Burmah-Shell continued to revise the amount of deposit to the extent of subsequent variations in C.I.F. prices till October, 1969 when it finally adjusted the amount of Rs. 50.59 lakhs against the outstanding dues.

3.29. The Ministry stated (in October, 1971) that "....suit has been filed against Burmah-Shell at Bombay on the 10th March, 1971."

When asked about the difficulty faced by IOC in returning in time the products obtained from Burmah-Shell under the installation exchange account, the Committee were informed that the following were the difficulties faced by the I.O.C.:

(i) Products were in acute short supply with IOC during the period under review. As a result IOC could not repay at the same location on a month to month basis.

(ii) Quantities uplifted on Installation Exchange account on a month to month basis were to small that IOC could not arrange tanker space for movement of such small quantities to the locations where the product was taken.

(iii) In view of the limitation mentioned above, protracted negotiations were held between IOC and Burmah-Shell to explore possibilities of adjusting the quantity against NBPE Manual.

(iv) IOC offered in July, 1968 to settle the balance due to Burmah-Shell under the following conditions:

1. IOC will purchase the products from Burmah-Shell at Bombay.

2. IOC would pay Burmah-Shell the ruling CIF rate less the devaluation duty in accordance with the procedure agreed to by all for transactions taking place effective from 6th June, 1966.

3. IOC would return the products at the location where the loan was originally taken.

4. On repayment of loan as stated above, Burmah-Shell would return the amount of C&F deposit originally collected from IOC and would also pay the full excise duty to Government inclusive of devaluation duty relevant to the products taken before devaluation.

However, Burmah-Shell had agreed to above conditions except that they wanted IOC to bear the devaluation duty element on the products re-payment. This was not acceptable to IOC as that will give unintentional benefit to Burmah-Shell at the cost of IOC. Therefore, the matter was taken up with the Chief Executive of Burmah-Shell and the Ministry of Petroleum and Chemicals to resolve this matter. Since the repayment of the products is to be made out of IOC's purchase from Burmah-Shell, the only hitch in returning the products to Burmah-Shell was the settlement of devaluation duty. Therefore, IOC could not return the products without sorting out the issue of devaluation duty.

3.30. As regards the reasons for taking about 1½ years for filling a suit against Burmah-Shell the Committee were informed the immediately on hearing in October, 1969 about Burmah-Shell's unilateral action, the case was referred to Solicitors in October, 1969 itself. A number of discussions were held with the Solicitors. The initial draft of the plaint was finalised in June, 1970. However, the solicitors wanted some more time to discuss the case with their Counsel in view of the complicated nature of this arrangement. The solicitors finally filed suit in the month of March, 1971.

3.31. The Committee note that although it was as early as 1966 that the dispute arose between the Burmah-Shell and the IOC in regard to payment of devaluation duty on the products outstanding for return by the Corporation to the Burmah-Shell as on 5th of June, 1966, under the Installation Exchange Account, the matter was kept pending for settlement. It was only in October, 1969 that the case was referred to the solicitors. Even after this, the Committee find that the suit was filed against Burmah-Shell for the recovery of the amount with-held by them only in March, 1971. In the opinion of the Committee, this delay of over 5 years on the part of the IOC seems hardly justified. The Committee would like to be informed of the outcome of the case.

IV

MOVEMENT OF PRODUCTS

A. General

4.1. The pricing of petroleum products is based on the principle of import parity. Prior to June, 1970 eight ports viz. Kandla, Okha, Goa, Bombay, Cochin, Madras, Visakhapatnam and Calcutta were the pricing points and the country was divided into eight economic supply areas based on these ports. From 1st June, 1970, the inland refineries also became the pricing points in addition to the main ports. The supply areas have been re-defined; each area comprising several zones for the movement of products. Under the pricing formula, while the cost of movement within an economic supply area or inter-zonal movement within a supply area towards the cost line is included in the selling price, the movement outside the supply area or inter-zonal movement within a supply area against the price line involves additional costs and consequent under-recoveries.

4.2. The Management explained to Audit in April, 1970 that product movements from refineries and installations throughout the country were regulated in accordance with the decisions arrived at supply plan meetings convened by the Ministry to which representatives of all oil companies, railways and State Governments were invited. The distribution pattern was, thereafter, finally decided giving due consideration to (i) production of various refineries and product availability at installations (ii) demand in different supply areas (iii) maximum utilisation of major product pipelines (iv) preference to products refined from indigenous crude in distribution (v) operational feasibility of movements and (vi) elimination of cross movements. This movement plan was further worked out in detail and carried out by the Railways Inland Petroleum Movement Committee (RIPMC) which was a body comprising Railways and all oil companies. As a continuous process, the actual movements effected against the plan were also reviewed by the Ministry. The Management also stated that in view of the weightage of factors mentioned above, there would be some out of normal supply area despatches.

4.3. No details of quantities of various products transported by the Company outside the normal supply area up to 31st May, 1970 were made available by the Management. In the absence of this information, the economic efficiency of product movement in so far as the Company is concerned, could not be reviewed. Though a monthly statement of under/over-recoveries resulting out of actual movement of products is prepared by the Management, it is not possible to assess, on the basis of data available, the extent of avoidable under-recoveries resulting from out of area movements.

4.4. With the introduction of a scheme for the operation of Freight Surcharge Pool Account, with effect from 1st June, 1970, oil companies can adjust under-recoveries of railway freight on account of only authorised movements of petroleum products as decided in the Monthly Supply Plan meeting (under-recovery to be calculated on the basis of notional freight and not the actual freight paid). The under-recoveries of railway freight on account of unauthorised movements and the difference between the actual freight paid on the carrying capacity of the railway wagons and the notional freight calculated on the actual quantity carried which the Company could not adjust against the pool accounts amounted to Rs. 57.64 lakhs approximately during 1st June, 1970 to 31st March, 1973.

4.5. Similarly, in respect of coastal movement of petroleum products, Government have laid down certain norms regarding the draft of the tankers, pumping rate, charter hire, lay time etc. for reimbursement of under-recoveries from the freight surcharge pool. The expenditure incurred by the Company and not reimbursable from the pool, amounted to Rs. 64.37 lakhs during 1st June, 1970 to 31st March, 1973.

4.6. During the years 1970-71 to 1972-73, the amounts reimbursed from Freight Surcharge Pool were as follows:—

	(Rs. in lakhs)
1970-71	1081
1971-72	1411
1972-73	1618 (Provisional)
	4110

4.7. Oil companies have to furnish to Government, details of out of zone rail movements of petroleum products not contemplated in the monthly supply plan and the under-recoveries in respect of

such movements can be debited to the freight surcharge pool only after these movements are authorised by Government. According to Audit as on April, 1972, several out of zone rail movements of petroleum products effected by the Company during the period June, 1970 to March, 1971 and involving under-recoveries amounting to Rs. 5.37 lakhs were pending approval of Government though shown in the accounts for 1971-72 as due from the freight surcharge pool. Similarly, for 1971-72 a claim for Rs. 8.88 lakhs was under discussion with the Government.

4.8. The Committee enquired as to why the movement of products not envisaged by the monthly supply plan became necessary. They were informed that in the Supply Plan Meeting, movements were decided based on expected availability of product and tank wagons. Some times availability of product was not sufficient due to reduced production at refineries or imports not materialising in time or coastal movements not keeping up to schedule. Availability of tank wagons might not also be as envisaged originally due to certain reasons like booking restrictions, floods, etc. On such occasions it was necessary to arrange movements from alternate sources so that requirements of the area was met in full and shortage was not created.

4.9. During evidence, the Committee enquired whether all unauthorised movements by the oil Companies were reported to the Ministry. They were informed that all rail movements of petroleum products not covered by the monthly supply plan meetings were required to be reported to the Government irrespective of the fact whether these movements made the companies eligible for the freight under the Freight Surcharge Pool or not. Such movements were generally not permitted unless Ministry's approval had been obtained.

4.10. So far as road movements were concerned, these were not approved or covered by the Ministry's approval for three reasons. One reason was that there were no standard rates on the basis of which reimbursement could be considered; the second was that a certain amount for bridging costs was already included in the distribution margin,; and the third reason was that the Ministry did not want to give any incentive to companies to resort to road movement in preference to rail movement which was cheaper.

4.11. As regards the present position regarding recovery of amount through sanctions from Government in respect of unauthorised

movements, the Committee were informed that the present position was as follows:—

	1970-71	1971-72
Total amount of under-recovery on unauthorised movements.	5,36,983	8,87,634
Since authorised	5,13,135	6,14,594
Claims withdrawn by IOC	23,848	58,423
Balance of amount not authorised pending examination of further clarifications furnished by Corporation . .	Nil	2,14,617

As regards 1972-73, the details of unauthorised movements had to be worked out as certain authorisations were yet to be received from the Ministry and also special audit by Chartered Accountants appointed by the Company had not been completed.

4.12. The Committee also enquired whether it was correct to show in the accounts the full amount of under-recoveries on account of out-of-zone rail movement of petroleum products as due from the Freight Surcharge Pool. They were informed that normally the movements were made only as per the movement pattern decided by the supply plan meeting. However, due to certain operational reasons, if any out-of-zone despatches were made, each marketing company had to obtain authorisation from the Ministry for reimbursement of the under-recoveries by giving adequate reasons for the movement. In view of the reasonableness of the claim, these were accounted for in the books as per normal accounting practice. However, if the Government rejected the claim and, if the claims were not allowed a suitable accounting entry was passed reversing the earlier claim in Freight Surcharge Pool Account. Therefore, the procedure adopted by IOC was quite consistent, in view of the fact that substantial claims had been approved by the Government.

4.13. The Committee enquired about the reasons for reimbursing to the oil companies only the notional railway freight on the quantity carried and not the actual freight paid by the Companies on authorised movements of petroleum products. They were informed that the products and the temperature at which these products were loaded were very important factors in taking into account the freight. When a hot product was loaded in a tank wagon, the weight carried was generally lower than the carrying capacity of the wagon. Similarly, in cold temperature, the reverse happened.

Sometimes, due to sludge and other reasons also, the wagons could not be fully loaded.

4.14. The Committee pointed out that the expenditure incurred by the Company but not reimbursable from the pool amounted to Rs. 64.37 lakhs for 1-6-70 to 31-3-73 and required the reasons for such huge disallowance. The Committee were informed that these were mainly due to excess time taken for loading and discharging operations, excess time taken due to shifting of tankers, Navy Operations, bunching of tankers at Okha and clearing of tankers. Out of this amount, a sum of Rs. 27.37 lakhs was claimed and recovered from the owners for substandard performances of the tanker such as low rate of pumping speed, fuel consumption etc., as compared to charter party norms. In addition, bills for an amount of Rs. 4.55 lakhs were to be raised, leaving a balance of Rs. 32.45 lakhs to be borne by the Company.

4.15. As regards the balance of under-recoveries due to delay at ports, it was stated that loss of time due to clearing, shifting and other operational restrictions had to be borne by IOC as these were not governed by charter party agreement.

4.16. The Committee note that prior to 1-6-1970, the pricing of petroleum products was on the principle of import parity and the pricing points were the 8 main ports. The supply areas were demarcated on the basis of equal costs lines. From 1-6-1970, the inland refineries also became pricing points in addition to the main ports and the supply areas were redefined also on the basis of equal costs lines. Under the pricing formula the cost of movement within the economic supply area and inter-zonal movement within the supply area towards the cost line was included in the selling price and movements outside these areas involved additional expenses and therefore under-recoveries. The Committee note that with effect from 1-6-1970, the Government of India introduced a "freight surcharge pool" scheme to compensate such under-recoveries and the oil companies could adjust under-recoveries on account of only authorised movements of petroleum products as decided in the Monthly Supply Plan meeting. Government also laid down certain norms which are uniformally applied to all the companies for regulating these under-recoveries from the Freight Surcharge Pool. The Committee find that since the introduction of the Feright Surcharge Pool, a sum of Rs. 41.10 crores had been re-imbursed to the IOC till 31st March, 1973, and Rs. 1.22 crores could not be adjusted against the freight surcharge pool as it pertains to unauthorised railway movement or the coastal movement of the products not conforming to the norms laid down by Government.

4.17. The Committee stress that the Corporation should exercise strict control over the movement of the products and should plan their movements suitably to ensure that unauthorised movements not reimbursable from the Freight Surcharge Pool are kept to the minimum, so that the Corporation is not unnecessarily saddled with such expenditure.

4.18. The Committee also note that the Corporation has been taking credit for the full amount of under-recoveries on account of certain unauthorised movements in anticipation of the approval of Government. The Committee feel that it is not correct to treat the entire amount in such cases as adjustable against the Freight Surcharge Pool unless it is authorised by Government under the pool accounts.

4.19. The Committee would also like Government to review periodically the actual movement of the products by the Corporation specially those movements which do not qualify for reimbursement from the Freight Surcharge Pool, so as to take effective measures to reduce, if not altogether eliminate, such movements. The Committee would like to be informed of the guidelines/concrete measures taken in pursuance of the foregoing recommendation.

B. Bridging

4.20. Besides the movement of products by rail, the Corporation also transported the products by road. The difference between the actual expenditure incurred in the transportation of petroleum products to up-country points by rail and/or road and the freight recoverable by the most economical route is known as 'bridging'.

The quantities of petroleum products bridged by the Company (i.e. transported by road) and the bridging expenditure incurred during the last five years are indicated below:—

Year	Total quantity bridged (in '000 (Kls)	Total sales (in '000 Kls)	Bridging expenditure over authorised recovery rates (Rs. in lakhs)	Cost per Kl.
1968—69	499·3	8,111·7	115·60	1·37
1969—70	595·2*	9,843·5	108·33	1·09
1970—71	502·8	11,027·0	84·50	0·77
1971—72	431·2	13,012·5	69·15	0·53
1972—73	..	15,484·7	44·41	0·29

*Figures for Eastern Branch not available and hence not included.

Note : Figures of bridging expenditure are statistically estimated and hence approximate only.

4.21. In reply to the observation made by the Committee on Public Undertakings in paragraphs 42-43 of their Thirty Fifth Report (Third Lok Sabha—March, 1967) that a large amount of bridging was being done in practically all the branches, Government informed the Committee in September, 1967 that due to operational reasons, the Railways prescribed a 'no tank wagon zone'. As a result, movement from refineries or installations with a specified distance (usually 75 to 150 miles) had to be made by road.

4.22. No details of product movements within 'no tank wagon zone' had however, been maintained by the Corporation. Consequently, the bridging expenditure arising out of movements within such zones and due to other reasons could not be ascertained. The Ministry also added that movements within such zones were not covered by supply plan meetings. Only when under special circumstances rail capacity had to be utilised for intensive movement in any particular direction and certain areas had to be left to be fed by road, the Ministry considered and allowed reimbursement of road costs from freight surcharge pool. The Freight surcharge pool scheme was also being amended to provide for such eventualities.

4.23. The Ministry in a written note informed the Committee that although the "No Tank Wagon Zones" had been earmarked extending between 75 to 150 miles from the loading bases, railways had not banned the movement of tank wagons within this zone. In case, however, the total loading requirements of the base was more than what could be met, the oil companies had themselves to arrange bridging within the "No Tank Wagon Zone" so that the distant depots could be fed with the available rail transport operating. When during the slack season or otherwise, enough tank wagons were available at the base, Railways did not restrict the booking to the "No Tank Wagon Zones". During peak months, however, the oil companies extend the limits of this 'zone'. It will be appreciated that long lead road haulage costs are higher than rail freights for comparable distances. The oil companies, therefore, adjusted the boundaries of such "Zones" from time to time in their commercial interest. No break up was available with the IOC of bridging resorted to within the 'No Tank Wagon Zones' and outside, basically because the boundaries of such zones were normally self-adjusting. Bridging had however to be done always to the nearest areas conserving the rail carrying capacity for distant areas.

4.24. It would be seen from the above that one of the reasons for road bridging was said to be inadequate availability of tank wagons.

4.25. When asked as to why the IOC was not able to move the products by the "most economical route" to avoid incurring large bridging expenditure, the Ministry stated that the bridging expenses did not arise on account of "most economical routes" not being available but due to temporary shortage of wagons, breakdown in refinery operations, slippage of tankers, sudden spurt in demands, etc. leading to an urgent need of rushing products to a particular location to preserve the supply line. The Committee were informed by the IOC that the failure on the part of the Railways to add to the tank wagon fleet consistent with the growing demands in the consumption of petroleum products had inevitably serious repercussions on the POL movement. The problem bases had been Bombay, Calcutta, Vishakapatnam, New Jalpaiguri and Madras.

4.26. On the other hand, the Ministry of Railways stated that the Railways were maintaining close liaison with the Ministry of Petroleum and Chemicals and the Oil Companies in estimating the likely transport demand for petroleum products and had been placing on line adequate number of tank wagons to meet the estimated demand adding to the fleet as and when necessary. These tank wagons had been provided on certain norms of turn-round. When the turn round got adversely affected and as a result, the level of loading went down the reason for the drop in loading was not any shortage of tank wagons but the factor causing the adverse turn-round. The factors which affected the movement of products were (i) inadequate terminal facilities at many of the depots to handle the level of traffic received (ii) peaking of demands for petroleum products during certain months of the year (iii) non-availability of products at the planned sources causing unplanned additional demand for transport from another source resulting in marginal shortfall in availability of tank wagons and extraneous factors on certain occasions like strikes, bandhs, floods, breaches etc.

4.27. The Committee also enquired as to how it was ensured that there was no avoidable expenditure on Bridging. They were informed by the IOC that all Branches sent a monthly bridging statement to Head Office giving the details of bridging and the reasons for resorting to bridging. This was being reviewed at the Head Office to ensure that no avoidable expenditure on bridging was incurred. Branches, in turn, kept a similar strict check on the bridging carried out from the supplying sources.

4.28. The Ministry also informed the Committee that the bridging expenses were reviewed by the IOC. They were also taken note of in the overall distribution of costs when the O.P.C. determined the quantum of marketing margin that should be available to the

oil companies under this head. The Ministry also took up with the Railway Board on a sustained basis the desirability of improving rail transport availability at specific locations or in general, as necessary.

4.29. The Committee regret to note that there had been heavy expenditure on bridging i.e. on uneconomical transportation of petroleum products by road instead of by railway tank wagons. The Committee note that the expenditure on this account had come down during the last five years, from Rs. 115.60 lakhs in 1968-69 to Rs. 44.41 lakhs in 1972-73. In order to minimise this expenditure, while it is essential that adequate tank wagons are made available to IOC, the Corporation should also on its part ensure that there was maximum utilisation of available tank wagons. To improve the wagon turn round, measures should be taken to remove the constraints at the terminals by providing adequate storage and handling facilities and improving operational efficiency at the depots. The augmentation of storage capacity at up country depots should also help in meeting the additional seasonal demand for petroleum products, without resorting to large scale road movements, as the products could be stocked at the depots during the lean period. If the planning for movement was done in a realistic manner the Committee expect that there should not be scope for large deviations from the planned movements of petroleum products which give rise to claims on account of bridging.

4.30. The Committee also desire that Government should periodically review the expenditure on bridging by IOC with a view to ensuring that the bridging expenses are kept to the minimum. The Committee suggest that the bridging expenses may be suitably reviewed at the supply plan meetings so that all connected problems receive contemporaneous attention of all concerned.

4.31. A test check of bridging expenditure in the Southern Branch from 1968-69 to 1971-72, indicated that the expenditure on movement of products to the following depots was particularly heavy:—

Depot	Quantity Bridged (Kl)		Expenditure		Expenditure per Kl	
	1968—69	1969—70	1968—69	1969—70	1968—69	1969—70
1	2	3	4	5	6	7
Secunderabad .	2,041	1,961	1,30,898	82,738	64·13	42·19
Neyveli . . .	4,685	9,963	82,257	1,74,536	17·62	17·52

1	2	3	4	5	6	7
Vijayawada . .	25,598	26,355	8,65,657	8,12,506	33·82	30·83
Trivandrum . . .	8,191	14,905	1,44,404	2,73,736	17·63	18·37
Bangalore . . .	12,178	19,638	3,63,857	5,08,278	29·88	25·88
	1970—71	1971—72	1970—71	1971—72	1970—71	1971—72
Secunderabad . .	9,194	1,225	3,44,184	28,645	37·44	23·38
Neyveli . . .	11,233	6,855	49,119	36,685	4·28	5·35
Vijayawada . .	18,214	23,600	4,44,114	6,17,021	24·38	26·14
Trivandrum . .	17,514	13,779	2,37,276	1,84,123	13·55	13·26
Bangalore . . .	12,493	9,880	86,707	93,139	6·94	9·43

4.32. Road 'bridging' to these five depots in the Southern Branch had been explained by the Management/Ministry as follows:—

(i) Secunderabad: Mainly aviation products were sent by road due to a sudden spurt in demand.

(ii) Neyveli: Due to acute shortage of metre gauge tank wagons at Madras the products had to be moved by road.

(iii) Vijayawada: 'Bridging' was resorted to between the directional specials to meet high off-takes. Additional storage and decanting facilities could not be put up to correspond to the increased market participation from this depot because the railways wanted the land for their own development and expansion. IOC was finally asked on 26th February, 1969 to surrender the present depot site (the site was actually surrendered on 31st March, 1973) which has since been resited at Tadepalli.

(iv) Trivandrum: Acute shortage of MG tank wagons at Cochin made road 'bridging' unavoidable.

(v) Bangalore: Most of the 'bridging' to Bangalore was in respect of MS and aviation products.

4.33. As regards the reasons for the delay of more than 3 years in resiting the depot at Tadepalli the Committee were informed that the resitement at Tadepalli was firmed up in the meeting with the Railways by the Oil Companies on 29-4-69. The new depot was

commissioned in August, 1972. This was due to the following reasons:—

(a) Negotiations with owner of land, seeking Board's approval examination of deeds and final take over of land.

(b) Detailed engineering, including lay out finalisation, design calculations, preparation of estimates and administrative approval. This also included the time taken to obtain approval of Railways, acquiring of Paramoke land for approach road, etc.

During this time, the land development works including boundary wall were under execution.

(c) Actual construction of depot facilities and commissioning of the depot.

4.34. The Committee were also informed that during 1971-72, the average monthly bridging expenditure to Vijayawada depot from various sources prior to resitement at Tadepalli was to the tune of Rs. 51,000. After resitement, this came down sharply to about Rs. 5,000 per month.

4.35. The Committee regret to note that the expenditure on movement of products to the depots was particularly heavy in Southern Branch in Vijayawada where the expenditure ranged from Rs. 8.66 lakhs in 1968-69 to Rs. 6.17 lakhs in 1971-72 and the heavy incidence of bridging expenditure was due to insufficiency of storage facilities in relation to the throughput of the depots. It took the Corporation more then three years to resite the depot at Tadepalli. The Committee desire that such inordinate delays which result in unnecessary expenditure on bridging should be avoided. The Committee recommend that the position in regard to other zones should also be critically reviewed to ensure that there is no avoidable expenditure on road movements.

C. Movement of Products through Pipeline

4.36. The I.O.C. has several product pipelines viz. Gauhati-Siliguri pipeline, Haldia-Barauni-Kanpur pipeline, Koyali-Ahmedabad pipeline and Haldia-Mourigram pipeline. The Government informed the oil companies in May, 1971 that pending further consideration of the manner of treating the cost of movement of products through product pipelines for the purpose of re-imbursement from the Freight Surcharge Pool, products actually moved through the product pipelines would be treated, on a provisional basis, to have

been moved by rail by shortest route and adjustments, if necessary, would be made later on after a final decision had been taken. Pending final decision by the Government, the Company has been taking credit in its accounts in respect of the whole of the profits of the Pipelines Division which amounted to Rs. 4.23 crores and Rs. 6.93 crores during 1970-71 and 1971-72 respectively.

4.37. The Committee were informed that no final decision h been taken in the matter so far. Besically this was due to the fact that in the ultimate analysis, as long as there was need to mobilise larger resources for developmental projects, any lowering of pipeline transport charges would have only resulted in a reduction in prices and reduction in availability of funds to IOC. The latter would have had to be made good probably by increasing the product prices. Apart from following an indirect route the relation of pipeline costs to actual pumping costs would have created several other operational and pricing problems. It had now been decided to remit this problem to the next Pricing Committee. Government would take a final view in the matter in the light of its recommendations.

4.38. The Committee note that Government informed the oil Companies as early as May, 1971 that pending further consideration of the manner of treating the cost of movement of products through the product pipelines for the purpose of reimbursement from the Freight Surcharge Pool, products actually moved through product pipelines would be treated to have been moved by rail by shortest route and adjustments if any, would be made later. The Committee regret to note that so far no final decision has been taken in the matter and Government have now decided to remit the problem to the next Pricing Committee. The Committee find that as a result of the delay in taking the decision the Corporation had been taking credit in tis accounts for the profit made by the Pipelines Division to the extent of Rs. 4.23 crores and Rs. 6.93 crores in 1970-71 and 1971-72 respectively. The Committee would like Government to settle the matter at an early date.

4.39. It was observed that the Corporation was allowed to transport certain quantities of kerosene through its Gauhati-Siliguri products pipeline every month although the demand in the economic supply area was more than the product available at Gauhati. This was done because a parcel of kerosene was required to be introduced between Motor Spirit and HSD for segregation of products to be transported by the pipeline. Government had also simultaneously authorised rail movements of Superior Kerosene from Siliguri (New Jalpaiguri) into Gauhati area to meet the aggregate shortfall of superior kerosene. The details of the quantity available with the

Corporation at Gauhati, movement from Gauhati to Siliguri and the rail movement from New Jalpaiguri to the above mentioned area as authorised by Government during the period from May, 1972 to December, 1972 are tabulated below:—

(Quantity in ,000 M. Ts)

Month	Product available with IOC at Gauhati	Pipeline movemtnt	Rail movement from New Jalpaiguri
May, 1972 .	6·8	3·0	4·5
June, 1972 .	7·3	3·0	7·8
July, 1972 .	7·0	3·0	4·5
August, 1972 . .	8·0	3·0	10·4
September, 1972	6·0	3·0	10·4
October, 1972 . . .	7·0	3·0	5·6
November, 1972 .	9·0	3·6	..
December, 1972	6·0	2·2	2.6
	57·1	23·8	45·8

4.40. The rail freight earned by the Corporation (Pipelines Division) on the quantity of 23,800 M. Ts. transported from May, 1972 to December, 1972 worked out to about Rs. 8,18,720. Similarly on a quantity of about 33,600 M. Ts. of inferior kerosene (the production of which was stopped from May, 1972), transported through Gauhati-Siliguri pipeline during the period from June, 1970 to April, 1972, the Corporation (Pipelines Division) earned a revenue of about Rs. 11,55,840 on account of the rail freight.

4.41. The Management stated in January, 1973 that the procedure of calculation of under-recovery on the movement of Superior Kerosene Oil from Gauhati to Siliguri and again from Jalpaiguri to Gauhati area was in accordance with the directive contained in the Ministry of Petroleum and Chemical's letter No. 1|6|70-PPD dated May 20, 1971.

4.42. It was pointed out that the Government directive quoted by the Corporation dealt with only the reimbursement from freight surcharge pool of railway freight under-recoveries incurred on the movement of surplus products of Gauhati Refinery to Barauni area and would not *ipso facto* cover the to and from movements of kerosene which was deficit in that area.

4.43. The Committee enquired about the views of the Ministry in this regard. They were informed that IOC had been claiming reimbursement from the Freight Surcharge Pool for all movements of Kerosene Oil from New Jalpaiguri to Gauhati area as applicable to the general movement pattern. The movement through the pipeline was separately claimed in line with the policy for movement by pipeline.

4.44. In the past kerosene also moved out of Siliguri to areas in the West. It was only with the growth in the demand for kerosene in the Assam region that the new situation had arisen. The Government had taken note of the changed situation but would like to watch it for a little while longer to assess the changes in demand pattern as a result of equalisation in the prices of kerosene oil and HSD oil. If cross movement of kerosene oil persisted the desirability of disallowing pipeline movement costs would be considered.

4.45. The Committee feel that as the pipeline movement of superior kerosene from Gauhati to Siliguri is resorted to only to suit the operational requirement of IOC's pipelines, the Corporation could have been asked to bear the under-recoveries arising out of the rail movement ex-New Jalpaiguri at least to the extent of the rail freight earned by it by moving the product through pipeline from Gauhati to Siliguri. The Committee desire that Government should expedite their decision in this regard.

D. Recovery of delivery charges

4.46. The price structure from 1st February, 1966 (WGOP and OPC formulae) provides for recovery of retail pump outlet charges in respect of MS and HSD which includes the cost of making free delivery within a round trip distance of 39 km. from the storage points. In respect of road delivery beyond the above distance, the pricing formula envisages recovery of transportation charges at actuals. The road transport is partly done in Corporation's tankers and partly in hired tankers. No separate account has been maintained to seggregate the expenditure on transportation within and outside the free delivery zone and stock-transfers by the Company's transport. In the Western Branch, it was noticed that the average cost of transport of one kilolitre by Company's tankers was 11.7 paise per k.m. during 1971-72, while the cost of transport in hired tankers ranged between 7.25 paise and 9 paise per Kl/km during that year. The Corporation has, however, been charging 18 paise per kl/km in respect of delivery of MS and HSD made beyond the free delivery zone. In the absence of details regarding the quantity moved, the type of tanker used and the rate applicable to each, the excess recovery of delivery charges is not quantifiable.

4.47. The Management informed Audit in June, 1973, that "..:: to have uniform rates in the industry, a flat rate has to be adopted by the various oil companies. Furthermore, the delivery charges not only include the actual cost of transportation but also certain other elements like transportation from different sources, etc. the cost of which cannot be accurately estimated. The concept right from the beginning has, therefore, been to recover the flat charge as per the practice in force at that time...."

4.48. The Committee enquired whether difficulties in maintaing the proper accounts so as to ensure recovery of actual charges instead of flat rate were within the knowledge of the Ministry. They were informed that historically, the Oil Companies had been levying a fixed charge on deliveries made by them to their retail pumps in respect of MS and HSD. This fact had been known to the successive Oil Pricing Committees and to the Ministry as well, but it had not been considered feasible to relate delivery charges to actual costs on account of the fact that the actuals vary not only from location to location but even at the same location from time to time. The maintenance of any very detailed and elaborate accounting system to determine the actual all-India delivery costs by tabulating the local costs of all the regions, would be a colossal task. The levy of a flat rate was therefore, a very much more simplified method, which did away with voluminus and time-consuming calculations.

4.49. Another factor was that the costs even at the same location might not be the same for all the oil companies and this would add another dimension to the problem.

4.50. The Ministry also stated that the overall costs and recoveries would in any case be known to the Oil Pricing Committees, who would then be free to determine the quantum of distribution charges within the overall marketing margins prescribed from time to time. The Oil Pricing Committee had in a number of cases brought down the marketing margins despite an overall increase in costs. This could probably had been possible only as a result of the Oil Pricing Committees taking note of such factors.

4.51. The Committee regret to note that although the prices fixed by the OPC envisaged that recovery of retail pump outlet charges in respec of MS&HSD should include free delivery within a round trip of 39 K.M. from the storage point and actual transportation charges in respect of road delivery beyond the above distance, no records were being maintained by the Corporation to segregate the expenditure on transportation within and outside the free delivery zone and the Corporation has been charging a uniform rate of 18 paise per KL/KM in respect of delivery beyond the free delivery

zone. The Committee were informed that the actual cost of transportation includes other elements which could not be accurately determined and levy of flat rate was as per the practice which had been in force for a long time. The Committee feel that, in case, there were genuine difficulties in maintaing proper accounts so as to ensure recovery of actual charges instead of flat rate, there was hardly any justification for accepting in toto the recommendation of the Oil Price Committee which in the opinion of the Ministry cannot be implemented. They desire that this matter may be considered by the next Oil Pricing Committee to remove the present anomaly.

4.52. The Committee were also informed that the cost of transportation by the Corporation's tankers in some cases was higher than that by hired tankers. The Committee would like that this matter may be gone into in detail and effective action taken to bring down the cost of transportation in Corporation's own tankers.

E. Coastal Movement of Products

4.53. The Corporation commenced coastal movement of products with the commissioning of the Cochin Refinery in September, 1966 and the first chartered tanker was placed at Cochin in October, 1966. The Corporation has since then been chartering both Indian and foreign flag tankers on time charter as well as on trip Charter basis.

4.54. The charter hire paid per hour in respect of different tankers varied as indicated below:—

Sl. No.	Name of the tanker	Month of charter	D.W.T.	Charter hire per hour (Rs.)
1.	Desh Alok	February, 1967	18,730	739
		February, 1971	17,312	1,014
2.	Jag Jawala	November, 1967	16,010	712
		November, 1970	16,600	972
3.	Ampuria	March, 1968	16,445	561
4.	Chanakya Jayanti	March, 1970	21,615	955
		September, 1970	21,615	1,355
5.	Baskar Jayanti	September, 1971	20,036	1,172
6.	ATYS	November, 1970	18,600	1,353
7.	Tohoyo Maru	January, 1791	10,244	801

4.55. The Management informed Audit in June, 1973 that the charter hire per hour depended upon the availability of tankers at a particular time and the terms and conditions offered by the tanker owners. The following factors in respect of the tankers deserved mention:

4.56. Although the tanker 'Desh Alok' was chartered with effect from 1st February, 1967 the charter party agreement was signed only on 8th December, 1969. Clause 24 of the charter party agreement contained warranties in respect of speed and pumping rate of the tanker on the date of delivery and envisaged reduction in the charter hire in case of failure of the tanker to comply with the said warranties. However, in a joint meeting with the owners of the tanker held on 18th June, 1969 the company agreed to make the warranties effective from 1st June, 1969 and to waive its claims in respect of substandard performance upto 31st December, 1968 amounting to Rs. 12.13 lakhs. It also agreed to jointly review the performance of the tanker for the period from 1-1-1969 to 31-5-1969. Claims amounting to Rs. 2.96 lakhs for the sub-standard performance of the tanker during this period were raised by the Corporation against the tanker owners on 20th June, 1973.

4.57. The Committee enquired about the reasons for the delay in finalisation and excution of chater party agreement for the tanker. They were informed that this was mainly due to the following:

(i) *Charter Hire*:—

(1) Originally the fixture was made at Rs. 19.95 per DWT per calender month. Upon the Govt. issuing a notification on 28-7-67 fixing coastal time charter rates for IF tankers at Rs. 31.6889 per DWT per calendar months, SCI sought enhancement of rate. This was contested by IOC both directly with SCI as well as through Ministry of P&C and Ministry of Shipping & Transport. Ultimately a mutually agreed settlement on rate was arrived at in 1968.

(ii) *Specification of the tanker*:—

Prolonged negotiations were involved in finalising the terms relating to speed, bunker consumption, on hire boiler cleaning time etc. and these had resulted in IOC securing more favourable terms from SCI as compared to their initial offer.

(iii) *Option for trading in international waters*:

IOC secured SCI's acceptance for employing the vessel for international trading without any increase in the charter rate as demanded by SCI earlier.

(iv) *General*:

Normally charter arrangements are concluded by exchange of letters of telex covering only the main heads. Details are subsequently negoiated to mutual satisfaction. This involves an unavoidable time factor for executing the charter parties.

According to IOC, in view of the above factors, it could be stated that delay in finalising Desh Alok Charter party had not placed IOC in any disadvantageous position. In fact IOC had secured many advantages as a result of these protracted negotiations.

4.58. The Committee also enquired from the Ministry of Petroleum and Chemicals whether they considered the delay of about 1½ years to finalise the Chart party agreement as justified. They were informed that some delays in the negotiation of charter party terms did take place where a number of commerical aspects had to be considered and mutually agreed upon. Reasonableness of the time factor in such cases would depend upon the relative advantages secured by the companies during negotiations. In the instant case it was stated by the Ministry that the reasons given by IOC for the delay and the advantages obtained, were considered reasonable, keeping in view that IOC was at that time new in the field.

4.59. Besides this was one of the first few tankers which was taken by IOC on a time charter basis and they had naturally to satisfy themselves about the implications of each clause in the charter party agreement and to familiarise themselves with the practices prevalent in respect of such terms with the other companies.

4.60. It was added that the matter of revised time charter rates demanded by S.C.I. was referred by the IOC to the Ministry also on 16-8-1967. The Ministry sought the assistances of Shipping and Transport Ministry at Secretary's level on 26-8-1967. Since however, the revise rate was notified by the Shipping Ministry itself and the same rate was charged by the S.C.I. from Private Oil Companies, IOC had ultimately to accept the revised rates asked for.

4.61. Regarding the waiver of claim for substandard performance by IOC for the period upto 31-12-1968, it was stated that terms of

charter party finalised in respect of tanker Desh Alok were based on similar terms negotiated by S.C.I. earlier from Caltex in respect of other tankers like Desh Deep and Desh Bandhu and contained provisions of performance on almost identical terms as between SCI and Caltex. The SCI had not accepted any claims from Caltex for substandard performance.

4.62. Shipping Corporation had also not agreed to consider any claim whatsoever on this account so long as such losses/recoveries were not quantified in accordance with well defined norms/guidelines in the charter party for preferring claims on owners. Since agreement was reached with the SCI in respect of future compensation for the substandard performance from 1-6-1969 IOC agreed to the waiver of claim upto 31-12-1968, and wanted the SCI to accept the claim at least from the beginning of the year 1969 SCI however had not agreed to consider this, as according to them such claims could be considered only from the date of settlement and not for any earlier period. The matter was, however, being pursued by the IOC with SCI. The norms agreed to for the tanker were being strictly enforced for the period after 1-6-1969.

4.63. According to Ministry, such settlements had necessarily to be made on mutually agreeable basis, and on commercial considerations. The explanations given for the waiver by the IOC was considered reasonable by the Ministry particularly, in view of the fact that the negotiations were held between two public sector corporations.

4.64. The Committee enquired whether the charter party was finalised after taking the legal opinion. They were informed that the charter party in respect of the tanker was based on similar terms as settled by the Shipping Corporation of India earlier with M/s. Caltex in respect of other tankers. Since terms offered by the Shipping Corporation of India were more or less in line with the internationally accepted charter party, formal legal opinion was not considered necessary.

4.65. The Committee regret to note that the tanker Desk Alok was chartered by the Corporation from the Shipping Corporation of India with effect from 1st February, 1967, but the charter party agreement was signed only on 8th December, 1969 i.e. after more than one and a half year of the chartering of the tanker. Although the charter party agreement contained the warranties in respect of speed and pumping rate of the tanker, the Corporation could not enforce its claims for sub-standard performance in the absence of specific

provision of norms/guidelines for quantifying such losses/recoveries. As a result, an agreement was made with the Shipping Corporation of India in June, 1969 whereby the Corporation agreed to forego claims amounting to Rs. 15.09 lakhs for sub-standard performance of the tanker upto 31st May, 1969.

4.66. The Committee also find that the agreement was also finalised by the Corporation without obtaining any legal opinion in the matter. The Committee recommend that the agreements for chartering of ships should be finalised with greater care and in consultation with legal experts to ensure that the interests of the Corporation are fully safeguarded.

The charter party agreements dated 6-11-67 and 12-3-68 for the tankers 'Jag Jwala' and 'Ampuria' did not contain any warranty clause in respect of performance. However, on ground of natural justice the Corporation preferred claims of Rs. 10.40 lakhs (M.T. Jag Jwala) and Rs. 12.26 lakhs approximately (M.T. Ampuria) on account of the substandard performance of these tankers and these were stated to be under arbitration (May, 1973).

4.67. Clause 24 of the charter party agreements dated 5th March, 1970 and 6th September, 1970 in respect of tanker 'M.T. Chankya Jayanti' stipulated that if the vessel failed to comply with its description, charter hire would be reduced to the extent necessary to indemnity charters for such failure. Although the performance of the tanker during the period from 1.4.1970 to 26.12.1970 fell short of the guarantees in respect of speed and pumping, the Corporation did not prefer any claim against the tanker owners. The amount of claims not preferred worked out to Rs 2.21 lakhs. The Corporation stated in January, 1973 that no claims were preferred as there was no provision in the charter party agreement and the Corporation's working was based on statement of facts and did not take into account other factors such as bad weather/shore breakdown.

4.68. The Committee enquired the reasons for not providing warrantly clause in respect of performance of tankers 'JAG JWALA' and 'AMUURIA'. They were informed that as far as Jag Jawala, which was an Indian flag tanker, the time charter rates for its employment for coastal movements were based on the rates recommended by the Government of India which had no reference to their age, performance, etc. During negotiations, M/s. Great Eastern were not agreeable for the introduction of a Warranty Clause in respect of performance. This position was however, rectified later while negotiating the Charter Party in 1970 when IOC's bargaining position was better compared to the position existing in 1967, when the tanker was chartered first.

4.69. Similarly, for tanker Ampuria which is a foreign flag vessel, since the owners did not agree to incorporate any warranty clause

at that time, IOC could not include the provisions in the Charter Party. Moreover, in case of foreign flag vessels by prescribing stringent penalty clause, it was possible that the owners might also increase the charter rate.

4.70. As regards the claims preferred against the two tankers, the Committee were informed that the Corporation's solicitors' opinion was that I.O.C. might be able to substantiate and recover some of these losses from the tanker owners. Therefore, claims in respect of tanker Jagjwala was preferred on 11-9-70 and for Ampuria on 5.7.1969. The Arbitrators had already been appointed and the matter was being pursued through IOC's solicitors in London. However, as the owners of 'Ampuria' had gone into liquation the solicitors expressed the opinion that any hope of recovering the amount of any awarde was thus problematical.

4.71. As regards Chankya Jayanti it was stated that the original chrter of Chankya Jayanti expired on 5.3.1970. Due to adidtional tanker tonnage requirements with Madras Refineries Ltd., already on stream, M/s. Jayanti Shipping Co. (SCI) were requested for continuation of Chankya Jayanti under the charter. SCI however, were reluctant to continue this charter with IOC and it was only after taking up the matter at the highest quarters that SCI agreed for a short period of 6 months.

4.72. Again in September, 1970 SCI were requested to retain this tanker under IOC service. The tanker market at the time was in a State of extreme buoyancy as could be seen by the fact that tanker Atys which was also chartered at about the same time had to be hired at $ 7.00. After taking up this matter at the highest quarters IOC were able to retain this vessel for another year at $ 6.00.

4.73. Considering the then prevailing tanker market position and the fact that SCI were giving this tanker at a more favourable rate as compared to the then prevailing tanker market situation, it was not possible to enforce specific warranties/guarantees in the relevant charter party.

4.74. The Committee enquired whether Government had ensured that such warranty clauses were at least now provided in all Charter agreements entered by I.O.C. They were informed that although IOC had now taken steps to ensure that wherever possible such clearly spelt out guarantee/penalty clauses were incorporated in the charter party agreements, the final outcome of any such negotiations had to be releated to the prevailing marekt conditions at that point

of time. As no standard provisions existed in this regard it could not be prescribed by the charters alone. For the Indian flag vessels the matter was taken up by the Ministry with the Ministry of Shipping & Transport to prescribe standard norms and guarantees of performance alongwith the time charter rates. The Ministry of Shipping & Transport had not however, been able to enforce this and have left this now again to the commercial agreement between the negotiating parties. At present however, charter parties of all tankers in IOC's employ had this clause.

4.75. The table below indicates the loss of charter hire on account of the detention of company's tankers at Cochin due to non-availability of products arising from refinery shut-down, break-down, non-availability of crude oil due to slippage of crude tankers, etc.

Name of the tanker	Total No. of voyages	No. of hours of detention due to non-availability of products arising out of uncontrollable situations.	Controllable hours of detention	Total No. of hours of detention	Incidence of charter hire due to detention. (Rs. in lakhs)
(1)	(2)	(3)	(4)	(5)	(6)
M. T. Desh Alok .	14	264	110	374	2·76
M.T. Jag Jwala . .	18	163	125	288	2·08
M. T. Ampuria . . .	20	32	126	158	0·89

Regarding detention of tankers as mentioned in Col. 4 above, the management informed Audit in February, 1971 as follows:—

> ".... although there has been stoppage of loading operation to tankers during these hours, this has not .... resulted in any actual loss of time due to the following reasons:
>
> ...... Tankers sail out after loading only at a pre-determined hour during the day depending on the tide conditions and timings
>
> ......even if the tanker loadings were not stopped in between the tankers would have in any case to wait for the tide."

4.76. The Committee enquired whether the agreement with Cochin Refineries Ltd., did not provide for the recovery losses of hire charges on account of detention. They were informed that the agreement with CRL laid down the procedure for acceptance and loading of tankers on IOC account. Among other things it provided that IOC indicate their lifting schedules by the 15th of the previous month, and the tanker nominations should be within the spread of two days on either side of the expected arrival date.

4.77. With the present difficult port situation in the country, and as the performance of the Indian Flag Vessels on which IOC was dependent for transportation, was not quite satisfactory due to age and other factors of deficiencies, it would not be possible for IOC to nominate firm schedule by the 15th of the previous month, and also adherence to the arrival dates within a spread of two days on either side. Since IOC could not give a guarantee on arrival schedules, failure of which could possibly invoke CRL levying ullage charges including claim for reduced crude runs, if any, arising from ullage difficulties, it was not in a position to stipulate a clause for recovery of hire for detention period of non-availabiilty of stock. The absence of provision for recovery of hire for detention period had, therefore, to be viewed in conjunction with the difficulties in positioning the tanker according to schedule.

4.78. The Committee regret to note that the charter party agreements for the tankers 'Jag Jwala' and 'Ampuria' chartered by IOC did not contain any warranty clause resulting in an avoidable loss amounting to Rs. 22.68 lakhs to the Corporation on account of sub-standard performance of the tankers. The Committee have elsewhere commented about the sub-standard performance of another tanker 'Desh Alok'.

4.79. The Committee also regret that the Corporation also suffered loss of charter hire on account of the detention of company's tankers at Cochin to the extent of Rs. 5.73 lakhs as the agreement with Cochin Refineries Limited did not provide for the recovery of such losses. According to IOC the absence of provision for recovery of hire for detention period has to be viewed in conjunction with the difficulties in positioning the tanker according to schedule. The Committee do not consider these difficulties to be unsurmountable. They would urge that measures should be taken by the Corporation with a view to improving the situation to avoid the loss of charter hire.

V

PRICING POLICY AND POOL ACCOUNTS

A. Pricing Policy

5.1. Prior to June, 1970, the ports were the main pricing points for the sale of petroleum products. This resulted in substantial under recoveries to the oil companies on account of railway freight, port price differential and coastal movement. This aspects was considered by the Committee on Public Undertakings in their 35th Report (March, 1967) and the Committtee observed as followed:—

> "The three inland refineries will produce more than 7 million tonnes of products every year and it would be quite anomalous not to treat them as pricing points. How this should be done with reference to other Refineries and to imports is a matter which has to be worked out by Government.

5.2. Another Committee known as the Oil Price Committee which was appointed by Government on 14th June, 1968 recommended in October, 1969 that besides the continuation of the principle of import parity in the determination of prices of petroleum products, the inland refineries at Noonmati, Barauni and Koyali be made additional pricing points. This recommendation was *inter alia* accepted by Government (May 1970) and made applicable from 1st June, 1970. As a result, the prices of petroleum products at these refineries are the same as at the nearest main port and freight is charged at actual rates from the inland refinery from which supply is made and not notionally from the main port nearest to the consumption point.

5.3. Besides, making the inland refineries as pricing points in addition to the ports, various surcharges have also been levied on petroleum products to compensate the oil companies for specific under-recoveries as detailed below.

B. Freight Surcharge Pool Scheme

5.4. On the basis of the estimates furnished by the Corporation, the Oil Price Committee estimated that even after making the

inland refineries as the additional pricing points, the net under-recoveries of the industry on account of rail freight, port price differential and coastal movement, would amount to Rs. 1439 lakhs, Rs. 1,315 lakhs and Rs. 1.319 lakhs during the years 1970, 1971 and 1972, the Corporation's share being Rs. 1,161 lakhs, Rs. 1,100 lakhs and Rs. 1,055 lakhs respectively. The Committee, therefore, recommended the levy of a surcharge on the total consumption of major fuel products on a budgeted basis and the oil companies were to be compensated for their net-under-recoveries out of the proceeds of this surcharge. The Committee estimated the surcharge at Rs. 7.05 per Kl. based on the Corporation's estimate.

5.5. While considering the above recommendations it was discovered by Government that the calculations furnished by the Corporation to the Oil Price Committee did not include the following elements:—

(i) 'Under-recovery' on account of import wharfage charges on the products moved off shore from the private sector coastal refineries at Bombay and Vizag.

(ii) 'Under-recovery' in the movement of aviation fuels.

(iii) Statutory levy in moving the products to Calcutta *viz.*, the K.G. Docks. Besides, the coastal freight rates had also started increasing after the submission of the OPC Report.

5.6. Accordingly, a surcharge of Rs. 10 per Kl. (instead of Rs. 7.05 per Kl.) was levied on a provisional basis, with effect from 1st June, 1970 on the sale of all bulk refined products and Naphtha (excluding Aviation Gasoline and Bitumen of all grades, Lubricants and Greases). The surcharge was also made applicable to bitumen sales with effect from 1st July, 1970.

5.7. Government announced in June, 1970 a scheme for the operation of freight surcharge pool under which all the oil companies were required to deposit the surcharge into "Freight Surcharge Pool Account" to be opened in the State Bank of India, Bombay. Separate "freight Surcharge Pool Account" was also required to be maintained for collection and reimbursement of under-recoveries in respect of Naphtha. The detailed rules for the operation of this account, the procedure to be adopted for withdrawals from it and the manner in which the balance remaining in the freight surcharge pool account was to be disposed of were to be framed by the Ministry of Petroleum and Chemicals later on.

(i) The surcharge collected was not found sufficient to cover the under-recoveries because of:

(a) certain deviations in the movement pattern due to changes in the production of MS and Naphtha; and

(b) increase in the rates of railway freight and charter hire.

5.8. Government, therefore, revised the surcharge rate from Rs. 10 to Rs. 15 per Kl. with effect from 28th May, 1971. Based on the provisional accounts of surcharge pool, it was seen that the pool started showing surplus from September, 1971 in respect of formula products (other than Naphtha) and from the beginning in respect of Nephtha.

5.9. Pending Ministry's clearance of *inter-se* agreement between the oil companies, the individual oil companies were keeping the surplus with them. On receipt of Ministry's approval (10th April, 1972) the companies deposited on 26th April, 1972 a sum of Rs. 643.97 lakhs in two separate bank accounts for (a) formula products other than Naphtha and (b) Naphtha as shown below:—

(Rs. in lakhs)

Name of Company	Formula products	Nephtha	Total
IOC	302·00	86·00	388·00
Burmah-Shell	69·33	28·64	97·97
ESSO	66·00	30·00	96·00
Caltex	38·00	19·00	57·00
AOC	5·00	..	5·00
	480·33	163·64	643·97

NOTE—Figures are provisional and subject to audit Chartered Accountants appointed by respective Companies.

5.10. The delay in finalisation of the agreement has thus resulted in interest free use of surplus funds by oil companies up to 26th April, 1972.

5.11. The surplus in the pool continued to accumulate and the cumulative position of freight surcharge pool accounts as on 31st March, 1973 was as under:

A. Products other than Naphtha

(Rs. in lakhs).

M. Company	Surcharge collection	Under recoveries	Surplus Deficit before inter-Company deposits	Surplus/deficit after inter-Company deposits	Surplus actually deposited in Bank Account as on 31-3-1973
I.O.C.	4088	3938	(+) 150	(+) 683	728
Burmah Shell	1536	1010	(+) 526	(+) 264	246
Esso	872	591	(+) 281	(+) 91	92
Caltex	483	240	(+) 243	(+) 103	102
AOC	145	133	(+) 12	(+) 78	69
Deposit adjustment		..	..	(—) 7	..
TOTAL	7124	5912	1212	1212	1237
B. NAPHTHA					
I.O.C.	250	233	(+) 17	(+) 13	56
Burmah Shell	106	54	(+) 52	(+) 52	53
Esso	57	10	(+) 47	(+) 51	51
Caltex	28	..	(+) 28	(+) 28	27
A.O.C.	..	..	..	..	..
TOTAL :	441	297	(+)144	(+) 144	187

5.12. The difference between balance of surplus and the amount deposited based on estimates was subsequently adjusted while arranging deposits in the subsequent months.

5.13. As no decision had been taken by Government regarding the utilisation of surplus lying in the two accounts, an amount of Rs. 11.03 crores remained in a current account upto April-May, 1973 on which no interest accrues. At the suggestion of the Corporation in April, 1972, the Government asked the Corporation (April, 1973) to invest the surplus funds in fixed deposit. A sum of Rs. 14 crores had accordingly been placed (April-May, 1973) by the Company in fixed deposit with the State Bank of India. As on

30-6-1973 the following amounts were transferred to fixed deposit account from the surplus build up of funds in the current accounts:

Products other than Naphtha . .	Rs. 15 crores
Naphtha	Rs. 1 crore

5.14. The Committee enquired as to why the rules for the operation of the freight surcharge pool account could not be finalised immediately after the scheme was introduced in June, 1970. They were informed that instructions relating to the F.S.P. scheme were issued on 4-6-1970. The detailed mechanism for the operation of this account and the procedure to be adopted for withdrawals therefrom was to be intimated later. After consulting the Ministry of Finance, it was decided that the Bank Account will be jointly in the name of the concerned oil companies, but should be operated by I.O.C.

5.15. On 8-9-1970, IOC was requested to prepare a suitable draft agreement in consultation with their solicitors which could be executed by all the concerned oil companies. On 9-11-1970, interim copies of the draft *inter-se* Agreement to be made between the oil companies and the draft letter of instructions to be issued jointly by the oil companies were received. Finalised drafts were received from IOC on 12-12-1970. The matter was examined further in consultation with the Ministry of Law, Ministry of Finance (Department of Expenditure), Cost Accounts Branch and Department of Economic Affairs and could be finalised only in April, 1972. As this was a new and complicated matter finalisation of details took so much time.

5.16. The Ministry also stated that while the delay in the issue of final instructions did leave temporarily some surplus funds with the oil companies, these very oil companies were, for quite some time, running a large deficit under the FSP account. This deficit could only be progressively wiped out after the surcharge on account of FSP had been increased. If an overall view was taken of the debits incurred by the oil companies intially as also the small surplus that they kept with them for a few months, it might probably be concluded that there had been no adventitious gain on this account to the oil companies.

5.17. Further, not only in FSP, in several other accounts as well, debits and credits inherently appear from time to time and there is invariably a time-lag which has resulted in the oil companies either having debit balances or credit balances from time to time. In this particular case, for instance, even though the scheme

was introduced in June, 1970, the debit balance continued for well over a year and the benefit of surplus was available over a relatively smaller period only.

5.18. The Committee also enquired about the loss of interest sufferred in keeping the surplus amount in a current account till April-May, 1972. They were informed by the Ministry that IOC had indicated the possible interest earnings on this money upto April-May, 1973 to be around Rs. 62 lakhs. It has, however, pointed out that the money remained all the time with the State Bank of India and no oil company derived any benefit out of its non-depositing in a fixed deposit account.

5.19. As regards the reasons for delay in taking a final decision regarding the disposal of the surplus amounts, the Ministry stated that the normal procedure followed by the Ministry in respect of such accounts was that the rate of surcharge was revised periodically with a view to ensure that there was no surplus or deficit in the account in the long run. In case the account showed a deficit, the rate of surcharge was increased. If there was a surplus, the rate of surcharge was suitably reduced. No such step had, however, been taken in respect of this account for various reasons. For some time the possibility of reimbursing to IOC and other oil companies for their large and growing under recoveries of sales tax in the States of Tamil Nadu and Kerala from this account was examined. Later, however, this idea was given up and a separate scheme for reimbursing the oil companies on such under-recoveries was drawn up. Subsequently, however, it was decided that additional crude oil tankage at coastal refineries should be financed from these readily available funds in the pool. Consideration of all these matters inevitably took some time.

5.20. It also came to the notice of the Committee that Government had advanced a loan of Rs. 7 crores to Calcutta Port Authority out of Freight Surcharge Pool Account. The Committee enquired during evidence as to how far the Ministry was justified in giving a loan to Calcutta Port Authority out of Freight Surcharge Pool Funds. The representative of the Ministry stated that the Calcutta Port Authority was lagging behind its programme for dredging. As a result they were unable to bring crude oil for Barauni Refinery to the full extent. Even though a tanker could carry 30,000 tonnes it was compelled to carry only 15,000 to 16,000 tonnes. The Government had a very difficult ways and means position and was looking for some means by which the Calcutta Port Authority, during the current financial year, could get over this

position. In consultation with the Ministries of Finance, Shipping and Transport and Petroleum and Chemicals it was agreed that a loan out of the surplus funds available in the State Bank with Freight Surcharge Pool Account could be given to Calcutta Port Authority to be returned by them as soon as fresh funds were voted for them. It was a very temporary loan. It was added that in the absence of dredging, the cost of bringing in crude would have been very high and this cost would have had to be adjusted to the F.S.P. Account. Therefore, it was thought that this was a related matter and advance from the F.S.P. would be justified in the overall interest.

5.21. The Committee find that the Freight Surcharge Pool Account was created by levying a surcharge on the petroleum products with effect from 1st June, 1970. They, however, regret to note that instead of finalising the rules for the operation of the account immediately after the scheme was introduced, it took the Government about two years to frame the detailed rules for the operation of the account and the procedure to be adopted for withdrawals therefrom. Pending Ministry's clearance of inter-se **agreement between the oil companies, the individual oil companies were allowed to keep the surplus with them and it was only after the Ministry's approval was given on 10th April, 1972 that the Companies deposited in the bank in April, 1972 a sum of Rs. 6.44 crores. The Committee regret to point out that the delay in the finalisation of the** inter-se **agreement resulted in an interest free use of the surplus fund by the oil companies till April, 1972. The Committee are surprised to find that even after this, Government could not take a decision regarding utilisation of the surplus fund till April-May, 1973 upto which a sum of Rs. 11.03 crores remained in current account with State Bank of India resulting in loss of interest to the extent of Rs. 62 lakhs.**

5.22. The Committee find that as on 30th June, 1973, an amount of Rs. 16 crores was lying in the fixed deposit in respect of this account. The Committee desire that the Government should undertake a review of the Freight Surcharge Pool Account and consider the feasibility of revising the surcharge suitably in view of the continuing surplus in the Pool Account.

5.23. The Committee find that a sum of Rs. **7 crores had been advanced as loan to the Calcutta Port Authority to provide funds for dredging operations. The Committee feel that funds for such purposes should have appropriately been found from the annual**

budget of the Port Trust Authorities with proper financial sanction and the Freight Surcharge Pool Account should not have been utilised for tiding over temporarily the ways and means position of Government. The Committee would like to be informed whether the temporary loan of Rs. 7 crores has since been recovered in full.

C. C. and F. (Cost and Freight) Adjustment Account

5.24. In order to provide for the effect of fluctuation in freight or wharfage, with reference to the rates ruling on certain dates, an account styled C&F Adjustment Account was operated by all the oil companies. The Oil Prices Committee in their Report of October, 1969 also recommended that the pricing of petroleum products should continue to be based on 'import parity' with continued maintenance of C&F Adjustment Account by all oil companies. From May, 1971, a sum of Rs. 12 per/Kl. on bulk refined products, Rs. 12 per metric tonne in respect of bitumen and Rs. 18 per metric tonne in respect of naphtha were provided for in the price structure for credit to the C&F Adjustment Account. Although, initially adjustment of FOB cost could be made against this Account, such adjustment was not permissible from February, 1966 to May, 1970, after which it has been revived. The other item qualifying for adjustment against this Account at present is additional non-recoverable duty excluding devaluation duty on coastal bunkers paid to Customs/Excise authorities and in respect of which refund cannot be obtained due to practical difficulties. For adjustment of any other item, specific approval of the Government is required.

5.25. Each Oil company has been maintaining C&F Adjustment Account separately. Inter-company cash settlement has to be made on the basis of quarterly account audited by the auditor appointed by respective companies for this purpose.

5.26. According to the information given by IOC in August, 1973 the C&F Adjustment Account was expected to show a deficit of Rs. 10.69 crores as on 31-12-1973 on industry basis. The company-wise position was as under:—

Company	Rs./crores
IOC	(10.46)
Burmah Shell	1·30
Esso	0·33
Caltex	(1·48)
AOC	3·38
TOTAL :	(10·69)

NOTE. Brackets indicate the amount due to the company.

According to IOC, this deficit was expected to increase substantially in 1974 if the current rate of C&F Surcharge was not increased.

5.27. Government have also authorised adjustment of certain items of expenditure beyond the control of refining and marketing companies affecting their economies, some of which are mentioned below:—

(i) Regulatory custom duty on import of crude oil from 13th December, 1971.

(ii) Loss suffered by IOC due to non-recovery of Octroi duty at Okha which was initially credited to C&F Adjustment account on the basis of amounts billed to the customers.

(iii) Devaluation duty on imports actually paid by IOC from June, 1970 to May, 1972 on the import of deficit petroleum products (except Aviation Gas).

(iv) Variation in the cost of steel plates for bitumen drums from 1st June, 1970.

(v) Under-recovery in the sale of kerosene tins by IOC from 1st January, 1969.

(vi) Higher freight paid by Madras Refineries Limited on the import of crude to Madras as a result of delay in the completion of adequate port facilities to receive large size tankers at Madras (Rs. 4.23 crores).

5.28. As regards the reasons for allowing the adjustment of the above items of expenditure from C&F Adjustment Account, the Committee were informed that Government of India fixed new ceiling selling prices of petroleum products with effect from 1-6-70, based on the recommendations of Shantilal Shah Committee Report. While working out the new ceiling selling prices, it was ensured that the margins as fixed by the Committee are available to the Marketing Companies on sale of bulk refined formula products. In course of time certain levies costs were incurred by the companies which were not included in the margins fixed by the Government or in the cost of product allowed in the price fixation. On consideration of each such item of cost, which amounted to under recovery in terms of price fixation, Government issued orders from

time to time allowing such adjustments in the C&F Adjustment Account.

5.29. As regards payment of large amount (Rs. 4.23 crores) to Madras Refineries Ltd, the Committee were informed that when the site selection for the Madras Refineries was being examined, there were two proposals; one for constructing an off-shore terminal for unloading crude from large sized tankers and the other to develop Madras Port facilities starting with an initial draught of 35 feet to be developed into 45 feet draught by the time refinery was commissioned. Although the foreign collaborators preferred the first alternative, Government ultimately prevailed upon them to drop the first alternative and to allow the Madras Port to develop the required facilities so that by the time the refinery was ready, the port would have completed the required facilities. The Government of India also simultaneously arranged with the Shipping Corporation of India for the procurement of large size tankers for the transportation of crude for Madras Refinery, the contract rate being fixed at Rs. 11.85 M.T. Since, However, the port facilities could not be completed by Madras Port authorities in time, Madras Refineries Ltd., could not avail of this arrangement. The continuously shifting dates of completion of the port facilities indicated by the Madras Port authorities from time to time seriously affected the refinery's capability to embark upon any long term chartering of vessels with draughts of 32' to 40'. During 6 years the port authorities shofted the completion date on at least 16 occasions. The actual average freight on crude transportation during three years was as under:—

1969-70	Rs. 25 per MT
1970-71	Rs. 39 per MT
1971-72	Rs. 25 per MT

5.30. As against the contract rate of Rs. 11.85 per M.T. the loss to Madras Refineries Ltd upto 1971-72 due to non-availability of the proposed new jetty and consequent inability to receive SCI's tankers was about Rs. 12.27 crores. This had adversely affected the profitability of MRL for reasons beyond its control. Accordingly, it was decided to give relief to MRL of the difference between the freight actually paid on imports crude oil from February, 1969 to 31st December, 1972 and the freight on a notional basis as per INTASCALE/WORDSCALE adjusted to monthly AFRA (Average Freight Rate Assessment) applicable to MR vessels. The difference worked out to about Rs. 4.23 crores. This decision was taken with

the approval of the Ministry of Finance. The outer harbour at Madras was inaugurated on 4-2-1973.

5.31. The Committee find that the main object of creating the C & F Adjustment Account was to provide for the effect of fluctuations in the freight or wharfage with reference to the rates ruling on certain dates. They, however, regret to note that the funds collected for this 'Account' through the levy of surcharge on petroleum products have been utilised for some purposes which cannot be said to be strictly falling within the scope of the Account. Thus, a sum of Rs. 4.23 crores was paid to Madras Refineries Limited out of this Account because of higher freight paid by the Refinery on the import of crude due to the delay in the development of Madras Port facilities. The Committee see no justification for Government taking recourse to the C & F Adjustment Account for compensating the Madras Refineries with the difference in freight for reasons other than those for which the Account was established. The Committee desire that detailed rules should be drawn up without further delay specifying the nature of the items which would qualify for adjustment out of the C & F Adjustment Account and a copy thereof laid on the table of the Houses of Parliament.

D. Development of Port Facilities

5.32. The Committee were informed that a Study Group was set up by IOC in October, 1971 to suggest measures both short term as well as long term to improve the tanker handling facilities based on the expected volume of traffic at various ports between 1972 and 1979. The Study Group while making their recommendation for the development of tanker handling facilities pointed out inter alia that the IOC had incurred heavy demurrage on detention of import and coastal product tankers due to inadequate tanker handling facilities. During 1970-71, the revenue earned by all the ports by way of oil traffic amounted to approximately Rs. 1165 lakhs and the demurrage incurred by IOC alone was to the extent of Rs. 134 lakhs. This only proved that the facilities at the ports were inadequate and the development of the port facilities were not at all keeping pace with the increased volume of traffic and bore no relationship with the revenue earned from oil trade.

5.33. When asked about the action taken by Government on the recommendations of the Study Group, the Committee were informed that after the Report of the Study Group was received by the Ministry of Petroleum and Chemicals in May, 1972, the matter was taken up with Ministry of Shipping and Transport on 2-6-1972

who in turn circulated the Report to all the Port Trust Authorities. It was stated that the various Port Trust Authorities after due consideration of the recommendations made in the Report agreed in principle to implement a majority of them. In respect of a few recommendations which had not been accepted as in the case of Bombay and Kandla Port Trusts, the Ministry had been pursuing the matter further with the Ministry of Shipping and Transport. In the meanwhile, IOC was permitted to recoup losses due to demurrage which could be clearly ascribed to limitations of port facilities from C & F Adjustment Account.

5.34. The Committee were also informed that the Ministry of Shipping and Transport had separately submitted proposals to the Planning Commission after taking into account the views of the Ministry of Petroleum and Chemicals.

5.35. The Committee regret to note that the development of port facilities has not kept pace with the increasing volume of oil traffic The delay in the completion of adequate port facilities to receive large size tankers at Madras Port resulted in heavy loss of over Rs. 4 crores to Madras Refineries Ltd., which had to be compensated by Government from the C & F Adjustment Account. The Committee also find that IOC had also to bear a heavy incidence of demurrage to the extent of Rs. 1.34 crores on detention of tankers due to inadequate tanker handling facilities at the ports.

5.36. The Committee were informed that a Study Group set up by the IOC in October, 1971, to suggest both short term and long term measures to improve the tanker handling facilities based on the expected volume of traffic between 1972-79, had submitted its report to Government in May, 1972 and the report is now under the consideration of Planning Commission Government. The Committee understand that in the meantime the IOC had been permitted to recoup the losses due to demurrage which could be clearly attributed to limitation of port facilities from C & F Adjustment Account. As the C & F Adjustment Account has been created out of specific surcharge provided in the price structure for petroleum products, in the ultimately analysis this means increased burden on the consumers of petroleum products.

The Committee, therefore, recommend that Government should in the light of the recommendations of the Study Group of IOC, take concerted measures for the expeditious development of the ports and the tanker handling facilities to cope with the projected volume to traffic to be handled at each port during the Fifth Five Year

Plan. **The Committee would like to be informed of the concerted measures taken in this behalf to reduce, if not, eliminate the burden of demurrage charges paid on tankers for want of adequate handling facilities at ports.**

5.37. Besides Freight Surcharge Pool Scheme and C. & F. (Cost and Freight Adjustment Account) some of the other schemes/accounts operated by the Oil Companies are as follows:—

E. Central Sales Tax Surcharge Scheme

5.38. With a view to compensating the oil companies for losses incurred by them due to under recovery of Central Sales Tax on inter-company transactions treated as sales by some of the State Governments, Government introduced a 'Central Sales Tax Surcharge Scheme' in West Bengal and Bihar (November, 1967), Uttar Pradesh (January, 1968) and Gujarat (March, 1968). Under the Scheme all the Oil companies are allowed to recover surcharge on the sale of specified products in these States. The surcharge so collected is pooled and distributed among the oil companies in proportion to their respective under-recoveries of Central Sales Tax. As on 31st March, 1973, there was a net surplus of Rs. 52.97 lakhs in the pool accounts.

F. Aviation Fuels Furnace Oil Adjustment Account

5.39. While revising the ceiling selling prices of petroleum products with effect from 1st June, 1970 based on the recommendations of OPC, Government decided that the basic ceiling selling prices of aviation gasoline of all grades and ATF would continue to remain at the same level as on 1st May, 1970 except for variations authorised by it. The consequent under-realisation in respect of ATF was met by levy of a surcharge of Rs. 6.97 per kl. on the price of Furnace Oil. No such levy was, however, introduced to cover the under recoveries arising from the sale of aviation gasoline of all grades. Subsequently, when the ceiling selling price of petroleum products were further revised with effect from 28th May, 1971, Government restricted the increase in selling prices of aviation gasoline of all grades and ATF to Rs. 30 per Kl. but increased the furnace oil surcharge to Rs. 10.30 per Kl. It was also decided that separate account should be maintained in respect of surcharge collections on furnace oil from 1st June, 1970 and under-recoveries incurred by each marketing company from 1st June, 1970 in respect of ATF and from 28th May, 1971 in respect of aviation gasoline so that under-recoveries incurred on sale of ATF fully and aviation gasoline of all grades partly were compensated. The Corporation formulated

the working procedure for operation of the pool account in consultation with other oil companies and the same was approved by Government in August, 1972. Government also decided in July, 1972 to compensate the oil companies fully with effect from 1st January, 1972 for under-recoveries suffered by them on account of restricting the selling price of aviation gasoline of all grades to the level prevailing on 1st May, 1970. The position of ATF/AV—Gas and FO price adjustment pool as on 31-3-1973 was as given below:

			(Rs. in lacs)	
		1-6-70 to 31-12-72	1-1-73 to 31-3-73 as per unaudited figures	Total 1-6-70 to 31-3-73
1	Surcharge Recoveries of FO Sales .	594·11	92·70	686·81
2	Under-recovery on ATF sales .	498·61	54·80	553·41
3	Under-recoveries on AV Gas sales (28-5-71 onwards)	72·17	13·93	86·10
4	Net over recovery made on IOC sales (1-2-3)	23·33	23·97	47·30
5	Add ten inter company cash settlement to pass over surplus held by each oil company in the proportion of ATF sales			19.44
	Total surplus, as on 31-3-73 lying with IOC			66·74

G. Tamil Nadu and Kerala Surcharge Schemes

5.40. (i) *Tamil Nadu*:—All petroleum products issued by Madras Refineries Limited to the Company attracted local sales tax with effect from 9th December, 1969 which the State Government agreed to levy at a concessional rate of 3 per cent. As the products transferred outside Tamil Nadu attracted the sales tax of the States in which they were ultimately sold, the Company was not able to recover the tax paid to Government of Tamil Nadu from other oil companies or its customers in addition to the sales tax applicable in the respective States. The incidence of under-recovery on this account during the period from 9th December, 1969 to 31st March, 1972 was as under:—

1969—70	Rs. 34.79 lakhs
1970—71 . . .	Rs. 91·64 lakhs
1971—72	Rs. 128·90 lakhs

In order to re-imburse the under-recoveries incurred from 9th December, 1969 onwards Government increased the basic ceiling selling prices of specified petroleum products with effect from 10th May, 1972 in respect of sales within the State of Tamil Nadu. As on 31-3-1973, the IOC's cumulative balance of under-recovery on account of irrecoverable Tamil Nadu Sales Tax reimbursed from Surcharge Pool amounted to Rs. 122.23 lakhs as on 31-3-1973.

(ii) *Kerala:*—A purchase tax was levied by the State Government on all products moving outside the State of Kerala with effect from 1st April, 1970 similar to the rate of sales tax payable on sales made within Kerala State. As a result of a representation by the oil companies the State Government agreed to levy a concessional rate of 3 per cent on stock transfers of petroleum products. Accordingly, the Corporation paid Rs. 87.51 lakhs for the year 1970-71 and Rs. 98.58 lakhs for the year 1971-72 towards Kerala purchase tax. As this was not recoverable from the customers in other States in addition to the local sales tax, Government increased with effect from 10th May, 1972 the basic ceiling selling prices of specified petroleum products by levy of surcharge at specified rates, in respect of sales within the State of Kerala. As on 31-3-73, all the past recoveries had been wiped out. IOC was having a surplus of Rs. 3.43 lakhs which had been passed over to other oil companies who were still having deficit.

5.41. The Committee enquired about the control exercised by the Ministry in regard to various Pool Accounts/Surcharge Schemes and whether these should not be brought within the Public Accounts. They were informed that the accounts/scheme had traditionally been maintained/operated by the oil companies under the informal pricing arrangements. Any surplus/deficit in the particular account was periodically adjusted by reduction/increase in the rates of relevent Surcharge by the Ministry. In the long run efforts were made to keep these accounts in balance. In the case of these schemes, except the Freight Surcharge Pool Account, the position of which was different, there were no separate funds as such. Those were purely accounting arrangements. This arrangement had so far been working satisfactorily and consequently it had been possible to administer these accounts without putting them through any Public Accounting arrangements. The question of depositing the funds in the Freight Surcharge Pool with Government was under examination separately in consultation with the Ministry of Finance. It would however be desirable to ensure that rigidity in the operation of this pool account was eliminated so that the distribution arrangements and the commercial working of

the oil companies proceeded smoothly and there was no breakdown in the supply arrangements. According to the Ministry, it would be appreciated that with severe limitation on overall resources, several decisions had to be taken and reviewed, in the course of the changing circumstances, often on a day-to-day basis, to maintain essential supplies. If detailed procedures had to be followed before doing so, there could be avoidable disruptions in the supply line.

5.42. The Committee were also informed that the procedures for the maintenance of these accounts were finalised in consultation with the Cost Accounts Branch and with the concurrence of the Ministry of Finance. The oil companies had to maintain the accounts directly on the basis of the procedures prescribed by this Ministry. In respect of each account detailed instructions for its maintenance were issued by the Ministry.

5.43. The oil companies submitted quarterly audited statements in respect of the accounts to the Ministry. These accounts were scrutinised by the Ministry in consultation with the Cost Accounts Branch. If any debits/credits in the accounts were detected to be not in line with the instructions/authorisation issued by the Ministry, then the claims of the oil companies were rejected. The funds in the Freight surcharge pool were credited to the accounts of the funds in the Bank and could not be withdrawn for any other purposes except with the prior specific authorisation of the Government.

5.44. The Committee also enquired whether the ararngement for the audit of these accounts were satisfactory. They were informed that auditing of the accounts prior to submission to the Ministry was done by the Company's authorised auditors. This arrangement had been working satisfactorily. An Auditor was also appointed for the detailed check of the Accounts of the oil companies under the Freight Surcharge Pool in June, 1973 which submitted two reports, These were under consideration.

5.45. The Committee were also informed that the Ministry had appointed on 4th September, 1973 an inter-Ministerial Committee of officials to examine the existing pool accounts of oil Companies like C&F Adjustment Account, Freight Surcharge Pool Account etc. with a view to see whether the existing mechanism was adequate and to ensure that the said accounts prepared by the oil companies were in accordance with the instructions issued by Government from time to time. That Committee was also to consider the possibility of bringing all these accounts under the Consolidated Fund of India. The Office Memorandum issued by the Ministry in this connection giving the personnel and terms of reference of the

Committee is given in Appendix III. That Committee was to submit its report within a period of three months. It had however, not yet been received.

5.46. The Committee were also informed by the Ministry that it had been decided to refer the overall question covering all the aspects of the various accounts to the next Pricing Committee, which would be set up shortly.

5.47. The Committee find that Government have levied various surcharges of petroleum products to compensate the oil companies for specific under-recoveries. However, the amount collected under the various schemes formed part of neither the Consolidated Fund of India nor the Public Account. Except in the case of Freight Surcharge Pool, the amounts collected by the levy of these surcharges formed part of the overall funds of the oil companies. There was also hardly any effective control exercised by Government on the utilisation of funds in the various pool accounts. The oil companies were required to submit accounts to the Ministry audited by their own private chartered accountants. There was no regular auditing of these accounts either by the C&AG or any other auditor appointed by the Government. It was only in June, 1973, that the Ministry appointed an auditor to check up the accounts of the oil companies in respect of Freight Surcharge Pool. It was again only in September, 1973, i.e. after the Committee had taken up the examination of I.O.C. that the Ministry appointed an inter-ministerial Committee to examine inter-alia the legal position of these large funds, to frame guidelines for the maintenance of the accounts, to recommend the method/mechanism of control to be exercised by Government and to consider the feasibility of bringing all these accounts under the Consolidated Fund of India. It is surprising that the Ministry thought of examining all these aspects only at this late stage rather than at the time of taking the decision to introduce the various schemes.

5.48. The Committee also find that the inter-ministerial Committee which was to submit its report by 4th December, 1973 has not yet done so. In the meantime, the Ministry had also decided to refer the overall question covering all aspects of the various accounts to the next Pricing Committee. The Committee desire that Government should examine whether there was need for the levy of the various surchages on petroleum products to compensate the oil companies for specific under-recoveries and to maintain the various pool accounts/surcharge schemes, thereby increasing the burden on ultimate consumer and making the pricing formula more

complicated. In case, these were considered inevitable, suitable measures should be taken for an effective control over the funds collected under the various schemes and for the maintenance of proper accounts and audit thereof in consultation with the C&AG in the light of the recommendations of the inter-ministerial Committee and the Oiling Pricing Committee.

H. Pricing of Lubricants, Greases and Specialities

5.49. On account of difficulty in evolving a pricing formula for multiplicity of lubricants, greases and specialities falling in two groups (a) lubricants and greases and (b) specialities, the Oil Prices Enquiry Committee (OPEC) had recommended (June, 1961) a system of (Block Control) on marketing and distribution charges and profits per unit of different products falling in each group. The oil companies were permitted to fix the prices of individual products under each group in such a manner that after meeting the actual cost of materials, blending charges and packaging and filling charges, the balance left for all the products under any one group did not exceed the distribution and profit margin per unit permitted by the Committee. The excess realisation made by oil companies, over and above the permissible marketing and distribution charges, group-wise, was to be adjusted suitably through reduction in prices in future years or mopped up by imposition of non-recoverable duties by Government. The WGOP recommended (August, 1965) the continuation of 'Block Control' system. As the oil companies failed to make voluntary reductions in prices as and when these were called for, Government levied additional (non-recoverable) excise duties on these products from time to time.

5.50 The OPC recomended (October, 1969) the continuation of 'Block Control' system except in respect of "Specialities" which was accepted by Government with effect from 1st June 1970. The cumulative super profits made by the Company up to 1970-71 amounted to Rs. 1,390.82 lakhs against which the Company paid non-recoverable duty amounting to Rs. 1,103.05 lakhs leaving a net credit balance of Rs. 287.77 lakhs. The Company has stated (June, 1973) that the transactions for 1971-72 resulted not only in wiping off the accumulated super profits of Rs. 287.77 lakhs but also in a further loss of Rs. 231.08 lakhs.

5.51 In October, 1969 the Corporation took up the question with Government to review the entire scheme of pricing of lubricants, greases and specialities. Again in March, 1972 the Corporation represented to Government that as the intention of the scheme was to mop up only the super profit made by other oil companies from larger market participation in earlier years, and as the Corporation

was required to pay non-recoverable duty during 1971-72 without any super profit balance to be absorbed, suitable mechanism might be evolved for transfer in cash of super profit balance from one company to another or by any other method to reduce the imbalance.

5.53 Out of 24 grades of the secondary grade lubricants manufactured at the Corporation's lube blending plant at Madras, the comparative data of average cost and selling price of direct customers in respect of 8 grades during 1970-71 and 11 grades during 1971-72 (as made available by the Management) revealed that selling prices of 3 grades during 1970-71 and 10 grades during 1971-72 were lower than the average cost by Rs. 78.10 to Rs. 125 per Kl. and Rs. 71 to Rs. 375 per Kl. respectively.

5.53. The Committee enquired about the reasons for following block control system of pricing in the case of lubricants. They were informed that this matter was referred to the Committees headed by Talukdar, Tambay and Shantilal Shah to suggest some arrangement to do away with the Block Control System. But all these three Committees came to the conclusion that all that they could do was to prescribe margin available to the oil companies, between their cost and their realization. Anything in excess of that margins should be adjusted. The intention was to adjust it by reducing the price of the product, but as the ways and means position of the Government demanded larger and larger revenues, instead of reducing the price, the other method of levying non-recoverable additional duty was adopted. This had been in existence now for over a decade. The Ministry successively increased it by Rs. 100 and then again to Rs. 350/- per kilolitre. But the rate at which the over recoveries should come down was not achieved. On the other hand, a new situation arose whereas the over recoveries with the foreign oil companies remained intact, or came down too slowly, the IOC started losing.

5.54 The Government took certain other measures. The prices were frozen. It also appointed an inter-ministerial Committee to find out way and means of quickly eliminating these large accummulations which had remained unresolved for several years. It was then decided that all past over-recoveries and under-recoveries would be credited or debited as necessary to C&F Adjustment Account. This matter was considered and accordingly, instructions to this effect had been issued to all the oil companies on 30th July, 1973.

5.55. The Ministry had taken one more measure. Earlier there were no guidelines for costs. Now guidelines for costs had been issued. If the oil companies offered rebate to the customers, that would be reimbursed from their profits. Similarly, for blending

charges, distribution charges, etc. they had issued guidelines. They had also issued instructions to see that the costs were controlled.

5.56 The Committee also enquired about the mechanism through which the results of operation of block control system by different oil companies became known to Government regularly and how their correctness was ensured. They were informed that all the oil companies submitted to the Ministry audited statements of accounts pertaining to Block Control on a yearly basis. These accounts were submitted in a manner prescribed by the Ministry, giving details of costs incurred on various accounts. These accounts were scrutinized by the Ministry in consultation with the Cost Accounts Branch of the Ministry of Finance. No credits of the cumulative over-recovery as on 31.12.1972 had, however, been made to theC.&F. Adjustment Account by the Oil Companies so far. These companies had represented that they had sustained heavy losses in the past owing to delayed and inadequate price relief granted to them as a result of increases in crude oil prices. They had further represented, *inter alia*, that payment in one instalment would seriously impair their ways and means position at a time when rising costs, including increased duties, had increased their working capital requirements beyond what had been provided by the OPC. They were, therefore, negotiating with I.O.C. to pay the amount in instalments*.

5.57 The Committee find that in respect of lubricants, greases and specialities the pricing formula provided a system of block control on marketing and distribution charges and profit per unit of different products falling in each group. The oil companies were permitted to fix the prices of individual products under each group in such a manner that after meeting the actual costs, the balance left for all the products under any one group did not exceed the distribution and profit margin per unit permitted by the Oil Price Committee. However, the actual profits made by the oil companies exceed the permissible limits and since the oil companies failed to make voluntary reduction in prices as and when called for, there was large accumulation of super profits by the private oil companies inspite of Government having levied non-recoverable additional duties.

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*At the time of factual verification, the Ministry of Petroleum and Chemicals stated as follows :—

"The latest position is that Esso's full liability in this regard has been cleared and Burmah-Shell and Caltex have paid first of the two equal annual instalments which the yhave agreed to pay to clear the account; the second instalment will be paid during the current year."

5.58. The Committee also find that the Corporation requested Government in October, 69 to review the entire scheme of pricing of lubricants greases and specialities. The Cooperation again represented to Government in March, 1972 as the Corporation was required to pay non-recoverable duty during 1971-72 without any super profit balance to be absorbed, unlike other oil companies who made super profits in earlier years suitable mechanism might be evolved to set right the imbalance...The Committee regret to note that the immediate action was taken by Government in this regard and it was only on 30th July, 1973 that instructions were issued by the Ministry directing all the oil companies to credit/debit the over-recoveries/under recoveries to C&F Adjustment Account. The Committee regret to note that the long delay in taking a decision in this regard had resulted in giving the benefit of use of large surplus funds to the private oil companies.

5.59*. The Committee also note that although the over-recoveries were required to be credited to the C&F Adjustment Account within two months from the date of the order, it had not been done so far and the private oil companies had inter alia **represented that payment in one instalment would seriously impair their ways and means position. They were, therefore, negotiating with IOC to pay the amount in instalments. The Committee would like that a decision in this regard should be taken early and put into force.**

5.60 The Committee also find that as in the case of Pool Accounts/ Surcharge Schemes, there was hardly any effective control over the block-control accounts by Government. Till recently there were no guidelines for determining cost of production to ensure that it was not overstated by the oil companies, and if oil companies offered rebates to customers these would be reimbursed from profits. There was also no detailed auditing of these accounts by auditors appointed by the Government to verify the correctness or otherwise of the over-recoveries shown by the oil companies. The accounts submitted by the private oil companies, as audited by their chartered accountants were only scrutinised by the Ministry in consultation with the Cost Accounts Branch of the Ministry of Finance. As it has now been decided that the over-recoveries/under-recoveries in respect of block-control would also form a part of C&F adjustment Account, the Committee recommend that suitable measures be introduced to place the maintenance of these accounts on sound footing and to have an effective control over them.

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*At the time of factual verification, the Ministry of Petroleum and Chemicals stated follows :—

"The latest position is that Esso's full liability in this regard has been cleared and Burmah-Shell and Caltex have paid first of the two equal annual instalments which they have agreed to pay to clear the account; the second instalment will be paid during the current years."

VI

FINANCIAL MATTERS

A. Costing System

6.1 In para 38 of their Thirty-Fifth Report (Third Lok Sabha—March, 1967), the Committee on Public Undertakings desired that the costs should be worked out month-wise, installation and depot-wise, district-wise, branch-wise and all India-wise and strict control over costs should be ensured. Government informed in September, 1967 that a system had already been introduced to work out month-wise, installation and Depot-wise, District-wise, branch-wise and all India costs with periodical reports to the Management. However, according to Audit till the end of 1968-69, only sporadic efforts were made for development of a complete costing system as envisaged by the Committee. It is only from 1969-70 that an integrated accounting system has been introduced on the basis of which both cost and financial accounts are compiled quarterly.

6.2 The Committee enquired whether the present costing system was complete in all respects so as to make available the required information at periodical intervals. They were informed by IAC that the present costing system was a part of the integrated accounting system and both costing and financial accounts were complied from the same data on quarterly basis. However, the present costing system was not complete in all respects as there was scope for improvement so as to enable IOC to obtain cost analysis on many other aspects not yet covered under the existing procedure. But, due to lack of adequate data processing facility, even these quarterly reports were considerably delaysd. Hence it was not possible to extend the costing system to other aspects of cost analysis till such time IOC was able to instal computer of its own.

6.3 The Committee regret to note that in spite of their recommendation in their 35th Report (3rd Lok Sabha) in March, 1967 that strict control over costs should be ensured it was only from 1969-70 that accounting system integrating both cost and financial accounts has been introduced. It has been admitted by the Management that the present system does not cover many other aspects of cost analysis and there is scope for improvement. The Committee need hardly emphasise the importance of having a systematic

analysis of costs of all the significant aspects of the undertaking so that it can be a real aid to management to judge and improve the working of the organisation. They desire that necessary measures should be taken without delay to remove the deficiencies in the existing costing system. The Committee are not convinced that at least some analysis of the other aspects of cost is not possible till the computer is installed. The Committee would like the Corporation to improve the costing system within the existing resources so that it serves as an effective tool of management control to effect economies and improve efficiency.

B. Financial Position and Profitability Analysis

6.4 The financial position of the Marketing Division to end of 1972-73 was as under

(Rupees in lakhs)

	1968—69	1969—70	1970—71	1971—72	1972—73
Funds employed					
Equity capital.	1164·25	1164·25	1164·25	1164·25	1164·25
Reserve & Surplus. . .	1730·81	2213·47	2622·86	4161·45	4802·04
Loans (a) Secured from Bank.	1950·17	1222·50	1494·86	1729·38	1437·65
(b) Unsecured from					
(i) Government . .	1767·67	1490·41	1230·95	991·49	732·3
(ii) Foreign credit .	0·79	0·61	0·44	0·26	0·09
	3818·63	2713·52	2726·25	2721·13	2169·77
TOTAL .	6613·69	6091·24	6513·36	8046·83	8136·06
Application of funds					
Fixed Assets Gross Block .	3004·60	3681·43	4334·64	5007·17	5868·10
Less Depreciation	440·98	876·67	1228·47	1808·75	2485·12
	2563·62	2804·76	3046·17	3198·42	3382·98
Construction work-in-progress and capital goods in stock . .	488·57	420·52	634·73	844·82	744·65

	1968—69	1969—70	1970—71	1971—72	1972—73
Investment (a)	3052·19	3225·28	3680·90	4043·24	4127·63
Investment (b)	32·15	106·38	108·08	108·06	33·07
Current Assets including Loans and Advances . . .	7577·48	8970·23	9946·87	12126·15	12191·71
Less : Current liabilities and provisions . . .	3053·15	4842·37	5289·26	7005·30	8270·04
Inter-divisional balances . .	994·98	1368·28	1933·23	1225·32	53·69
	4048·13	6210·65	7222·49	8230·62	8216·35
Net Current Assets(c) . .	3529·35	2759·58	2724·38	3895·53	3975·36
Miscellaneous expenditure not written off(d) . . .	—	—	—	—	—
TOTAL (A—B—C—D)	6613·69	6091·24	6513·36	8046·83	8136·06
Capital employed (1) .	6127·92	5622·79	5866·34	7220·01	7540·03
Net Worth (2) .	2895·06	3377·72	3787·11	5325·70	5966·29

C. Working Results

6.5 The working results of the Marketing Division based on the annual accounts for the last five years are tabulated below :—

(Rupees in lakhs)

	1968—69	1969—70	1970—71	1971—72	1972—73
1	2	3	4	5	6
Sales Revenue	52678·53	63562·49	72095·71	86311·52	99729·72
Less : Cost of products sold excluding freight & transportation charges but including cost of packages. . .	47828·58	57138·97	6530[illegible]·17	77926·86	92673·81
Excess of Sales Revenue over cost of products sold . .	4849·95	6523·52	6787·54	8384·66	7055·91

NOTE :—(1) Represents net fixed assets plus working capital (excluding provision for gratuity and investments lodged by parties).

(2) Represents equity capital plus reserves and surplus, less intangible assets.

1	2	3	4	5	6
Less Trading Expenses & Freight & Transportation charges including cost of packages. .	3260·02	5339·67	5487·08	6110·59	3894·94
Trading Profit	1589·93	1183·85	1300·46	2274·07	3160·97
Other Income	76·17	165·73	223·99	339·10	632·31
Total :. .	1666·10	1349·58	1524·45	2613·17	3793·28
Less : other expenses . .	352·41	363·67	616·82	576·35	451·51
Net Profit	1313·69	980·91	907·63	2036·82	3341·77
Net Profit per K1 (Rs.) . .	16·29	9·73	7·94	15·56	21·58
Excess of sales revenue over cost of products sold per K1. (Rs.)	59·79	65·60	61·55	64·43	45·56

6.6. Sales revenues include recoveries made by the Marketing Division in regard to excise duties, railway freight, delivery charges, sales tax, octroi, etc. in addition to the sales proceeds from exports and product exchange transactions. Similarly, the cost of products sold includes expenditure incurred in respect of the above items excluding expenditure on freight and transportation charges. According to Audit, since a separate account of the recoveries made against the charges incurred in respect of railway freight, delivery charges, sales tax and octroi is not maintained, it is not possible to arrive at the cost of sales and actual recoveries made thereagainst. The profit margins allowed by the Working Group on Oil Prices/ Oil Price Committee on various items of petroleum products are given in Appendix IV. In the absence of separate product-wise data regarding cost of sales and sales realisation as mentioned above it is not possible to judge the extent to which the profit margins stipulated by the Working Group on Oil Prices/Oil Price Committee have been realised.

6.7. It has been pointed out by Audit that as the net profit shown in the P&L Account is the net result of interaction of a number of variable factors operating in different years, the following statement has been prepared to exhibit the trend of profit on comparable basis,

after adjusting the impact of quantifiable variable factors during 1969-70 to 1971-72:—

(Rs. in lakhs)

	1969—70	1970—71	1971—72
1 Excess of sales revenue over cost of product sold excluding freight and transportation charges but including packages.	6523·52	6787·54	83·84·66
(a) Relief of non-recoverable duty available in 1969-70 but withdrawn from 30-8-1969 .	(—)119·37	—	—
(b) Losses on sale of lubricants and greases	19·15	339·79	518·85
(c) Adventitious gains/losses due to duty and price changes	(—)28·17	64·62	(—)171·80
(d) Profits on *imports*(—) Loss on import(—) .	(61)·88	85·85	—
Adjusted excess of sales realisation over cost of products sold	6333·25	7277·80	8731·71
Excess over 1969—70	—	944·55	2398·46
II. Trading Expenses including Freight & Transportation charges but excluding packages . .	5339·60	5487·08	6110·59
Add items shown as reduction before arriving at Trading expenses :			
(i) Reimbursement of under-recoveries as at item (1) at page 95 of Audit Report (not available in 1969—70 but available in 1970—71 and 1971—72) . . .	—	1081·00	1411·00
(ii) Claims recoverable under Tamil Nadu/ Kerala Surcharge Schemes . . .	(—)68·00	(—)139·00	(—)26·25
(iii) Excess collection of Central Sales Tax Surcharge	75·00	—	60·00
Adjusted gross Trading Expenses . . .	5346·67	6429·08	7555·34
Excess over 1969—70	—	1082·41	2208·67
III. Other income	165·73	323·99	339·10
Less income pertaining to previous years . . .	—	—	107·73
	615·73	223·99	231·37
Excess over 1960—70		58·26	65·64
IV. Other expenses	368·67	616·82	576·35
Less : Expenses pertaining to previous years . .	119·02	97·66	—

1	2	3	4
	249·65	519·16	576·35
Excess over 1969—70.	—	269·51	326·70
V. Trading Profit (I—II)	986·58	848·72	1176·37
Add other income (III)	165·73	223·99	231·37
	1152·31	1072·71	1407·74
VI. Less other expenses(IV)	249·65	519·16	576·35
VII. Adjusted Profit	902·66	553·55	831·39
Reduction over 1969—70	—	349·11	71·27

It would be seen from the above statement that there had been decline in the adjusted profits in 1970-71 and 1971-72 as compared to 1969-70. Asked about the reasons in this regard, the IOC stated that "in the audit report while working out the adjusted profit for the purpose of comparison, the amount reimbursed through F.S.P. amounting to Rs. 10.81 crores had been deducted from the profit of 1970-71 and based on this adjustment a conclusion had been reached that there was a reduction in the profit in 1970-71 as compared to the year 1969-70. This contention of the audit is not correct...... In our view, the change in the pricing machanism from 1-6-1970 arising out of the Oil Pricing Committee report compensated the Marketing Companies the inland and coastal under-recoveries, which they were incurring under the old pricing formula. The extent of these under-recoveries for the years 1968-69 and 1969-70 was as under:—

	Rs. lakhs
1968-69	383·97
1969-70	611·77

6.8. To this extent the oil companies profit increased on account of the institution of F.C.P. In other words the Oil Pricing Committee reduced the margins available on products when compared to the margins that were available prior to 1-6-1970. This resulted in the reduction of the margin to the extent of Rs. 4.03 crores and Rs. 6.15 crores in 1970-71 and 1971-72 respectively.

6.9. The institution of Freight Surcharge Pool and the amounts reimbursed thereunder are not on the same principle as the under-recoveries were incurred prior to 1-6-1970. Before 1-6-1970 the inland refineries were not the pricing points and, therefore, IOC was incurring under recoveries but was also getting over recoveries and the

balance of these two figures was under-recovery incurred by IOC. With the change in fthe pricing point the over recoveries ceased to exist whereas the under recoveries increased. Thus, the adjustment of the amounts recovered through FSP by deducting it from the profit of 1970-71 means that this major difference between the quantum of under recovery prior to 1-6-1970 and after 1-6-1970 has not been properly appreciated. For a proper comparison it is necessary to adjust the profits of 1969-70 and earlier years on the basis as if no under recovery was incurred and on the similar basis profits for the future years should be adjusted in such a manner that any under-recoveries incurred in any of the comparative years should be on the same basis, i.e., without any loss on account of under-recoveries. It is this comparable profit which has to be taken into account to assess whether the Marketing Division of the Corporation has increased its profitability or it has been reduced. Therefore, the comparison should be made on the basis of profits arrived at after adjusting under/over recoveries on various events in respect of years to which it relates as per the enclosed statement. (Appendix V). This will clearly indicate that the adjusted profit in 1970-71 would be Rs. 283.78 lakhs more than in the year 1969-70." The adjusted profits for the years 1971-72 and 1972-73 also showed an increase of Rs. 483.60 lakhs and Rs. 760.33 lakhs over the previous years.

6.10. The adjusted profit for 1972-73, on the lines indicated by Audit would, however, be Rs. 1429.07 lakhs *i.e.* Rs. 526.41 lakhs more than in 1969-70.

6.11. The Committee find that based on the annual accounts, the net profit earned by the Marketing Division of IOC was Rs. 3341.77 lakhs during 1972-73 as compared to Rs. 2036.82 lakhs during the previous year. However, the profit as shown in the accounts is the net result of inter-action of a number of varible factors operating in different years. According to IOC, after taking into consideration the impact of quantifiable variable factors like non-recoverable duty, reimbursement of recoveries from pool accounts/surcharge schemes etc., the adjusted profit for 1972-73 would amount to Rs. 3047.42 lakhs. On the other hand, the adjusted profit for the year on the lines indicated by Audit would be still lower, i.e, only Rs. 1429.07 lakhs.

6.12. In the opinion of the Committee, the profit or loss as indicated in the accounts of the Corporation is not a true Index of the efficiency of the working of the Marketing Division of the Corporation. The Committee recommend that for a proper assessment of the working results of the Marketing Division and to have a realistic appreciation of the financial position of the various activities from year to year, the Corporation should prepare a variance analysis

showing the impact of changes in various factors like sales volume, product-mix, rate variance, margin variance, movement and distribution pattern and change in pricing points etc. on the profits of the Division. This would help the management in locating areas where improvements could be effected so that suitable measures could be taken in time.

D. **Credit control**

6.13. (i) The Marketing Division allows credit facilities to its customers, both Government and Semi-Government and private parties, for a period ranging from 30 to 45 days. On the other hand the Division enjoys credit facilities on imports and off take from refineries to the extent of 90—180 days and 42 days respectively besides the credit facilities availed of from the trade in respect of other purchases.

6.14. The position of credits enjoyed and allowed as at the end of the last five years ending 1972-73 is indicated below:—

(Rs. in lakhs)

	1968-69	1969-70	1970-71	1971-72	1972-73
Credit enjoyed					
Sundry Trade Creditors	2,741	4,187	4,496	6,006	6,812·40
Inter-division balances . .	995	1,368	9,333	1,225	53·69
	3,736	5,555	6,429	7,231	6866·09
Credit extended					
Sundry debtors . . .	3,555	3,917	3,305	3,085	2982·49

(ii) The broad outlines of the credit policy laid down by the Board of Directors in August, 1964, *inter alia* stipulated that credit facility would not be extended to (a) private retail dealers for MS, HSD automotive lubricants and greases without proper investigation of the customers background and (b) the credit limit in such cases would be limited both monetarily and in terms of number of days. It has, however, been noticed that credit facilities were extended to private retail dealers and lube distributors in excess of the prescribed limits and in certain cases without obtaining the prior approval of the competent authority.

6.15. The Committee enquired about the present credit policy followed by the Corporation and whether there was any system by

which such cases became known to higher authorities in time. They were informed that in line with the broad outlines of the credit policy laid by the Board of Directors in 1964, no credit was being extended to retail outlet dealers and SKO/LDO dealers. Also, as outlined by the Board, in special cases, credit upto a number of days were being given to selected Lube Distributors. However, they were now taking products against cash.

6.16. The Committee were also informed that the monthly statement of customer account given to the District Manager/Sales Officer gave an indication to them as to whether supplies had been effected in excess of the monetary limits set for each month. Also, in case the prescribed monetary limit and the period of credit approved by the Branch Office was exceeded, this came to the notice of the Internal Audit team during their periodic inspections.

Book Debts

6.17. (i) An analysis of the credit granted by the Company for its sales to D. G. S. & D., Semi-Government and private parties at the end of last five years, is given below:—

Outstanding Considered Good

(Rs. in crores)

As on	Turn-over of Marketing Division.	DGS&D out-standing	Semi-Government parties	Private parties	Total	Outstanding expressed as number of day's sales.
1	2	3	4	5	6	7
31-3-1969	526·79	14·35	10·14	7·50	31·99	22
31-3-1970 .	635·62	11·86	13·27	10·98	36·11	21
31-3-1971 .	720·96	7·80	10·91	10·11	28·82	15
31-3-1972 . .	863·12	5·47	14·08	9·20	28·75*	12
31-3-1973 . .	997·29	4·20	12·98	10·41	27·59	10

*An amount of Rs. 573 lakhs appeared as credit balance in the 'Sundry Debtors and Advances account' on 31-3-1972. The break-up of this amount was not available in the absence of which the amount of unlinked credits in DGS&D Account was not susceptible of verification by Audit.

6.18. It would be seen from the above statement that the outstandings expressed in terms of number of days sales have gradually come down from 22 days as on 31-3-1969 to 10 days on 31-3-1973.

The total outtandings against DGS&D have also been gradually coming down. However the dues against semi-Government and private parties had gone up.

6.19. A review of the outstandings of semi-Government parties (public sector undertakings of the Central and the State Governments) has revealed heavy outstandings in the following cases beyond the stipulated period of 30 days' credit.

Name of Undertaking	Outstandings (Rs. in lakhs) (as on 31-3-73)	Outstanding expressed as number of days' sales value.
Hindustan Aeronautics Ltd., Bangalore	12·27	59
Hindustan Steel Ltd., Durgapur Steel Plant	34·50	32
Hindustan Steel Ltd., Rourkala Steel Plant	13·54	25
National Coal Development Corporation Ltd., Ranchi	26·72	55
Indian Airlines	171·62	46
Air India	111·16	60
Delhi Transport Undertaking	0·27	29

6.20. In respect of private parties it was noticed from a Statement furnished by IOC that there were 45 private parties against whom the amount outstanding was Rs. 1 lakh and more and in each case the amount was outstanding for more than 30 days. In several cases, the amount had become doubtful of recovery and legal proceedings had to be resorted to for realisation of the dues. Some of the illustrative cases where the IOC suffered loss or the amount was outstanding for long and the cases were pending in courts or with official liquidator are given in Appendix VI.

6.21. It is also seen that as on 31st March, 1973 the position of book debts outstanding for less than six months and those outstanding for more than six months was a follow:—

Book Debts

	Rs.
1. *Over six months* :	
(a) Secured Considered Good	15,46,793
(b) Unsecured considered Good	4,34,90,264
(d) Unsecured considered doubtful	1,18,83,163

		5,69,20,220
2. *Less than six months*		Rs.
(a) Secured considered Good		6,50,923
(b) Unsecured considered good		24,05,74,453
(c) Unsecured Considered Doubtful		1,03,559
		24,13,29,935
TOTAL :	Rs.	29,82,49,155

6.22. The Committee enquired about the steps taken to reduce the outstandings especially against the private parties. They were informed that the IOC was also fully aware of the importance of reducing the customers outstandings. The position was also periodically reviewed by the Ministry of Petroleum and Chemicals. As a result of the various measures taken by the IOC in this regard, the position of outstandings had been progresively improving year after year.

6.23. The DGS&D outstandings had come down from 31 day's sales as on 31-3-1970 to 9 days' sale as on 31-3-1973. In the case of non-DGS&D customers whereas the total non-DGS&D sale had increased from Rs. 36.87 crores in March, 1971 to Rs. 71-28 crores in March, 1973, the outstandings came down from Rs. 24.25 crores to Rs 21.78 crores. As compared to credit sales, the non DGS&D outstandings came down from 47 days' as on 31st March, 1970 to 25 days' as on 31-3-1973. If total sales were taken into account the non-DGS&D outstandings came down from 20 days total sales to 9 days' total sale as on 31st March, 1973.

6.24. The Committee were also informed that the outstandings were more in respect of non-DGS&D customers due to the following reasons:—

(i) While in the case of DGS&D parties no credit was envisaged and the outstandings were only on account of the procedural delays in submitting the bills and receiving payments after making bills etc., in the case of Non-DGS&D credit parties, credit facilities had been extended to some major customers. Because of this basic difference it was only logical that the outstandings in the case of Non-DGS&D parties should be higher as compared to DGS&D outstandings when expressed in terms of number of days outstandings.

(ii) Although normally as per commercial practice a credit of 30 days to parties like State Transport, Government Projects and to other major Government and private consumers was given yet the fact that, as on 31st March, 1973, the total outstandings were equivalent to 25 days' credit sale was indicative of the fact that IOC was successful in collecting the outstandings even before they were due from many of these parties.

6.26. As regards the control exercised by the Ministry over the outstandings, the Committee were informed that the position of outstanding was furnished by the IOC to the Ministry every month in the form of monthly reports and also at the time of quarterly performance Review Meetings and reviewed by the Ministry.

6.26. While the Ministry exercised overall supervision over the performance of the Marketing Division, matters relating to the details were left to the Management. In individual cases of bad debts, the Corporation took appropriate action, if necessary in consultation with its Legal Adviser. Cases of individual or procedural lapses were required to be reviewed by the Corporation for taking appropriate corrective action. At the same time the Ministry laid emphasis on the overall improvement of the position with regard to the outstandings at the periodical review undertaken by it.

6.27. It is also noticed that an examination was conducted by the internal audit Department in respect of non-DGS&D customers of the Eastern and Western Branches and a Report submitted to the Board of Directors in July, 1971 giving *inter alia* the reasons for the increase in the outstandings and the difficulties experienced in realisation of the amount, the remedial action that may be necessary to minimise the outstadings and suggesting improvements that may be made in the mode and manner of collections of outstadings and maintenance of records.

The remedial measures suggested by the Internal Audit and the action taken thereon is given in Appendix VII.

6.28. The Committee find that the total amount of outstandings, expressed in terms of number of days' sales, have gradually come down from 22 days as on 31st March, 1969 to 10 days as on 31st March, 1973. However, in respect of private parties there were heavy outstandings and these had gone up from Rs. 7.50 crores as on 31st March, 1969 to Rs. 10.41 crores as on 31st March, 1973. The Committee regret to note that there were 45 private parties against whom the amount due was more than Rs. 1 lakhs and the

amount was outstanding for more than 30 days. As on 31st March, 1973, the total amount of book-debts outstanding for more than six months was as high as Rs. 5.69 crores.

6.29. From some of the illustrative instances which came to the notice of the Committee, they regret to note that, in several cases, the Corporation failed to make proper enquiries into the credit worthiness of the customers before granting them credit facilities. It is also surprising that the credit facilities were continued to be given to the customers even where they failed to make payment as per the terms of credit facilities laid down by IOC and in one instance the credit facility was not withdrawn even though the credit investigation report did not justify granting credit facilities to the customer. The result has been that there were several cases where legal proceedings had to be resorted to for realisation of dues which means heavy expenditure on litigation. An amount of Rs. 1.20 crores was considered doubtful of recovery as on 31st March, 1973.

6.30. The Committee urge that the Corporation should ensure that the credit policy laid down by it is strictly adhered to. Prompt and deterrent action should also be taken against the officials who fail to follow the prescribed credit policy without adequate justification.

6.31. From the instances mentioned in Appendix VI of this Report, the Committee also find that in some of the cases the responsibility for lapses has not yet been fixed. Even in cases where the responsibility is stated to have been fixed, the specific action taken against the delinquent officials has not been intimated to the Committee. The Committee would like to be informed of action taken against the delinquent officials in all these cases. The Committee would also like that these cases should be vigorously pursued with a view to realising the outstandings from the parties. The Committee would like to be informed of the outcome in each case.

6.32. The Committee also find that the Internal Audit suggested in its Report in July, 1971 various remedial measures to improve the manner of collection of outstandings, maintenance of records therefor and for minimising outstandings. The suggestions made include *inter-alia* (i) detailed study for finding out the reasons for abnormal delays in submission of bills. (ii) review of the reasons leading to delays in analysing the cash customer accounts and extending of unauthorised credits, (iii) submission of timely

comprehensive customer-wise/category-wise statements of outstandings to the concerned Department/field staff and (iv) analysis of backlog of outstandings from cash customers on a priority basis to determine the correct outstandings for effecting recovery.

6.33. The Committee would like these suggestions to be examined for implementation forthwith so that the management may exercise close and continuous watch over the outstandings and take timely measures for the realisation of the amounts.

E. Write Off of Debts/Claims

6.34. The bad debts written off during 1969-70 to 1972-73 were as follows:—

Year	Amount (in lakhs)
1969-70	11·33
1970-71	5·59
1971-72	6·88
1972-73	20·82

6.35. These included cases in which the IOC was unable to establish debts for want of documents to the extent of Rs. 4.14 lakhs, Rs. 0.92 lakhs, Rs. 3.51 lakhs and Rs. 5.13 lakhs during 1969-70 to 1972-73 respectively. The amounts were written off as bad debts instead of as losses for which sanction of higher authority would have been necessary.

6.36. The Committee enquired the reasons for the documentary evidence not being available with the IOC for some of the debts and why these were treated as bad debts instead of loss. They were informed that during the initial stages, proper accounting procedures were not established in branch offices as a result of which there were certain difficulties in proper documentation and billing. In line with the basic principles of commercial accounting, wherever IOC effected supplies, it invariably raised a 'Debt' in the books of accounts by debiting the customer's account and crediting the sales account. Where it was not in a position to establish claim for lack of documentary proof, the corresponding 'Debt' was treated as bad and irrecoverable and, therefore, the same was to be written off by way of bad debts by debiting the Bad Debt account

and crediting the customers' account. According to IOC the irrecoverable 'Debt' should, in all fairness, be written off as 'Bed Debt' and not as 'Loss'.

6.37. The Committee pointed out that in some cases put up by IOC to the Board for writing off of certain debts for want of proof of supplies, internal audit had either been able to locate the proof of supply or had established that the debt was recoverable. They enquired as to how it was ensured by the Board that all possible measures had been taken by the Management to recover the debts before issuing sanction for write off. They were informed that the procedure for putting up the proposals for write off of bad debts to the Board of Directors had since been revised. Under the revised procedure all such cases were to be routed through internal audit to establish that all possible ways had been tried by the Management to recover the debts.

6.38. The Committee regret to note that the IOC had written off a sum of Rs. 44.62 lakhs as bad-debts during 1969-70 to 1972-73 and this included a sum of Rs. 13.70 lakhs pertaining to cases where the Corporation was unable to establish its debts for want of documentary proof. It is surprising that the Corporation in some cases failed to exercise even the elementary care of keeping proper documents for the debts raised by it. The Committee also find that in some cases put up by the Management to the Board for writing off certain debts, the internal audit had either been able to locate the proof of supply or had established that the debt was recoverable. The Committee cannot help concluding that the Management did not make a thorough check to locate the proof of supply and/or to try all possible ways to recover the debts before putting up proposals to the Board for write off of these debts. The Committee desire that all the cases of bad debts written off for want of documentary proof should be thoroughly investigated and responsibility fixed for such loss of documents.

6.39. The Committee are also unable to agree with the view of the IOC that the amount involved in these cases should be written off as 'bad debts' as these were clear cases of losses due to failure of management to establish these as debts and were not 'bad debts' in the normal sense. They therefore, desire that all these cases should be reviewed and regularised by obtaining the sanction of higher authorities competent to write off the losses.

F. Internal Audit

6.40. In their 43rd meeting held on 22nd February, 1969 the Board of Directors approved the organisation of the internal audit department under the direct charge of the Finance Director and desired that import points noticed in internal audit might be circulated to the Board from time to time. In August, 1971, the Finance Director reported to the Board of Directors that right from inception the internal audit department had been facing the problem of non-availability of suitable staff and officers.

6.41. The number of important points reported by the Finance Director to the Board of Directors from time to time, the decision of the Board of Directors thereon and the present position are summarised below:

No. & Date of the meeting	No. of cases reported	Decision of the Board of Directors	Present position
1. 69th meeting held on 2nd and 3rd July, 1971	One*	M.D.(M) was requested to furnish a report to the Board of Directors.	The Report of the M. D. (M) is being placed before the Board.
2. 70th meeting held on 11th August, 1971	Eleven	Finance Director was requested to discuss the cases with the respective M. Ds and after discussion with the M. D. if the F. D. desired to bring any point to the notice of the Board he was requested to do so.	6 out of these 11 cases were considered by the Board in its meeting held on 23rd March 1973. While one of the items was noted in other five cases the Board desired to have further information for its consideration. The remaining 5 are under discussion with the M.Das concerned.
3. 75th meeting held on 16th Nov., 1971	one*	Chairman was requested to look into the matter and decide what action was called.	The matter was investgated by the CBI and on the basis of the opinion of the Central Vigilance Commissioner the concerned officer was cautioned to be-

* These cases are also included in the eleven cases reported to the Board in August, 1971.

1	2	3	4
			more careful. This was noted by the Board in its meeting held on 19th January 1973.
4. 84th meeting held on 19th Oct, 1972	six		These are under consideration of the Board.
5. 87 meeting held on 19th Jan. 1973	one		Under consideration of the Board.

Brief particulars of the cases, out of the above, pertaining to the Marketing Division of the Company, are indicated in Appendix VIII. The Committee have discussed some of these cases elsewhere in this Report.

6.42. The Committee find that there have been abnormal delays in taking action on the points brought to the notice of the Board by the Internal Audit. They need hardly stress that the very objective of having an Internal Audit would not be achieved if prompt action is not taken to remedy the irregularities/deficiences brought to the notice of the Management.

6.43. The Committee would, therefore, like to impress on the Management the need for giving prompt attention to the points raised by Internal Audit with a view to cut out wastages, effect economies and plug loop-holes in the working of the undertaking so that the Internal Audit can really be an aid to Management.

VII

SALE OF VARIOUS PRODUCTS

A. Sale of L.P.G.

7.1. The IOC started marketing L.P.G. under the trade name 'Indane' by introducing it in Calcutta and Patna in October, 1965. The question of marketing of L.P.G. was considered by the Committee on Public Undertakings in their 35th Report (3rd Lok Sabha) in March, 1967. The Committee had observed as follows:—

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

7.2. In their reply in September, 1967, the Ministry had stated as follows:—

> "There is no difficulty in increasing the production of L.P.G. at the public sector refineries to meet the rising demand, but this is dependent upon the availability of LPG cylinders. At the end of June, 1967, the IOC had only about 31,000 cylinders and 18,272 customers. Sales in June, 1967, therefore, amounted to only 294 Kls, as against 159 Kls, during June, 1966.
>
> The difficulties in the way of a rapid expansion of sales are the non-availability of a suitable quality of steel in adequate quantity and restricted free capacity for the fabrication of LPG cylinders. Every effort is being made to establish the production of the quality of steel at the steel plants. In the country; and indigenous availability is being supplemented by imports to the extent possible. The Corporation has also taken vigorous steps for deve-

loping additional capacity for the fabrication of cylinders."

7.3. The sales targets fixed by the Company and the actual sales made during the last five years ending 1972-73 are given below:—

(In '0000 M.T.)

	Original sales target	Actual sales	% of sales to targets
1968-69 .	13·5	8·7	64·4
1969-70 .	27·2	19·4	71·3
1970-71	40·0	32·8	82·0
1971-72	54·2	52·4	96·7
1972-73	81·1	79·0	97·4

7.4. As the Company did not achieve the sales targets in 1966-67 and 1967-68, the target for 1968-69 was revised from 13,500 M.T. to 8,400 M.T. in October, 1968, mainly due to non-availability of cylinders.

7.5. The shortfall during 1970-71 and 1971-72 had been attributed by the Management to:

(i) Inadequate availability of cylinders due to shortage of steel;

(ii) Delay in procedural formalities consequent on introduction of the scheme to offer distributorship to unemployed engineers/graduates;

(iii) Restricted production of LPG in 1970-71 due to stoppage of crude tankers and consequent shut down of Madras refinery; and

(iv) Floods and consequent roadbreaches in eastern U.P. and Bihar during second half of 1971.

7.6. The shortfalls in production and sale of L.P.G. had also been attributed by the Management in June, 1973 to the following factors:—

1 Growth of LPG market is a gradual process as it involves development of dealers, distribution agencies, movement pattern, availability of cylinders, valves, etc.

2. The designs of the Refineries were based on the demand forecasts then made which no longer hold good. The existing facilities are being augmented from time to time to cope with the estimated growth rate of the market demand.

3. The potentials of LPG production are based on the designed quality of crude and with changes in the crude quality these potentials have undergone changes."

7.7. In this connection, the Audit pointed out that the constraint on production of LPG was not absence of capacity to produce the same. Actually, while explaining the variation in throughput and product pattern of Barauni Refinery, the Management explained that production of LPG in that Refinery was restricted to what could be marketed [*vide* page 41 of the Report of the Comptroller and Auditor General of India for the year 1969-70, Union Government (Commercial)—Part XI].

7.8. As mentioned above, one of the reasons for low sale of LPG was stated to be non-availability of adequate cylinders which *inter alia* was dependent on the availability of Special quality of steel.

7.9. The statement tabulated below shows the requirements of LPG cylinders as planned during the years 1969-70 to 1972-73 and the cylinders actually procured during these years.

	No. of Cylinders	
	Planned requirements	Actual No. of Cylinders procured
1968-69	4,00,000	1,10,217
1969-70	2,50,000	1,32,779
1970-71	4,00,000	2,29,048
1971-72	4,00,000	2,64,628
1972-73	4,00,000	3,07,071

7.10. As regards the difficulties faced in this regard, the Committee were informed that Indian oil entered the field of LPG marketing in the year 1965. During the period 1965—67, Indian Oil and its cylinder fabricators utilised approx. 900 MTs of imported steel for fabrication of cylinders. In view of the difficult foreign exchange position prevailing then, IOC and its cylinder fabricators could not get import licences for import of steel other than what had been

stated above. As a matter of fact, towards end of 1965, the Ministry of P. & C. had advised Corporation as under:—

> "In view of the drastic reduction in the foreign exchange availability, it had not been found possible to allow any free foreign exchange for the import of steel for manufacture of LPG cylinders. It is understood that Indian Oil Corporation is surrendering a licence from free sources for import of steel sheets. You may like to consider utilisation of a part of that for meeting this requirement, if necessary."

7.11. In pursuance of the Ministry's letter, efforts were also made to get the import licence for drum sheets converted into LPG sheets but this also did not materialise. However, import licences from rupee sources were made available to IOC but steel against this could not be imported as procurement of special quality of LPG steel from rupee sources which involved "switch deal" was very problematic. Under the circumstances, IOC was left with no alternative but to pursue with HSL Rourkela to undertake manufacture of LPG quality steel sheets. With the assistance of ISI, Chief Controller of Explosives and the Ministry the matter was discussed at the highest level with HSL and TISCO. As a result of close follow up by IOC, both these mills agreed to produce LPG steel.

7.12. In early January, 1967, HSL Rourkela had indicated to the Iron & Steel Ministry that they would be able to produce LPG quality steel for fabrication of cylinders. In the light of this, Iron & Steel Ministry had advised P. & C. Ministry not to import steel if indigenous steel could be made available. Although both HSL and TISCO had started production of LPG Steel in small quantities in 1967, the rejections encountered by the cylinder fabricators were very high and it took HSL approximately a year and half to improve their quality to an acceptable standard.

7.13. During the year 1969-70, HSL Rourkela and TISCO could not adhere to the production levels indicated by them earlier. Since the production fell short of the stipulated quantity, JPC was allocating indigenous steel in favour of cylinder fabricators who were registered with DGTD. As such, IOC cylinder fabricators who were not registered with DGTD, were not getting their due share of the available quantity of LPG steel. This matter was, therefore, taken up by IOC with P&C Ministry and a system was introduced, effective from March, 1970, whereby LPG Steel was released to cylinder fabricators based on the recommendations of Ministry of Petroleum and Chemicals. This system envisaged that if the total steel availability feel short of the total requirements, the supplies would be prorated.

7.14. For the year 1970-71, Iron & Steel Controller advised the indigenous steel availability position as under: (These has not been any improvement in the production capacity since then).

HSL Rourkela	600 MTs P. M.
TISCO	500 MTs P. M.
IISCO	175 MTs P. M.
	1275 MTs P. M.

7.15. Although, in early 1971, it was felt that the LPG cylinder requirements could be largely met out of the steel available indigenously, due to the collapse of roof of HSL Rourkela around August, 1971, the availability of LPG steel suffered a serious setback resulting in IOC not being able to get their full requirements of cylinders. Likewise, during the year 1972 and the first half of 1973, indigenous L.P.G. steel availability has been erratic and neither HSL nor TISCO has been able to produce LPG steel as per their production capacities. In view of the erratic LPG steel availability from indigenous sources, IOC in November, 1971 sought Ministry's assistance regarding importing of steel for meeting the steel shortage. This matter was constantly followed up with the Ministry who in turn discussed the matter with the Ministry of Steel. Finally the Ministry of P. & C. wrote in April, 1972 to Ministry of Steel to allow them an *ad hoc* import of 2000 MTs of LPG steel. This quantity was subsequently raistd to 5,000 MTs at the instance of IOC.

7.16. With a view to avoiding any delay in finalisation of import of steel, Indian Oil Corporation had simultaneously requested HSL to float global tenders for the purchase of LPG steel. The necessary foreign exchange having been released HSL placed orders for the steel. The imported steel was, however, expected to be made available for the fabrication of LPG cylinders only towards the end of 1973 and cylinders out of the imported steel delivered to IOC for marketing during the financial year 1974-75. Apart from taking up the issue of increasing the indigenous production of LPG steel with tht Ministry of P. & C., Managing Director of I.O.C. also took up the issue with the Vice-President, TISCO. As a result of this, TISCO were able to maintain their LPG steel production at a reasonable level during the year 1972.

7.17. During evidence the Committee enquired about the reasons for the delay in importing steel for the manufacture of cylinders. The representative of the Ministry stated that IOC was advised in June, 1972 to put up an application for import of 5000 tonnes of steel. Their application was received in the Ministry on 24th February, 1973. It was admitted that there had been some delay on the part of the IOC in making the application and some delay on the part of the Ministry and in processing it in the Ministry of Steel.

7.18. The Committee also enquired whether the Ministry had worked out the economics of importing steel for cylinders to save on the import of kerosene oil which was a substitute fuel. The representatives of the Ministry stated that they had worked out the comparative economics and as between flaring away of L.P.G. and importing of steel, steel should be imported. The Ministry had been repeatedly told that the LPG steel production by Rourkela, TISCO and IISCO would meet more than their requirements. But there had been failures year after year.

7.19. In this connection the Committee also took evidence of the representative of the Ministry of steel. The Committee enquired about the reasons for low production of special quality steel required for cylinders. They were informed that in the case of special quality of steel, there were problems of production. But steps were being taken to overcome them. A Committee had been set up to go into the question of production of special quality steel and their recommendations were under the consideration of the Government. It was however, assured that where there was a need for import, that was being done. It was expected that the position would improve in the next year.

7.20. The Committee regret to note that there have been shortfalls both in production and sale of liquified petroleum gas. The problems of production of LPG have been dealt with in the report of the Committee on IOC (Refineries Division). In so far as difficulties in marketing of LPG are concerned one of the main reasons was stated to be inadequate availability of cylinders. The Committee find that against the planned requirements of about 4 lakh cylinders every year, the actual number of cylinders available to IOC ranged between 2.29 lakhs and 3.07 lakhs during the years 1970-71 to 1972-73. This was stated to be mainly due to the inadequate availability of special quality of steel required for production of cylinders. The Committee regret to note that not only there was shortfall in indigenous production of such steel but the IOC/Government failed to make imports well in time. As pointed out during evidence although IOC was advised as early as June, 1972 to put up an application for import of 5,000 tonnes of steel, the application was received

by the Ministry only on 24th February, 1973. It is surprising that the IOC should have taken about 7 months to submit the application for the import of steel. There was also avoidable delay on the part of the Ministries of Petroleum and Chemicals and Steel and Mines in processing the application and in releasing the foreign exchange. As a result the cylinders out of the imported steel would now be available to IOC only during the year 1974-75.

7.21. The Committee need hardly emphasise the importance of maximum utilisation of available gas from the oil refineries for the production of LPG. Low production and poor availability of LPG means higher consumption and larger import of Kerosene oil which the country can ill afford at present when it is faced with the oil crisis. The Committee, therefore, urge that suitable remedial measures should be taken not only to ensure optimum production of LPG at the oil refineries but to remove any constraints is the marketing of the same as there is extensive public demand for it. The Committee, also stress that Corporation should plan their requirements of LPG steel well in advance and take steps to procure the cylinders in time so that paucity of cylinders does not depress production/marketing of LPG.

B. Sale of Transformer Oil

7.22. In September, 1962 a private firm applied for issue of an industrial licence to a company to be formed by them in collaboration with Sonne Born Chemicals and Refining Company for manufacture of transformer and specially oils. As Government was of the view that the project of such a nature should be developed by Indian Oil Corporation Limited, it suggested in April, 1963 that the Corporation should consider whether they would like to take up this project particularly when the proposal of the firm envisaged the utilisation of raw oil to be supplied by the IOC itself. The Corporation was also given the option to collaborate with this firm, or any other parties if it so liked.

7.23. In the meanwhile, the said firm also requested the Corporation in April, 1964 to recommend their case for issue of industrial licence to Government. As the Corporation was not able to obtain similar collaboration for manufacture of these products and the firm affirmed (November 1965) their willingness to give IOC the first choice of refusal of their entire production at prices which would compare favourably with import parity prices and also the export rights, if necessary, IOC reported to the Ministry on 20th November, 1965 that negotiations for selling agency rights might be held with the firm.

7.24. The proposal of the firm was considered by Government on 11th November, 1965 and was approved subject to satisfactory conclusion of discussions between the firm and IOC. The industrial licence was granted on 21st December, 1966 without settling the question of marketing right being given to IOC and the price payable for the products.

7.25. On being approached by the Corporation in March, 1970 the firm refuted that there was any contractual obligation regarding the grant of marketing rights for their production. However, as a result of negotiations between the Ministry and the firm it was decided in July, 1971 that IOC would market 50 per cent of the total production of the firm. As a result they agreed to supply 50 per cent of their production of transformer oil (7500 M.T. per annum) at the ex-factory price of Rs. 2,250 per KL. packed in drums (Rs. 1,850 per KL. in bulk). The Corporation fixed the selling price at Rs. 2,250 per KL. (packed) on f.o.r. Madras basis.

7.26. During the period from April, 1972 to July, 1972 the Corporation was required to lift a quantity of 2,205 Kls. of transformer oil, which was stated to have been earmarked by the firm, but was not able to secure any order for sale as the selling price was not competitive with the rates offered by other manufacturers including the selling agents of the firm for the balance quantity. As the Corporation was unable to its share of production, it agreed on 19th May, to allow the firm to purchase base stocks including transformer oil base stocks on credit instead of against cash payment. This was done in consideration of the transformer oil being kept in reserve by the firm for IOC. The Corporation then supplied on credit base stocks worth Rs. 42.79 lakhs (approximately) during the period from May, 1972 to August, 1972.

7.27. In July, 1972, as a result of further negotiations, the firm agreed to apply the existing rate of Rs. 2,250 per Kl. ex-Madras for deliveries ex-Bombay, Delhi, Calcutta and Cochin also. On the other hand, the Corporation surrendered its right to lift 50 per cent of the production of transformer oil during the months of August, 1972 to June, 1973 to gain time for organising sales.

7.28. Out of 2025 Kls. of transformer oil earmarked by the firm under the agreement, the Corporation was able to dispose of 455 Kls. upto 31st March, 1973, leaving a balance of 1,570 Kls. still to be disposed of. While it made profit of Rs. 50,050 on the sale of 455 Kls. of transformer oil, a loss of Rs. 2.75 lakhs was incurred as interest (up to 31st March, 1973) on the blocked capital of Rs. 42.79 lakhs (representing the value of base stocks supplied to the firm on credit).

7.29. The Management stated (June, 1973) that out of the total credit facilities provided to the firm base oils worth Rs. 15 lakhs were released on credit consequent on a representation made by the Madras Refineries Limited in July, 1972 that their inventories of base oils were inordinately high which if not lifted, would force them to curtail their production of base oils. Further, the value of base oils supplied on credit to tht firm did not exceed the approximate value of the Corporation's share of 50 per cent of the production of transformer oil which under the terms of the agreement it was required to lift against payment.

7.30. During evidence, the Committee enquired about the reasons for the IOC recommending the proposal of the firm for the manufacture of transformer oil. They were informed that the Corporation did not have at that time the know how for the manufacture of transformer oil. The IOC decided to recommend to Government the proposal of the firm so long as the party gave the IOC the first option of marketing of their production. That was how the firm was given the industrial licence for the manufacture of transformer oil.

7.31. Asked about the basis on which the ex-factory price of Rs. 2250 was accepted by the IOC, the Managing Director stated that there was only one other manufacturer of transformer oil at that time and that was the Power Cables Ltd., Bombay. IOC made enquiries from the DGS & D and found that their price of transformer oil was more or less in line with the ex-factory price of Rs. 2250 quoted by the firm. This price was accepted by the IOC on a temporary basis. The final acceptance of this price was subject to Government fixing the price.

The firm however, said that they would accept the Government's price not retrospectively but from the date on which it was fixed.

7.32. Subsequently in a written reply, the Committee were also informed that although the firm had furnished costing data for transformer oil, no evaluation or analysis of this cost build up was made by IOC, since they did not have any mechanism to do such evaluation.

7.33. The Committee were also informed that the question of price was not referred to the Board as the price accepted was on a temporary basis. The I.O.C. had since sought Board's expost factor approval for the purchase of 2025 kls. of transformer oil at a firm price of Rs. 2,250 per kl.

7.34. In reply to a question, the Managing Director stated during evidence that "there are two basic flaws in this (agreement). The first flaw is that at the time of issuing an industrial licence there was

no stipulation in the licence that 50 per cent of their production would go to IOC. The second flaw is that when this was recommended to Government the IOC did not have any written agreement with the party that IOC would have the option to uplift 50 per cent of the production."

7.35. As regards the reasons for the IOC not being able to sell their share of transformer oil, the Committee were informed that the present position was that the manufacturing capacity of transformer oil was in excess of the country's demand. The IOC did not manufacture transformer oil itself. It, therefore, became difficult for them to compete with the manufacture-*cum*-traders of transformer oil. Secondly, transformer oil had been used by some of the small manufacturers for adulterating edible oil. IOC had written to the Government suggesting that this was a health hazard and they had recommended that the sale and disposal of transformer oil should be given in toto to the IOC so that the Government could maintain control over the distribution of this product.

7.36. The Committee enquired during evidence of the Ministry the reasons for issuing industrial licence to the firm without settling the important issues regarding the marketing rights and the price payable for the products. The representative of the Ministry stated as follows:—

> "The firm applied for a licence for transformer oil in May, 1961. At that time, the application was not favoured. They pressed their proposal in September, 1962. This was also rejected. In 1963, they came again, when the IOC stated that they were themselves negotiating for collaboration for the manufacture of transformer oil. At that time, an expert committee had been appointed to examine all the pending proposals for the manufacture of transformer oil and it had determined the demand for it as 27,000 tonnes in 1966 and 40,000 tonnes in 1971. On this basis it was recommended that two plants should be put up, one at Bombay and another at Madras, each of a capacity of 15,000 tonnes. Correspondence continued with these parties and at the end of July, 1965, when the firm again applied, it was found that the IOC had made no progress in the matter of collaboration for the manufacture of that oil. The application of that firm and of the second party *viz.* Messrs. Power Cables were processed and were submitted to the Licensing Committee, recommending the application of Power Cables which did not involve any foreign equity and recommending the rejection of the firm

which involved 49 per cent foreign equity. Both the cases were submitted to the Foreign Investment Committee and again, the rejection of the firm's case was recommended. The Foreign Investment Committee considered the two cases on 1st November, 1965, and approved the proposal of Power Cables. At that time, no report had been received from the IOC regarding any discussion they might have held with the firm. The Committee decided that it had no objection to the proposal of the firm, subject to the discussions, being satisfactorily, concluded. On 20th November, 1965 the Chairman of the IOC wrote to the Secretary, Ministry of Petroleum and Chemicals that their own proposal for setting up of a transformer oil plant had been abandoned and that he had held discussion with the firm who had stated that Sonneborne were not interested in IOC coming in as a collaborator, but the firm were willing to give IOC the first refusal of their entire production at prices which would compare favourably with import parity and in addition, give IOC export rights for the plant as a whole. This application of the firm was then submitted on 20th December, 1965, to the Licensing Committee. The decision of the Foreign Investment Committee was brought out and it was also mentioned that the firm had agreed to the sale of products on first refusal to the I.O.C. This was, unfortunately, done against one of the paragraphs of the licensing form; but it was not done in the concluding comments of the Ministry. There is a paragraph which has to be given at the end, which says Recommendation of the Administrative Ministry. This was overlooked there. The mistake occurred from that point and this condition did not find a place in the licence that was issued to the firm. Later, the firm gave up foreign collaboration; or rather, they gave up foreign equity participation and the licence proceeded thereafter till, in July, 1971 it was brought to the notice of the Ministry that the plant of the firm was ready for operation; but due to lack of agreement on marketing arrangements for the finished product, the plant was not in a position to commence operation At that time, the firm refused to commit their product to IOC and they really went back on an agreement they had come to with the then Chairman of the IOC. The agreement had not been formalised and it exists only in the form of the letter which we have of ex-chairman. But the IOC had a handle. As such, the Ministry had decided that IOC would make the feed-stock available to the com-

pany, to enable it to commence production for the time being, on a share of the product on a 50:50 basis. This was an *ad hoc* decision to ensure that production commenced. It was also said that the question of distribution of products between IOC and the firm would be reviewed after some time since the firm received support of the Ministry for their product on the condition that they would give IOC the right of refusal to take over its entire production. The IOC decided on a commercial basis with the firm on price of Rs. 1650 per kilo litre in bulk. The I.O.C's contention was that this price was accepted on the condition that the final decision of the Ministry for the price would be obtained and the price would be retrospective. The firm did not accept this condition but agreed to abide by Ministry's decision about the price from the date such a decision came into force. This matter was referred to the Ministry in February and April, 1972. The firm in the meantime, had given an assurance to the IOC that their agent would not receive any better price term than offered to IOC. In May, 1972, in consultation with the Ministry of Industrial Development, the Cost Accounts Officer of the Ministry of Finance was asked to into the costing. The Cost Accounts Officer examined several units both in the large scale sector and in the small scale sector and came to the conclusion that the bulk ex-refinery price in December, 1972 would be Rs. 1528 per Kilo-liter in respect of the firm but he gave varying prices for different units and it would be found that unless Transformer Oil base stock price was uniform it would be difficult to have same price for all the units. IOC had lifted 2,025 kiloliters from April to July, 1972 and it found difficulty in selling it. It had in the meanwhile obtained concession from the firm that the product would be delivered free of cost at certain major locations—Delhi, Calcutta, Bombay, Cochin, Madras. The cost Accounts Officer said that the units had not worked for a sufficient period of time for him to evolve a proper costing basis. Later we have found this year that the Transformer Oil manufacturing facility is being abused on a large scale for the sake of adulteration of edible oils and we are going into the question of putting some controls on this industry. We have appointed a Committee last month with representatives of the D.G. Health Services, Indian Institute of Petroleum and the Research and Design Centre

> of the IOC to go into this problem and see what should be done to curb adulteration. The problem we are told, is serious enough for Government to step in with strong measures for curbs on adulteration and if necessary even total canalisation may have to be considered."

7.37. As regards the responsibility for issuing the licence without ensuring that a regular agreement was entered into between IOC and the firm, the witness stated that this question was gone into two or three years back by two separate officers who were not concerned with this and the conclusion of both was that it was through inadvertance. There was, no malafide involved.

7.28. Asked as to how the firm were able to sell 50 per cent of their share whereas IOC had not been able to do so, the witness stated as follows:

> "I do not think that final conclusion is warranted without a proper enquiry but I would only say that disposal of Transformer Oil has been in a manner which has promoted adulteration. The end use of it has not, perhaps, been as a Transformer. Oil. In fact, the Indian Institute, after examination of the samples has to see how far transformer Oil or base stock is going into as edible oil."

7.39. The representative of the Ministry also agreed during evidence that the price charged by the firm from IOC had ceased to be the market price. It was added that the Ministry requested the Ministry of Industrial Development to order an enquiry into the price because it was felt that the price of Power Cables which had a monopoly at that time was very high. The Ministry would prefer to wait for the results of enquiry before fixing the price and asking the IOC to represent the product of only one company. If it was decided that adulteration was a major danger, they would prefer to canalise the whole thing and to see that the transformer oil went to the Electricity Boards and Genuine Transformer Oil consumers and not to others.

7.40. The Committee also enquired as to whether the Corporation was able to secure orders from State Electricity Boards and the present position regarding the sale of IOC's Share of transformer oil. They were informed that when IOC entered the market, almost all contracts of Electricity Boards and the DGS & D were already finalised. IOC was, therefore, unable to immediately obtain any order from Electricity Boards. Subsequently, however, it has received orders from various State Electricity Board.

The position regarding disposal of transformer oil as on 31st August, 1973 was stated to be as below:—

(i) Orders received	2,050 Kls approx.
(ii) Quantity uplifted from the firms's DEPOTS .	1,806 Kls approx.
(iii) Quantity sold (Supplied) .	1,498 Kls approx.
(iv) Quantity reserved for Export .	224 Kls approx. (awaiting shipment)
(v) Quantity in stock with IOC	84 Kls approx.

7.41. On the sale of 1,498 Kls. as on 31st August, 1973 the gross margin was estimated at about Rs. 1.56 lakhs. If the interest is calculated at 9 per cent, the differential on interest on base oil advance vs. gross margin on sale effected worked out to:

(i) Interest on base oil advance @9% as on 31-8-73 (on approx. Rs. 42.79 lakhs)-Rs. 3.54 lakhs approx.	
(ii) Plus interest on base oil advance of Rs 2·12 lakhs (approx. made in July, 73 @9 % interest up to 31-8-73)	Rs. 0·02 lakhs approx.
	Rs. 3·56 lakhs approximately
(iii) Gross margin on sale of 1,498 Kls.	Rs. 1·56 lakhs approx.
(iv) Estimated differential as on 31-8-73	(—)Rs. 2·00 lakhs approx.

7.42. The Committee note that although the IOC had raw oil for the production of transformer oil and the Ministry enquired in April, 1963 from the Corporation whether they would like to take up the project, the IOC did not do so as, according to the Corporation, it was not able to secure any collaboration for the production of the transformer oil. Instead it issued 'no objection' to Government in November, 1965 on the proposal of a private firm—subject to negotiations being held for selling-agency rights as the firm was willing to give IOC the first choice of refusal of their entire production at prices which would compare favourable with import parity prices and also the export rights, if necessary. The Committee, however, regret to note that the IOC did not enter into any written agreement with the firm in this regard before issuing 'no objection' certificate on the proposal of the firm. The Committee also find that Industrial Licence was issued on 21st December, 1966 by the Ministry to the firm without settling the question of marketing rights and the prices payable for the products and without incorporating any of these

conditions in the licence. The Committee were informed that no responsibility for this lapse in the issue of licence was fixed by the Ministry as according to them the officers who enquired into this matter came to the conclusion that it was only a case of inadvertance and no malafide was involved. The Committee are not convinced and recommend that the matter should be re-examined and responsibility for lapses fixed.

7.43. The Committee also note that, subsequently, as a result of negotiations between the Ministry and the firm it was decided in July, 1971 that IOC would market 50 per cent of the total production of the firm and accordingly the firm agreed to supply 50 per cent of their production of transformer oil at the ex-factory price of Rs. 2,250 per KL packed in drums. (Rs. 1850 per Kl in bulk). The Committee regret to note that IOC accepted to lift the stocks at this price without the approval of the Board and without assessing the reasonableness of the price by analysis of the costing data furnished by the firm. The Committee were informed that this price was accepted on a temporary basis subject to its being fixed by Government. The Committee are concerned to find that the IOC even at this stage did not have any written agreement with the firm and it failed to commit the firm to accept the price fixed by Government with retrospective effect. As pointed out during the evidence, according to the Cost Accounts Officer of the Ministry of Finance the bulk exrefinery price in December, 1972 in respect of this firm should be only Rs. 1528 per Kilo litre as against a rate of Rs. 1850 charged from IOC. Although the firm was agreeable to abide by the price fixed by the Ministry from the date a decision was taken in this regard, the Committee regret to note that even after it became clear in December, 1972 that the price charged by this firm was higher the Ministry have not been able to fix a reasonable price for the transformer oil.

7.44. The Committee also note that during April to July, 1972, the Corporation was required to lift 2025 Kls. of transformer oil earmarked by the firm. However, since the Corporation could not secure any order for sale as the selling price was not competitive, it was unable to lift its share of the oil. It, however, supplied on credit base stock worth Rs. 42.79 lakhs to the firm between May to August, 1972. The Committee were informed that out of 2,025 Kls. of transformer oil earmarked by the firm under the agreement, the Corporation was, upto 31st August, 1973, able to dispose off only 1498 Kls. While the Corporation made a gross profit of Rs. 1.56 lakhs on this sale, it incurred a loss of Rs. 3.56 lakhs as interest upto 31st August, 1973 on the blocked capital of Rs. 44.91 lakhs representing

the value of base stocks supplied to the firm on credit. The Committee are constrained to observe that the entire deal with the firm had been finalised by IOC without a careful analysis of the contractual obligations and financial implications thereof. The Committee, therefore, recommend that Government should conduct a thorough investigation into the matter so as to pinpoint the lapses at the various stages and also fix responsibility for the loss suffered by IOC.

7.45. The Committee were also informed during evidence that transformer oil manufacturing facility was being abused on a large scale for adulteration of edible oil and Government have appointed an Enquiry Committee to go into this problem. The Committee understand that the final decision regarding the canalisation of the sale of transformer oil and the selling price for it would be taken on the basis of findings of this Enquiry Committee and the results of the inquiry being conducted by the Ministry of Industrial Development in regard to the price. The Committee would like to be informed urgently of the decision taken in this regard.

C. Agreement for sale of lubricants to other oil companies

7.46. In December, 1968 the Corporation estimated that against the total production of lube base oil of about 2,00,000 tonnes per year from the Madras Refinery (commissioned in June, 1969), the demand in Southern area would be around 70,000 to 80,000 tons per year. It, therefore, came to the conclusion that even with the best market participation certain quantity of lube base stocks would have to be sold to other oil companies. Accordingly, agreements to sell the following quantities of lubricating oils (after blending at the Corporation's lube blending plant at Madras) were concluded with other oil Companies in February, 1969:—

	In kl. per annum
Burmah-Shell	25,000
Esso	15,000
Caltex	8,000
Tide-Water	2,100
Gulf	2,400
Castrol	4,000
	56,500

7.47. The lube blending plant of the Corporation started production from April, 1970. The agreements are effective from the date

IOC commenced blending of finished lubricants and are to remain in force for a period of 5 years, to be extended further unlessterminated by either party by giving one year's advance notice after the expiry of the initial period of four years. The following quantities of lubricating oil were supplied during 1970-71 and 1971-72:—

(in kls.)

	1970-71	1971-72
(i) Premium grade lubricants	14,155	14,663
(ii) Other lubricants	13,116	10,236
	27,271	24,899

7.48. On the sale of above quantities of lubricating oil, the other oil companies are entitled, under the pricing formula in force, to recover marketing charges of Rs. 43.88 lakhs and profit margin of Rs. 12.31 lakhs which would have accrued to the Corporation of these quantities had been sold directly by it.

7.49. The Management stated that "based on the forecast of the total demand in Madras area and also the most hopeful estimate of the Corporation's own market participation, it was considered necessary to sell some finished lube oils and it was, therefore, necessary in the overall interest of the country to sell the finished lube oils to other oil companies. It is in this context that the agreements were concluded with other oil companies. Moreover, there was limitation of a number of retail outlet where lubricants could be sold."

7.50. Out of 24 grades of the secondary grade lubricants manufactured at the Corporation's lube blending plant at Madras, the comparative data of average cost and selling price of direct customers in respect of 8 grades during 1970-71 and 11 grades during 1971-72 (as made available by the Management (revealed that selling prices of 3 grades during 1970-71 and 10 grades during 1971-72 were lower than the average cost by Rs. 78.10 to Rs. 125 per Kl. and Rs. 71 to Rs. 375 per Kl respectively There were also several individual cases where the Corporation incurred losses in the sale of lubricants and greases.

7.51. Although sale below cost in each of these cases was not within the powers delegated by the Board of Directors to the Managing Director, sanction of the Board was not taken in any of these cases.

7.52. The Committee enquired about the reasons for entering into agreement with other oil companies for the sale of lubricating oils.

They were informed by IOC that their desire was to achieve maximum production of lube base oil at Madras Refineries Ltd. (MRL) thereby reducing import of lubricating oil base stocks. Since other oil companies were enjoying a sizeable business of their proprietory brands of lubricants and greases and consumers were brand motivated in their purchasing habits, IOC contemplated difficulty in disposing of the total production of MRL by itself in the initial few years. Their assessment was that within a period of approx. 5 years time, IOC would be able to capture a major share of lube oil trade in the country and cater to the entire range of industries whereby it could fully utilise the total indigenous production. At the same time IOC could not afford to create a situation whereby the consuming public or the industry would be starved of essential supplies of lubricants.

7.53. IOC in the last few years had developed its lube oil trade and presently it was covering an entire range of lubricants with a market participation of approx. 55 per cent.

7.54. Thus the short term agreement entered into with the oil companies for the supply of finished lubricants at Madras Lube Blending Plant was designed to give IOC sufficient time to develop their product range and sales net work and eventually utilise the entire production at MRL by itself. A unique and important feature of the agreement was that IOC had been able to persuade the major oil companies to accept lubricating oils including their international premium grades blended according to IOC's own formulations.

7.55. During 1972-73 IOC had sold a total quantity of 37,824 Kls. to the other oil companies ex Madras Lube Blending Plant as against the contracted quantity of 56,500 Kls.

7.56. The Committee enquired during evidence the reasons for selling lubricants below cost without the approval of the Board of Directors. The Managing Director stated that in view of the block control scheme, where the margin on lube was based on average and not on each product, it was not considered necessary to obtain the Board's approval. The Board was aware of the losses on lubes through various agenda items submitted to the Board in the form of budgets. However, as the Audit felt that it was necessary to obtain approval of the Board an agenda item covering the whole range of lubes was submitted to the Board in February, 1973.

7.57. The Finance Director of IOC, however, stated during evidence that the procedure was that the sales of petroleum products to private parties at rates below cost should not be entered into without the prior approval of the Board. The confusion was that it was

understood in the Marketing Division that in case of lubricants, where there was a system of block control, the profit or loss was to be taken in totality and not for each type of oil. It was pointed out to the Marketing Division that it should not have been so as that would amount to an individual item being sold below cost. There after a general note on the sale of lubricants was put up to the Board for its consideration on 23rd February, 1973. The Board remitted the whole case to the Finance Director for consideration and for giving such remarks as were necessary. These remarks were furnished about 16-17 weeks ago and the matter was still under consideration by the Managing Director.

7.58. The representatives of IOC also admitted that even the principle of considering the profit or loss in totaliy was not adhered to in giving the sanction, as the IOC suffered an overall loss of about Rs. 8 crores on the sale of lubricants. The Government had now allowed adjustment of this loss from C. & F. Adjustment Account.

7.59. Subsequently in a written reply the IOC furnished the suggestions made by the Finance Director and the preliminary comments of the Managment thereon. (Appendix IX).

7.60. The Committee find that IOC had to enter into agreements with other oil companies in February, 1969 for the sale of lubricating oils after blending them in its blending plant at Madras because of its inability to sell the entire production on account of inadequacy of retail out lets. As a result, the Corporation had to forgo the marketing charges (Rs. 43.88 lakhs) and profit margin (Rs. 12.31 lakhs) on the sale of 52,170 Kls. of lubricating oils during 1970-71 and 1971-72. The Committee are informed that the short term agreement for 5 years with other oil companies was designed to give IOC sufficient time to develop their product range and sales net work and to eventually utilise the entire production at Madras Refineries Ltd., by itself. They find that even in 1972-73 the IOC had sold a total quantity of 37,824 Kls. of lubricating oils to other companies as against the contracted quantity of 56,500 Kls. The Committee recommend that IOC should take concerted measures to develop its lube oil sale in the country so that it may be able to sell the entire production and cater to the complete range of industries after the expiry of the present agreement with other oil companies.

7.61. The Committee also take a serious view of the fact that in several cases IOC sold lubricants and greases below the cost of production without the approval of the Board of Directors although

such sales below cost were not within the powers delegated to the Managing Director. It was only in February, 1973, after the matter was raised by Audit that a general note on sale of lubricants was submitted to the Board of Directors requesting them to regularise loss in the earlier years and to continue the sale of lube oil at prices fixed by the Government from time to time. The Committee are informed that the matter was referred by Board to the Finance Director and is awaiting re-consideration by the Board in the light of the observations of the Finance Director and the comments of the Management thereon. The Committee would like to be informed of the final outcome in the matter, and the action taken to regularise these sales.

D. **Sale of Lubricating Oils**

7.62. In terms of an agreement entered into with six other private oil companies in February, 1969, the Company agreed to sell, for a period of five years, a total quantity of 56,500 Kls. per annum of lubricants manufactured at its Madras Lube Blending Plant. Although under the agreement the Company was not bound to supply more than 50 per cent of the total quantity as lubricating oils having a viscosity index higher than 90, it sold an aggregate quantity of 28,818 Kls. of products of high viscosity index and 23,352 Kls. of products of low viscosity index during 1970-71 and 1971-72 in the case of one company in 1970-71 and two companies in 1971-72, the total sale of products of high viscosity index was even more than 50 per cent. of their total annual contracted off take. Had the Company insisted upon supplying products of high and low viscosity index in equal proportion, it could have avoided a loss of Rs. 5.90 lakhs incurred on the sale of products of low viscosity index.

7.63. The local management have stated (January, 1973) "We agree with the contention of the auditors to the effect that IOC shall not be bound to supply more than 50 per cent of the total quantity as lubricating oils having viscosity index higher than 90......Lube Plant, Madras have indicated that agreement does not stipulate that the other oil companies should uplift equal quantity of low viscosity oils as compared to heavy viscosity oil."

7.64. The Management informed the Audit in June, 1973 as follows:—

> "The agreement with other oil companies for sale of finished lubricants ex-Madras Lube Blending Plant was entered into with the idea that IOC will not be able to move the full production of MRL and to sell by itself—Traditionally

the requirements of LVI grades in Sourthern Region is comparatively lower than the demand for LVI oils in other areas. Since other oil companies had inadequate supplies of HVI oils at every port supply point and also they were having large consumption due to their well established net-work of Retail outlets, they went out of the way to move their HVI oils in Box wagon loads to far off locations. On the other hand IOC with limited number of Retail outlets were finding it difficult to increase Retail Out sale of Lubricating oils...... Due to limited consumption of LVI grades in the Southern Zone and transportation bottleneck experienced in moving LVI oils in bulk, we could not insist these companies to uplift 50 per cent of LVI grades and starving them of their requirements of HVI grades."

7.65. The Committee were informed by the IOC that by and large supplies to other oil companies of HVI and LVI finished lubricating oils were made on 50 : 50 basis ex-Madras Blending Plant. The ratio of HVI/LVI grades during the first two years *i.e.*, 1970-71 and 1971-72 was 55.24 : 44576. Measures have been taken to enforce 50 : 50 ratio of HVI and LVI supplies in future. The ratio of HVI/LVI grades supplied to other oil companies during the year 1972-73 and during the first 5 months of 1973-74 were as under:—

Period	HVI	LVI
1972-73 . .	51%	49%
April 1973-Aug'73	48·43%	51·57%

7.66. As against the contracted quantity of 56,500 KL. IOC had supplied during the year 1972-73, 19,291 KL. of HVI oils and 18,533 KL. of LVI oils. The HVI supply was marginally higher.

7.67. During the years 1970-71 and 1971-72 MRL faced problems in the production of high viscosity HVI base oil (which was in great demand for blending finished Motor Oils) but were able to offer lighter grades of HVI base oils with the result the lighter grades of HVI oils were in surplus. Because of IOC's own requirement of high viscosity HVI base oil at Madras/Calcutta the use of this base oil for blending finished products for other oil companies was restricted. However, because of the surplus availability of lighter HVI base oils these were used in blending finished grades for other oil companies

as per their demand with a view to create ullage and help MRL in maintaining production.

7.68. The oil companies uplifted the finished HVI grades in their containers and part of these grades had been moved to far off locations in box wagons.

7.69. Since the demand of LVI grades of oils in Southern Zone was limited and LVI grades are normally moved in bulk the oil companies could not arrange movement in the required quantities because of railway booking restrictions. As a result IOC could not insist on these companies to uplift more of LVI grades. Further more, because of increased availability of lighter grades of HVI base oils from Madras Refinery over and above IOC's own requirements, IOC was able to release more of HVI finished grades to these companies where these lighter grades could be utilised.

7.70. The Committee find that the IOC sold to private oil companies an aggregate quantity of 28,818 Kls. of products of high viscosity index (higher than 90) and 23,352 Kls. of products of low viscosity index during the years 1970-71 and 1971-72 although under the agreement the Corporation was not bound to supply more than 50 per cent of the total quantity of lubricating oils of H.V.I.

7.71. The Corporation incurred a loss of Rs. 5.90 lakhs on the sale of products of low viscosity index as these had to be moved to far off stations. This loss could have been avoided had the Corporation insisted upon supplying products of H.V.I. and L.V.I. grade in equal proportion.

7.72. It has been contended by the Management that the agreement does not stipulate that other oil companies should uplift equal quantity of low viscosity oils as compared to heavy viscosity oil. The Committee are unable to agree with this view. In the opinion of the Committee the contention that an oil company can purchase any quantity of high viscosity index without purchasing equal quantity of products of low viscosity index is not tenable as otherwise an oil company can get away with purchasing up to 50 per cent of its annual contracted quantity only of the profitable high viscosity index grades without purchasing any quantity of un-remunerative low viscosity index grades. The Committee have also elsewhere in this Report commented on the loss suffered by the Corporation on account of sale of lubricants to other oil companies because of non-development of adequate retail outlets.

VIII

OTHER OPERATIONS

A. Contract for Affreightment of Crude.

8.1. The Ministry of Petroleum and Chemicals informed the Managing Director (Marketing Division) on 12th February, 1972 that Government had agreed to procure and supply five lakh tonnes of crude oil to Eastern Refinery, Chittagong during the period March to August, 1972 at the rate of one lakh tonnes per month. The Corporation was asked to float enquiries and to finalise arrangements for the import of crude to obviate interruption in the operation of the Refinery.

8.2. On 10th March, 1972, Chairman, IOC's office finalised a contract with M/s. CFP of Paris for the supply of one lakh tonnes of Murban Crude from Jabal Dhanna and four lakh tonnes of Aghajari crude from Kharag Islands and asked the Marketing Division to make arrangements for affreightment.

8.3. The Marketing Division floated an enquiry on 14th March, 1972 calling for quotations to be kept open upto 18.00 hrs. IST on 15th March, 1972. A firm indication of freight rate was also given in the tender as "Firm Freight rate U.S. Dollars 5.50 repeat $5.50 per long ton." Two offers (by telex) were received, one at 10.45 hrs. on 15.3.1972 at U.S. Dollars 5,.50 per long ton" and the other at 1.30 p.m. on 15-3-1972 at U.S. Dollars 6.65 per tonne. The third party telexed at 16.30 hours on 15-3-1972 (received in telex room at 16.10 hours requesting for extension of time till 16th March, 1972. Subsequently, this party sent an offer on 15-3-1972 at 16.40 hours in the Corporation's telex room quoting a rate of U.S. Dollars 5.45 per long ton, later on revised to U.S. Dollars 5.40 per long ton at 20.45 hours on the same day. In the meantime, the offer of the first party at 5.50 per long ton was accepted by the Corporation and communicated to the party on telex at 18.50 hours and also personally delivered to the party's representative in IOC's office at 16.30 hours.

8.4. On 7th August, 1972 the Chairman appointed a Committee of three officers of the Corporation to enquire into the procedure of tendering followed before placing the contract in this case. The

Enquiry Committee in its report dated 27th September, 1972 *inter alia* observed as under:—

(i) The time given to the brokers to quote and keep their offers open was only 24 hours.

(ii) The wording in the telex dated 15th March, 1972 received from the first party at 10.45 hours reading "we thank you for your firm offer account Halcousis which was given to us personally yesterday as hereunder", seemed to be significant.

(iii) The firms were asked only to keep the offers open upto 18.00 hours on 15-3-1972. No indication of closing date and time upto which the tender should be given by the parties was given in the tender. This assumes special significance in view of the fact that a lower offer was actually received at 16.40 hours.

(iv) Conveying of acceptance to the first party at 16.30 hours itself has deprived IOC of a cheaper rate of $5.45 (later on reduced to $5.40).

(v) The oriiginal offer of the first party which was received at 10.45 hours on 15-3-1972 had indicated 36 hours as the lay-time at the loading port. This period of 36 hours was subsequently changed to 72 hours under the signature of the party. The date and time when this change was made is not known. In the note dated 23-3-72 put up to the Managing Director (Marketing) the fact that this party had indicated a lay-time of 72 hours (as against 36 hours indicated by the other two parties) was given as one of the relevant factors for awarding the contract to this party.

(vi) The tender enquiry issued on 14-3-72 gave a firm indication of freight at $5.50 per long ton. This means to be unusual and the officers concerned in the Marketing Division could not point out any other instance of tanker chartering where such a procedure was earlier adopted. The mention of a specific rate, contrary to past practice, did not have the concurrence of Finance or the approval of the Managing Director.

(vii) The Committee was not shown any contemporaneous record as to how the rate of $5.50 was arrived at. In a note dated 23rd March, 1972 put up subsequently to the Finance/M.D. (Marketing) for concurrence|approval, it was

mentioned that economic rate worked out to $6.13 per long ton after taking into account a basic freight rate of world scale 110 (corresponding to $3.71 per long ton from Kharg Island to Chittagong) and lighterage, demurrage, etc. The Committee felt that this rate of $6.13 was rather on the high side in view of:—

(a) The lowest rate of world scale 90 (corresponding to $3.03 per long ton) quoted by a broker on the 10th March, 1972;

(b) The applicable rate per higher capacity tankers actually used (33,600 to 50,700 tons) would have been much less than the rate for lower capacity tankers (20,000 to 25,000 tons) taken into account for working out the rate;

(c) One lakh tonnes were moved from Jabal Dhanna for which the basic freight rate was cheaper by 16 cents; and

(d) Lighterage and demurrage rates adopted were more than the current market rates.

8.5. The Chairman, IOC after considering remarks of the Managing Director (Marketing Division) dated 27th October, 1972 on the report of the Enquiry Committee *inter alia* observed as under on 13th November, 1972:—

"In the totality of the circumstances obtaining at the time and having regard to the current practices in the matter of chartering tankers, I have no reason to disagree with the Managing Director (Marketing Division's) conclusion that this was the best possible arrangement which IOC could conclude."

"However, in my opinion there are some areas where the dealing officers could have shown more caution in processing this case. As it appears, this arrangement involving payment of freight to the tune of Rs. 2.5 crores and, therefore, it would have been more desirable if all, the papers relating to this arrangement were meticulously arranged and documented so as to indicate the timings and receipt of various papers, records of discussion there on different levels etc. Also in view of the high financial involvement it would have been desirable to associate Finance Department at more senior level and to have secured the

prior approval of the Managing Director (Marketing Division) before finalising this deal."

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"A plain reading of this party's telex received at 10.45 hours on the 15th March, 1972 does give the impression as if some one from the IOC had already made up his mind on the previous day and handed over the firm offer to this party. This is a mystery which still remains unsolved. But for this the entire arrangement concluded would have in my opinion, been unquestionable I would, therefore, like this and/or any other aspect covered in the Report to be looked into in depth from vigilance angle by the Chief Vigilance Officer."

8.6. From the Report of the Enquiry Committee it is also seen that on the 18th March, 1972 IOC sent a telex to DG Shipping giving details of the figure and sought approval for finalising the contract and also for foreign exchange release. No approval has been received from DG Shipping so far.

8.7. In the note put up to Managing Director on 23-3-1972, it was stated that Dy. DG Shipping had informed on phone that there was no necessity for him to give approval since this transaction was from one foreign country to another foreign country (PG/Chittagong) and IOC was asked to take the approval from the Ministry of P&C. On 27th March, 1972 a further reminder was sent by IOC for giving clearance. DG Shipping on the 24th March, 1972 sent a letter (received on 27th March, 1972 by IOC) which was to the following effect:—

"(1) The proposed contract does not seem to be in accordance with the general policy under which the tonnage requirements of a public sector undertaking like the IOC should be met as far as possible by a public sector shipping Company like the Shipping Corporation of India.

(2) In any case, it is considered that Indian Shipping Companies, should have been given an opportunity to offer ships direct to the IOC before the latter invited offers in the open market. This would have enabled Indian tonnage to be utilised to the extent possible resulting in saving of foreign exchange. In the proposed contract, there does not seem to be any provision for the utilisation of Indian tankers on a preferntial basis.

(3) In the case of a large movement of this nature, involving payment of freight amounting to crores of rupees in foreign exchange, it would have been advisable to entrust the chartering arrangements to the Central Chartering Committee in the Ministry of Shipping and Transport, New Delhi, particularly when the panel of Ship brokers who deal with that committee give world coverage and the service rendered by the chartering committee is free of charges.

(4) It is observed that the party to whom the contract is proposed to be awarded are neither ship owners nor agents to Ship Owners, but are only a firm of brokers who propose to arrange charters from different owners. It is not usual nor does it seem advisable for such large contracts to be entrusted to brokers who do not have any tonnage readily at their disposal.

(5) If, however, the party propose to act as tramp operators by chartering foreign tankers, it may be pointed out that it is not the policy of the Government to permit parties who do not own ships to time charter foreign ships and enter shipping business.

(6) Since the party is an Indian party, it is not clear why under the proposed contract freight is required to be paid in London in dollars.

(7) It is understood that you invited offers on the basis of a freight of 5.50 dollars per ton. It is not customary for charterers to make enquiries in the open market indicating at the same time their own idea of freight. It is understood that this was pointed out to you by the Central Chartering Committee, Ministry of Shipping and Transport immediately when they came to know about your tender enquiry."

8.8. IOC again took up the matter with the DG shipping that they had been taken by surprise, in as much as what was conveyed to IOC over telephone in reply to IOC's letter dated 18th March, was entirely different. Further correspondence was exchanged and the DG Shipping informed on 30th March, 1972 that there had been some misunderstanding in the telephonic conversion between Dy. DG Shipping and IOC. It was stated that in view of the comments already given, DG Shipping was unable to concur in the arrangements.

8.9. The Committee enquired the reasons for giving a short notice of only 24 hours to the parties for responding to the tenders. They were informed that on the 12th February, 1972, the Ministry of Petroleum and Chemicals directed the IOC to procure and supply 5 lakh tonnes of crude oil to the Chittagong Refinery. The Refineries and Pipelines Division of IOC undertook the work of purchase of crude and the Marketing Division of IOC was given the responsibility of transporting the crude.

8.10. On the 25th February, 1972, the Marketing Division floated enquiries for tankers. The basic pubpose in these enquiries was to ascertain the ruling market trends. As the purchase of crude was not finalised the tanker charter could not be firmed up then.

8.11. As IOC was in the market for tankers since 25th February, 1972, the world market was aware of this transportation requirement of IOC.

8.12. There were two other reasons why such a short notice of 24 hours was given to the parties for responding to the tenders:

(1) Abnormal conditions were prevailing in and around Chittagong Port. At about the same time, a tanker had actually struck a mine and in another instance, a tanker owner had withdrawn his vessel and run away without fulfilling his contract. Even the Shipping Corporation of India was not prepared to send one of its tankers without sufficient guarantees. A tanker called "Cosmos Pioneer" which had been contracted earlier by IOC to transport crude to Bangla Desh was sending messages that it had spotted mines all over the entrance to the harbour and that the harbour constituted a grave threat to navigation.

(ii) In view of this abnormal condition prevailing in the Port, it was felt that the tanker contract should be clinched as quickly as possible and that any extra time given to the owners would result in their jacking up the rates.

8.13. In regard to the question whether the time of 24 hours was reasonable or not, the Shipping Corporation of India had given an expert opinion on this as follows:—

"We are of the opinion that 24 hours time limit for brokers to come back with firm offers is quite adequate. There

are instances where longer time is allowed, but this is mainly to suit the convenience and there is no hard and fast rule. Generally, however, 24 hours time is considered quite adequate."

8.14. Asked about the reasons for not giving any indication in the enquiry about the closing date and time for the tenders the IOC stated that "it is not our general practice to give any closing date and time for tanker enquiries".

8.15. Asked as to why a firm indication of the freight rate was given in the tender notice, the Committee were informed as follows:—

(i) There was an extreme urgency for arranging the supply of crude to Chittagong Refinery in view of the fact that the Refinery was almost on the point of closure for want of crude. Bangla Desh was reeling in a war ravaged economy and they had no coal or other major sources of energy and were heavily dependent on petroleum. The supply of crude to Bangla Desh was promised by the Prime Minister to be undertaken on a priority basis.

ii) The indications of $5.50 per ton as the maximum rate meant that anybody desiring more than that, need not respond to offer. The intention was that IOC did not want to enter into prolonged negotiations, as the maiden supply of crude was expected around the 25th March, 1972 which hardly left any time to co-ordinate the planning of tankers to uplift the crude from ports of loading, availability of product with the suppliers and the Chittagong Refinery's capacity to receive the crude, etc.

(iii) The Shipping Corporation of India, whose opinion was sought at a later date in regard to the practice of indicating rate ideas had given its opinion as follows:—

"although it is not the normal practice to indicate the ideas at the time of issuing enquiries, it is not unusual to indicate the rate ideas."

8.16. As regards, the basis on which this rate was arrived at, the IOC stated it was based on the current trends of world tanker chater rates, IOC had worked out an economic rate of $6.13 per ton, using 20,000 tonners at world scale 100 and lighters and based on past experience at Chittagong. The conditions at Chittagong continued to the causing anxiety on account of

existence of mines, besides the onset of the monsoon from April onwards during the period of the contract. There was a possibility of deeper draft vessels being allowed, i.e. upto 33' draft. The corresponding rate on monther ships was expected to come down accordingly. Therefore, instead of a rate of $6.13 worked out by IOC, a rate of $5.50 per ton was quoted. Even though there was an advantage of 3' additional draft (33' against 30'), this was to a certain extent nullified by the demurrage accruing on larger vessels on account of additional tonnage.

8.17. The Committee were also informed that IOC would have considered and any rate less than that was always acceptable to it if received in due time. The fact that the late offers of $5.45 and $ 5.40 were quite close to the rate of $ 5.50, would indicate the reasonableness of the rate which was offered. Incidentally, there was a great possibility of fake offers being made after the award of the work. In this particular case, the lower offer of $ 5.4/$ 5.40 was made by a party who, only a little earlier, had requested for a 24 hour postponement of the time schedule.

8.18. As regards the justification for closing the tenders at 16.30 hours, the following reasons were advanced by IOC:

(i) IOC had indicated in the tender that the offers should be kept open till 18.00 hours on 15th March, 1972. This would mean that sufficient time should be given to the parties to communicate with the tanker owners who are generally outside India. The tanker market is basically operated from London.

(ii) The charterer had in turn to convey the acceptance of the contract to the tanker owners in due time, as his offer beyond the due time would stand automatically cancelled. It is, therefore, absolutely necessary that a reasonable time is given for this communication. In this case, 1½ hours time was kept open for communication, so that acceptance of the offer reached the owners by 18.00 hours IST.

(iii) IOC had not anticipated a lower offer from a party who had just half an hour ago sought permission for an extension of the period by a day. Actually when the offer was received, IOC had taken a decision in regard to the contract which legitimately gave rise to an element of doubt as to the bonafides of the offer itself.

8.19. The Committee also enquired the present position regarding the investigation of the matter by the Chief Vigilance Officer. They were informed by the Ministry that the Chief Vigilance Officer submitted the Report to the Chairman, IOC in December, 1972. The Chairman forwarded the Report without any comments to the Ministry in February, 1973.

8.20. The report of the Chief Vigilance Officer of the Indian Oil Corporation was at present in original with the CBI to whom the matter had been referred by the Ministry on 11th June, 1973.

8.21. As regards the present position about the investigation of the case by the CBI the representative of Ministry stated during evidence that "we have received an interim report which showed that the CBI had not really thrust so much fervour into this investigation. Our record is also with the CBI."

8.22. The Committee also enquired whether there was any change in respect of the procedure for inviting tenders. The representative of the Ministry stated that after this experience and after the publicity which this case received in some Indian and Bangladesh newspapers, the IOC had started sending all Charter enquiries to "Transchart".

8.23. The Committee note that the Ministry of Petroleum and Chemicals informed the Corporation on 12th February, 1972 about their commitment to procure and supply 5 lakh tonnes of crude to Chittagong Refinery during the period March to August, 1972 and asked the Corporation to float enquiries and finalise arrangements for import of crude. On 10th March, 1972 the contract for supply of crude having been finalised, the Marketing Division was asked to arrange for the affreightment. The Corporation floated an enquiry on 14th March, 1972 calling for quotations to be kept open upto 18.00 hrs. IST on 15th March, 1972, giving inter alia, in the quotation, a firm indication about the freight rate at $ 5.50 per long ton. The Committee also note that while two offers were received, one at 10.45 hrs. on 15th March, 1972 with the rate of $ 5.50 per long ton and another at 13.30 hrs. on 15th March, 1972 with the rate of 6.65 dollars per tonne, a third party first telexed at 18.10 hrs. on 15th March, 1972 asking for extension, but later sent an offer on the same day at 16.40 hrs. quoting a rate of 5.45 dollars per long ton (subsequently revised to 5.40 dollars per long ton at 20.45 hrs. on the same day).

8.24. In the mean time, the offer of the first party at 5.50 dollars per long ton was accepted by the Company and the letter of accep-

tance by the Corporation was personally delivered to the party's representative in IOC's office at 16.30 hrs. The Committee were informed during evidence that the whole matter had been handed over to the CBI on the 11th June,, 1973 for investigation. The Committee desire that the investigation by the CBI should be completed soon and Government should on receipt of the report of the CBI examine all aspects of the case thoroughly with a view to fixing responsibility for any lapses and to take suitable remedial steps to avoid recurrence of the same. The Committee may also be informed of the action finally taken in the matter.

B. Supply of Imported Lubricants to other Oil Companies

8.25. In 1967, the Ministry of Petroleum and Chemicals approved import of 25,000 tonnes of Engine Oil from Rumania by IOC under the trade agreement between the two countries. Later on, further additional imports were allowed from Rumania so that the other oil companies could be given a share from these imports. During the period 1967-68 to 1970-71, products worth Rs. 7.66 crores out of the imports were supplied to other oil companies. Out of this products worth Rs. 3.13 crores were given to Esso on a 'Loan basis' unlike other oil companies which were given the product on out-right sale basis. No written agreement was exchanged between IOC and Esso but the intention was that Esso would return the product 'tonne for tonne' from out of their consignments of imports on their own licence. Esso have not returned the products so far.

8.26. The Committee enquired about the present position regarding the return of products by Esso. They were informed by IOC that Esso agreed to receive supplies on 'Loan Account' to be repaid by them by importing the products from Rumania on the licences issued to Esso by the Government of India, which would have avoided the incidence of sales tax. Esso preferred this procedure as the methods adopted in case of other marketing companies had an element of risk as no clear ruling on sales tax for sales effected in the course of import was available. Esso's proposal to import on their own licence did not materialise on account of Rumanian suppliers' refusal to arrange shipment on the letter of credit to be opened by Esso. In view of this. import licences obtained by Esso with requisite Letters of Authority were handed over to IOC, which were utilised by IOC for importing additional quantity of Engine Oils over and above the imports against IOC's own licences Esso handed over to IOC three Import licences for a total CIF value of approximately Rs. 280 lakhs, which were utilised for importing Engine Oils in replacement of the products loaned to Esso.

8.27. Since import from Rumania ceased owing to indigenous availablity ex-Lube India, Esso could not obtain import licence for repaying the balance quantities outstanding.

8.28. Since there was no possibility of Esso repaying IOC out of imports, in order to regularise the transaction, and to maintain the same volume of availability, Esso made a proposal to repay to IOC likewise quantities of comparable grades ex-Lube India out of their entitlement of Lube India products. Since this would have reduced Esso's product availability, they had proposed to buy an equivalent quantity from IOC at the previously prevailing prices. IOC had not accepted Esso's proposal for a settlement on the previously prevailing prices. The matter was still being negotiated with Esso. Their deposit of Rs. 312 lakhs was with IOC.

8.29. The Committee find that Government allowed IOC to import engine oil from Rumania during 1967-68 to 1970-71 and the private oil companies were also to be given a share from these imports. Out of the total imports of Rs. 7.66 crores of engine oil from 1967-68 to 1970-71, engine oil worth Rs. 3.13 crores was given to ESSO on loan basis. In repayment of this, ESSO handed over three import licences for a total C.I.F. value of about Rs. 2.3 crores which were utilised by IOC for importing engine oils. In regard to the balance, due to restrictions on imports, ESSO had proposed to repay the products out of their entitlement of Lube India products subject to the condition of their purchasing an equivalent quantity from IOC at the previously prevailing prices. This proposal was not, however, agreed by IOC. The Committee feel that the products which were taken by ESSO on loan basis should have been returned by it in time on 'tonne for tonne' basis to the IOC. In the opinion of the Committee, the suggestion of the ESSO to repay the product after purchasing an equivalent quantity from the IOC at the previously prevailing price would give ESSO, an unintended benefit in the context of the increase in price of the Engine Oil. The Committee recommend that the price payable for the product to be taken by ESSO from the I.O.C. should be carefully decided after taking into consideration the prevailing market conditions when such sales are actually effected.

8.30. The Committee also note that Government have already have decided to purchase 74 per cent. of the shares of ESSO and pay them the requisite compensation in this regard. The Committee suggest that Government should take this opportunity of settling the dues outstanding against ESSO before the amount of compensation is finally paid to the firm.

8.31. As mentioned in paragraph 8.25 above, out of engine oil imported from Rumania by IOC during the period 1967-68 to 1970-71, products worth Rs. 4.53 crores were supplied on out-right sale basis to oil companies (other than ESSO). Initially when supplies were made to other oil companies, they were billed for the price of lubricants, service charges at 5 per cent and in addition sales tax at 5 per cent. Early in 1968, Burmah Shell and later other oil companies objected to charging sales tax and suggested that these transactions should be treated as 'Sales in the course of imports'. The Sales Tax Consultant of the IOC, however, opined that these sales not be construed as "sales in the course of import" and should be treated as local sales and sales tax recovered on these transactions. The other oil companies, however, argued that this would put them to disadvantage when compared to IOC because of the payment of sales tax and service charges. They also contended that according to the advice given by a leading Sales Tax Consultant, these transactions could be treated as 'sales in the course of imports'. The suggestion of IOC for making a reference to a common Consultant or to refer the matter to the Commissioner of Sales Tax for a ruling was also not accepted by other Oil Compaies, Instead, they came forward to indemnify IOC in respect of costs demands and expenses that IOC might incur on a future date before the sales tax authorities for treating the transaction in question as 'sales in the course of imports'. The IOC agreed to this proposal and obtained indemnity letters from all the Companies. The entries in the books, regarding claim on sales tax, were reversed so that when the sales tax assessments were made, the sales tax authorities could be convinced that the eitire transaction was intended to be treated ab initio as 'sales in the course of imports'.

8.32. In case of sales effected in Eastern Branch, the Sales Tax authorities of West Bengal did not accept the IOC's contention to treat the transaction as 'sales in the course of import'. When this case was pointed out by the Internal audit, the management explained that this had happened as the case was not properly presented to the Sales-Tax authorities. An appeal has been filed against the order of C.T.O. but the same had not been taken up for hearing so far.

8.33. Further, on 5th April, 1971 IOC entered into a fresh contract with M/s. Petrol export, Rumania and on 28th May, 1971 an order was placed for quantities required to be imported. A meeting was held on 29th June, 1971 with the representatives of all Oil Companies (except Esso) when it was decided that pre-dated letter, dating them prior to placing of the order *viz.*, 28th May, 1971 should

be exchanged between IOC and other Oil Companies indicating the quantity and grade required by other Oil Companies and IOC confirming the same so that the whole transaction pertaining to this contract could be viewed as sales to other oil companies 'in the course of import'.

8.34. The Committee enquired the reasons for treating the supplies to other oil companies as 'Sales in the course of imports'. They were informed that, at the outset, IOC held the view that the supply of Imported Engine Oils to other oil companies would attract sales tax. But, the other oil companies had argued that the entire import of Rumania oil was for the whole industry as decided by the Ministry and the sales could be brought under the ambit of "sales in the course of import'. They further opined that the increase in the contracted quantity and subsequent order on foreign supplier by IOC could well be interpreted that sales by IOC occasioned the movement of goods from a foreign country to India. To substantiate their contention, they had obtained an expert opinion that the transaction could be brought under the purview of K G. Khosla's case decided by the Supreme Court and reported in 17 STC 472 holding that if a sale occasioned the import from a country although the product was delivered in India it would fall under the 'sale in the course of import' entitling for exemption from sales tax.

8.35. In addition to the opinion it was stated that the other oil companies also gave an undertaking to pay unconditionally the tax if I.O.C. were asked to pay the sales tax by the assessing authorities at any stage They also offered to bear all legal expenses, costs and penalties there from in case IOC would be requested by them to contest case at any stage. Had IOC not accepted this offer of indemnity but proceeded by declaring these transactions as local sales from 1967 onwards, ultimately it would have paid by this time lakhs of rupees to the Sales Tax authorities (as payments are to be made on a quarterly basis) without any recourse to recovery from other oil companies. It entire amount would have been blocked up from 1967 onwards. Other oil companies would not have paid but raised a dispute that IOC had unilaterally decided to declare as local sales when there was a good case to treat them as "sales in the course of import" and avoid tax as contended by them. This would have resulted in litigation also. Further IOC was not in a position to refuse supplies to other oil companies as Ministry wanted us to supply. Under the circumstances it was considered prudent to accept the indemnity from the other oil companies and treat the sales as "in the course of import."

8.36. As regards the reasons for resorting to exchange of predated letters with other oil companies, the Committee were inform-

ed. that IOC had serveral telecons and meetings with other Marketing Companies as early as in April, 1971 to ascertain the quantity to be imported on each Company's account. Action was initiated to obtain the import licence only by the end of May, 1971 for loading of a tanker in mid June, 1971. Order on supplies was sent towards end of May, 1971 and as the Correspondence revealed there was also a delay in loading of tanker. Based on the requirements of each company's share, a telex was sent on 18th June, 1971 to exporters to prepare bill of lading for each company's share much in advance of the loading of taner). Other oil companies were advised about their share of product in June, 1971 much before the loading of tanker, Instructions were issued to have the Bill of lading endorsed in favour of other oil companies before the goods crossed the customs frontiers of India. Payments were also made by the other oil companies on the basis of Bill of Lading quantity.

8.37. The above facts it was stated. by IOC could satisfy the requirements of sales tax law to construe the supply as 'sale in the course of import'.

8.38. It was further stated that in view of the experience gained on account of imports of lubricating oils from Rumania during 1967—71, the other oil companies and IOC felt that instead of producing before Sales Tax Authorities copies of several letters exchanged, minutes etc. to prove the intentions of both the parties to treat the transactions as 'sales in the course of import' as referred to above, they should reduce the terms also into one order by other oil companies (individually) and IOC's acceptance to supply them as desired by them as sales in the course of import as an additional precaution. Accordingly meetings were held to finalise the draft. It took some time to finalise all the letters as each company had to discuss with their own management and convey the acceptance of the drafts. While this process was going on, IOC's negotiations with the suppliers simultaneously proceeded to finalise a contract and an order was also placed on the suppliers by IOC. By that time although the draft was finalised among oil companies formal exchange could not take place, but was done subsequently. According to IOC had it not done this at the appropriate time, but relied entirely on voluminous correspondence, the consequences would have been that, the sales would have been possibly disallowed as "sales in the course of import" and assessed to local tax involving several lakhs of Rupees resulting in blocking up its funds as also interest without recourse to recovery from other oil companies (as they were contending that these could be treated "such in the course of import"). Here also other oil companies gave an unconditional indemnity to pay tax if demanded at any stage, together with expenses, costs, penalties etc.

8.39. During the course of evidence of the Ministry, the Committee enquired whether it was proper on the part of IOC to treat the sales as 'sales in the course of imports' disregarding the advice of their legal adviser, to change entries in the books and to exchange the ante-dated letters with other oil companies. The Secretary of the Ministry stated as follows:—

"I personally think that the first transaction was not so serious because that was the first year of canalisation and canalisation itself implies that where parties are entitled to certain quotas, the import is being made on their behalf and therefore to that extent, I would not probably castigate the IOC so much for openly changing the entries in the books. About disregarding the advice of the Sales Tax Consultant I would say that they ought to have consulted their legal advisers but as they had obtained indemnity, the Management could have taken a decision disregarding the advisers' opinion. That is within the powers of the management as a commercial undertaking."

8.40. As regards exchange of pre-dated letters, the Secretary of the Ministry stated as follows:—

"The tanker left the Rumanian port in July, 1971, i.e. almost ten to eleven days after the decision was taken by the IOC to ante-date the letters. Now, to me it appears that the process of sale in the course of import was maintained by the IOC. I personally would not approve of ante-dating of letters as I think it is not a good procedure but the fact that it was a sale in the course of import has been adequately proved to the sales-tax authorities and this ante-dating was an artificial and uncalled for measure."

8.41. Asked whether the matter was reported to the Ministry and it was approved by them, the witness stated that the internal audit had pointed it out but it had not come to the Minisry for approval or otherwise. It was also stated that—

"Apart from questioning them on the basis of internal audit Report, the Ministry, did not take formal cognizance of it. I would say, as a procedure, the Government certainly regard it as serious or something that public sector undertaking should not have done."

8.42. The Committee were also informed that the amount of sales tax from 1967-68 to 1970-71 during which period engine oils were

imported by IOC from Rumania and supplied to the other oil companies (excluding Esso) worked out to approximately Rs. 30 lakhs for Maharashtra and West Bengal.

8.43. The Committee find that out of the total import of engine oil worth Rs. 7.66 crores by IOC during 1967-68 to 1970-71, engine oil worth Rs. 4.53 crores was supplied to oil companies other than Esso on outright sale basis and billed for as such after including Sales Tax and service charges. The oil companies however, objected to charging sales tax and suggested that these should be treated as 'sales in course of import' and were prepared to indemnity the IOC in respect of costs, demands and expenses that IOC might incur in treating the transaction as 'sales in course of imports'. The Committee regret to note that IOC agreed to treat the sale of the product to these companies as 'sale in the course of import' even though the legal opinion obtained by IOC was against it. While this course of action is sought to be justified by the IOC on the ground that it had obtained Indemnity from other oil companies in respect of sales tax, costs and expenses, the Committee are distressed to note that the Corporation even after placing the order on the foreign firm on 28th May, 1971, restored to the exchange of pre-dated letters with dates earlier than the date of placing orders to prove the intentions of both the parties to treat the transactions as 'sales in the course of imports'. The Secretary of the Ministry admitted during evidence that this was a serious matter and something which a public undertaking should not have done. Considering that the sales tax liability was to be borne by the other oil companies, the Committee fail to understand as to why the IOC should have resorted at all to exchange pre-dated letters with other oil companies. The proper course for the IOC should have been to place all the facts before the sales tax authorities and abide by their ruling. The Committee take a serious view of this action on the part of one of the premier public undertakings and recommend that Government should immediately institute an enquiry into the matter and fix responsibility.

8.44. The Committee also understand that in the case of sales effected in Eastern Branch, the sales tax authorities did not accept the IOC's contention to treat this as 'sale in the course of imports', and an appeal has been filed against the order of Commercial Tax Officer. The Committee would like to be informed of the final outcome of the case.

C. Fabrication of Tins

8.45. For the fabrication of 1,70,000 numbers of 18.5 litre tins, the Corporation issued in April, 1966, 200 M. tons of Tin Plate to a firm, against a bank guarantee of Rs. 3.4 lakhs valid upto 26th December, 1967. Although the factory supplied only 1,05,048 tins upto April, 1967 and did not return a quantity of 76.506 M.T. of tin plates valued at Rs. 1.34 lakhs, the bank guarantee was allowed to lapse in December, 1967 Tin plates have not been returned by the firm so far. The Management stated that it had been decided to take legal action against the contractor.

8.46. The Committee enquired about the reasons for not taking any action to revalidate the bank guarantee. They were informed by I.O.C. that action was taken to suitably extend/revalidate the Bank guarantee beyond 26th December, 1967. The party and the bankers, however, went back on their commitment in bad faith and did not revalidate the bank guarantee as earlier committed.

8.47. As regards the reasons for the delay in taking action against the firm, the representative of IOC admitted during evidence that there had been delay in filing the suit the bank guarantee having expired in December, 1967, whereas the suit was filed on 6th June, 1973, and stated that the delay took place because IOC were under the impression that they would be able to come to an out-of-court settlement. But it did not take place. The negotiations having failed, IOC had filed a suit for the recovery of the market value of the tin plates on the date of judgement.

8.48. The Committee find that IOC supplied 200 Tonnes of tin plates to a firm in April, 1966 for the fabrication of 1,70,000 tins against a bank guarantee which was valid upto 26th December, They regret to note that although the firm had supplied only 1,05,048 tins upto April, 1967, it had not returned the balance quantity of tin plates valued at Rs. 1.34 lakhs and the Corporation also failed to safeguard its interests by getting the bank guarantee revalidated well in time before the date of expiry of the guarantee in December, 1967.

8.49. The Committee also find that the Corporation took action to file a suit against the firm only in June, 1973, which is still pending. It has been stated that the Corporation decided to take legal action after having failed to settle the matter amicably. The Committee are distressed to note that it took the Corporation more than five years to take this decision. Such inordinate delays do not speak well of a Commercial organisation like I.O.C. The Committee desire that the matter should be investigated and responsibility fixed both for the failure to take timely action to get the bank guarantee revalidated before the date of its expiry as well as for the inordinate delay in filing a suit against the firm.

The Committee would also like to be informed of the final outcome of the case.

D. **Loss due to downgradation of Products**

8.50. A quantity of 5,000 tonnes of Aviation Gasoline (115/145) imported in July, 1968 at Bombay was stored in a tank of M/s. Esso which was hired for want of storage facilities with the Corporation. In July, 1969, the product in the tank reached dead stock level and a quantity of 315.595 Kls. (including 18.760 Kls. in pipeline) could not be taken out. On the advice of M/s. Esso the Corporation agreed to sell the above quantity in tank to them as Motor Spirit and to destroy the quantity in the pipeline resulting in a loss of Rs. 0.54 lakh and Rs. 0.19 lakh respectively, without carrying out any parallel tests to coroborate the statement of M/s. Esso.

8.51. The Managing Director (Marketing Division) observed in August, 1971 that the branch had not handled this case properly and before downgrading the product it should have been tested by the IOC. He also desired that, if possible, responsibility should be fixed in the matter.

8.52. During evidence the representative of IOC informed the Committee that the Government had asked IOC to maintain certain guaranteed minimum reserves in respect of aviation gasoline and if this was subjected to long storage then it went off the specification and could not be supplied to the Air Force. Therefore, it was sold as motor spirit. There was a technical error made

in this case. The aviation gasoline was actually not checked with regard to its quality before downgrading it. Therefore, the officer and the branch concerned had been cautioned.

8.53. The Committee were also informed that the write off proposal for the loss suffered in this case was now with the Board for approval. Suitable remedial instructions had been issued in order to avoid such recurrence in future.

8.54. The Committee regret to note that the IOC agreed to sell imported aviation gasoline to M/s. ESSO as Motor Spirti without carrying out any tests on their own as to whether the product had actually gone off the specifications resulting in a loss of Rs. 73,000 to the Corporation. The Committee have been informed that the officer and the branch concerned had been cautioned for this error.

8.55. The Committee are also surprised to find that although the sale had been made in July, 1969, the approval of the Board for writing off the loss has not been obtained so far. There were other cases also where sanction of the competent authority for writing off similar losses was taken after a long time. The Committee would like to be informed of the reasons for the inordinate delay in placing the matter before the Board.

8.56. The Committee note that there were also other cases where aviation gasoline had to be down-graded because of long storage resulting in a loss of Rs. 7.06 lakhs. The Committee recommend that these cases should be investigated and the Committee informed of the outcome. The Corporation should take steps to fix suitable period/norms for storage of aviation gasoline and also for periodical inspection of the products with a view to ensuring that aviation gasoline etc., do not go off specifications during storage.

E. Loss due to Incorrect Gauging

8.57. On 17th April, 1970, a consignment of H.S.D. was received at the Corporation's installation at Kandla through the tanker of a private oil Company. The product was to be shared by the Corporation with two other private oil companies. 6261.640 M. tons of the product was discharged into the Corporation's tanks; dip measurements were also completed and necessary out turn certificates were issued. When the tank was decanted on 27th April, 1970 to make room for SKO, a shortage of 97.91927 Kls. (at 15 degree C) valued at Rs. 0.62 lakh was discovered which was reported to be due to incorrect recording of gauging and dip measurements

by the officials of the Corporation jointly with the representative of the private oil company. The private oil company with whom the matter was taken up in June, 1970 refused to entertain any claim on the ground that the dip measurements jointly taken were final.

8.58. The Committee were informed that comprehensive instructions had been issued to all concerned on 29th May, 1970 to prevent instances of this nature in future. The concerned officer had also been warned on 9th June, 1972 to be careful in future.

8.59. The Committee regret to note that the Corporation suffered a loss of Rs. 0.62 lakhs due to alleged incorrect gauging and dip measurements by the officials of the Corporation of the HSD received at one of the installations of the IOC on 17th April, 1970.

8.60. It is surprising that it took the Corporation more than two years to fix the responsibility in this case and it was only on the 9th June, 1972 that the officer was warned to be careful in future. The Committee would urge that the action against the delinquent officials should be prompt and adequate so as to act as a deterrent to others.

F. Excess payment of Railway Freight at Panki (Kanpur) Pipeline Installation

8.61. Since the commissioning of the pipeline installation at Panki (Kanpur) in July, 1967 railway freight on all the tank wagons loaded from the installation was being paid on the assumed carrying capacity instead of the actual carrying capacity of the individual tank wagon which in many cases was found to be lower. In July, 1971, this mistake was noticed and since then railway freight is being paid on the actual carrying capacity of the tank wagons. Claims for refund of excess railway freight paid during the period from July, 1967 to December, 1970 amounting to Rs. 16.03 lakhs lodged were rejected by the railways as these were not preferred within the prescribed period of six months and the matter has been taken up by the Corporation with the Railway Board in October, 1972. Out of the claims for Rs. 2.91 lakhs representing the excess railway freight paid for the period January, 1971 to July, 1971 a sum of Rs. 0.37 lakhs had since been received from the Railways till March, 1973.

8.62. The Committee were informed by IOC that the case was investigated and it was found that the payment was made due to an oversight. The claim was being actively pursued with the Chief

Commercial Superintendent, Northern Railways as well as the Railway Board and in this connection the Chairman, IOC wrote to the Chairman, Railway Board, followed by a reminder on 28-9-1973, to review the case on merits and not to take shelter on technical grounds. It was also stated that the claim for January to July, 1971 had been accepted by the Railways in principle and payments were being gradually received.

8.63. The Committee find that the IOC made payment to the Railways for railway freight on all tank wagons loaded from the pipeline installations at Panki (Kanpur) on the assumed carrying capacity of the individual tank wagons instead of the actual carrying capacity which in many cases was found to be lower. Considering the fact that the payment was continued to be made for four years right from July, 1967 to July, 1971, resulting in excess payment of Rs. 16.03 lakhs upto December, 1970, the Committee are unable to agree with the view of the Corporation that the payment was made due to an oversight. The Committee desire that the matter should be further probed into with a view to fixing responsibility for the negligence on the part of the officials concerned. The Committee would also like to be informed of the refund of the balance claims amounting to Rs. 2.25 lakhs pertaining to the period from January, 1971 to July, 1971, but not realised upto March, 1973.

G. Claims for Refund of Excise Duty

8.64. Compounded lubricating oils and greases were brought under central excise tariff by Government with effect from 29th May, 1971 and the rate of duty was fixed at 20 per cent *ad valorem*. Provision was also made for set off of excise/countervailing duty paid on lubricating oils and greases used in the manufacture of compounded lubricating oils and greases.

8.65. The Easern and Southern Branches of the Coporation, however, continued to pay 20 per cent *ad valorem* duty on compounded lubricating oils and greases manufactured in the Indian Oil Blending Ltd., plant at Calcutta and Corporation's Lube Plant at Madras during the period June, 1971 to September, 1971 without simultaneously obtaining set off of excise/countervailing duty paid on lubricating oils and greases used therein.

8.66. The Management have stated (November, 1972) that the set off of excise duty could not be claimed concurrently at the initial stage of the imposition of the new levy due to difficulties in furnishing basic data and proof of payment of excise duty/countervailing duty on the lubricating oils and greases to the Central Excise authorities.

8.67. Claims for the refund of excise duty amounting to Rs. 26.08 lakhs were preferred during September, 1971 to March, 1972, and are still pending with the Central Excise authorities (June, 1973).

8.68. According to Audit it was noticed that the formalities connected with obtaining of simullaneous see off of excise/countervailing duty were completed by the Western Branch of the Company within three weeks as against three months taken by the Eastern Branch.

8.69. As regards the reasons for the delay, the Committee were informed that more than one grade of lubricating oil was manufactured daily. The Base oil for manufacture was released from more than one tank. A particular base oil was also utilised for more than one grade of lubricating oil. During the period under review, payment of duty on the base oil was done by preparing one out-turn for each tanker for day's release. As a result, the total duty paid on base oil for a particular day had to be allocated for more than one grade of lubricating oil manufactured on that day. To avail the set off procedure, it was essential to have had the particulars of duty paid on various base oil individually for each grade of lubricating oil manufactured.

8.70. The duty paid on base oil obtained for manufacture of lubricating oil was for the total quantity manufactured on that particular day whereas the despatches would be made piece-meal according to the indent received from the customers for their requirements for each one of the Depot and Installations and since the set off of duty had to be availed individually in every gate-pass, IOC would have to work out the duty element involved for each and every delivery grade-wise and all the necessary particulars *viz.*, amount of duty, out-turn number under which the duty was paid, date of payment of duty, debit entry number for profit and loss account under which the duty was originally debited. All the information was to be furnished in the excise gate-pass to avail set off of duty. Since this was not a practical method and would have resulted in the stoppage of day to day despatches, this was not followed. However, in respect of Mobil grades, IOC was not in a position to know the formula involved and hence it was not possible for it to work out the set off of duty in respect of duty paid on the base oils of Mobil Grades.

8.71. The Committee were also informed that out of the claims for refund of excise duty, amounting to Rs. 26.08 lakhs, Rs. 14.95 lakhs had so far been collected. Vigorous follow up was being maintained for the recovery of the balance amount.

8.72. It was admitted that there was a delay in the Southern and Eastern Branches in completing the formalities connected with obtaining simultaneous set off of excise/countervailing duty. The reasons for this were as follows:—

"A decision of the Government of India for availing the pro-forma credit system under rule 56(a) was issued on 16-7-1971 *vide* their notification No. 138/71. Under this procedure, in order to claim set-off of duty paid on base stock used in the manufacture of a particular grade, it became essential every day to prorate the duties paid on the base stock used for the manufacture of finished lubricants. In other words, before releasing the finished products, duty paid on the base stock used for the manufacture of the finished lubricants had to be set off from the duty payable on the finished products. This was not the practicable method and would have resulted in delay of day to day despatches. In respect of MOBIL Grade, this information was neither available at the Lube Plant, Calcutta nor at the Lube Plant, Madras, whereas in the calculations that were done at Bombay such information was readily available at Bombay. Therefore, Southern Branch approached the excise authorities to permit the bonded manufacture and pay full duty on finished lubricants without having to await the set off procedure. In the case of Eastern Branch, necessary particulars were obtained from the IOBL Plant at Bombay to enable the Branch raise the claim on the Excise Authorities for the set off duty paid on the case stock."

8.73. It is also stated that the difficulties faced by the Branches vere within the knowledge of the Head Office. Necessary assistance in this regard was given to the Branches. The Chief Products Exchange Officer, H.O. visited Calcutta in the second week of June, 1971 to finalise with IOBL Calcutta the procedure of claiming concurrence set off from the Excise authorities in respect of compounded lubricants blended from Duty paid base oils, while he also informed IOBL plant at Calcutta to furnish the necessary data for claiming concurrence set off. In the month of July, 1971, IOBL expressed difficulty in furnishing the data and besides assistance of the CPEO, two officers of the Eastern Branch were asked to visit Bombay to acquaint themselves with the procedure of set-off claims followed by the Western Branch and on their return from Bombay forwarded the procedure followed at Bombay to the Central Excise authorities. The delay was, therefore, due to inherent difficulties in implementing the new procedure and the time-

lag was necessary to familiarise the staff of IOC to get acquainted with the new procedure.

8.74. The Committee find that compounded lubricating oil and greases are subject to 20 per cent ad valorem **excise duty from 29th May, 1971. Provision also exists for set-off of excise/countervailing duty paid on lubricating oils and greases used in the manufacture of compounded lubricating oils and greases. The Eastern and Southern Branches of the Corporation paid 20 per cent** ad valorem **duty on compounded lubricating oils and greases manufactured at the Corporation's Blending Plants at Calcutta and Madras during June to September, 1971 but failed to obtain simultaneously set off of excise/countervailing duty paid on lubricating oil and greases used in the manufacture of Compounded lubricating oil and greases. As a result, the claims for refund of excise duty amounting to Rs. 11.13 lakhs were still pending with the Central Excise Authorities.**

8.75. The Committee recommend that the Corporation should devise a suitable method and maintain proper records so that allocation of duty on lubricating oils and greases could be readily available to avail of set off duty. The Committee would also like that vigorous follow-up action should be taken for the realisation of the balance of Rs. 11.13 lakhs on account of refund of excise duty.

H. Purchase of Depot at Karad

8.76. A proposal was put up in November, 1967 by the IOC for the purchase of a Caltex Depot at Karad. It was pointed out that in the absence of an IOC Depot at Karad, IOC were supplying petroleum products to various locations in the Karad supply area ex-Bombay and Poona by road, thereby incurring heavy under-recoveries.

8.77. While considering the purchase of the Caltex Depot, it was expected that IOC would be able to send products from Poona to Karad by tank-wagons and thereby save the bridging expenses.

8.78. The depot was purchase at a cost of Rs. 25,000 in 1968 at a rental of Rs. 400 per month. The Committee were informed by IOC that contrary to the expectations of IOC there was an acute shortage of MG tank-wagons at Poona. Under these circumstances, the best transport economis was to the available tank-wagon fleet-ex-Poona to meet the needs of far off locations such as Belgaum, Hubli and Ghataprabha and road bridge to nearer locations such as Karad. Hence, the expected savings on bridging expenses did not result and the objective of purchasing the Karad Depot from Caltex did not materialise. The Depot was closed in June, 1973.

8.79. It was also noticed that while reviewing this matter in June, 1971 the internal audit proposed an examination of all proposals made during the last two or three years for the purchase of Depots etc. at various stations to find out whether the conditions under which the sanction for purchase of depots was accorded have been fulfilled or not. However, no such review has been made.

8.80. The Committee regret to note that the IOC purchased Caltex Depot at Karad at a cost of Rs. 25,000 in 1968 to save bridging expenses. However, due to acute shortage of MG tank-wagons the expected savings of bridging expenses did not materialise and the objectives of purchasing the depot did not materialise. The depot was ultimately closed in June, 1973. The Committee feel that had a proper assessment been made about the availability of tank-wagons before the purchase of the depot, the expenditure incurred on the setting up of the depot could be avoided.

8.81. The Committee also find that the Internal Audit proposed as early as June, 1971 an examination of all proposals made during the previous two or three years for the purchase of Depot etc. at various stations to find out whether the conditions under which the sanction for the purchase of the depots was accorded have been fulfilled or not.

The Committee desire that a review of all the depot purchased during the last five years should be undertaken soon and decision taken regarding their continuance or otherwise as a result of such review.

I. Agreement with M/s. Bobil U.S.A.

8.82. By virtue of an agreement between the company and M/s. Mobil of U.S.A. a company known as the Indian Oil Blending Ltd. (IOBL) was formed in March, 1963 for the purpose of constructing, owning and operating a plant for the blending of premium oil base stocks to produce premium oil products and to manufacture greases.

8.83. The paid up capital of Rs. 40 lakhs of the Indian Oil Blending Ltd. has been contributed equally by the Company and M/s. Mobil.

8.84. The agreement with M/s. Mobil provides for payment of royalty (for use of MOBIL Trade Mark in India) by the Company at the rate of 2 cents per US gallon on premium oil products. A sum of Rs. 158.51 lakhs has been paid on account of royalty for the period 1966-67 to 1971-72. In addition, in respect of premium products blended at its own plant at Madras, the Company also paid a sum of Rs. 8.92 lakhs as royalty during 1971-72.

8.85. Under the arrangements between the Company and IOBL, the Company imports base stocks and additives (in addition to indigenous base stock) which are blended in the latter's plants at Bombay and Calcutta which commenced production in August, 1964 and September, 1964 respectively. In consideration thereof the Company pays a blending fee (apart from royalty) which was initially fixed at 5 cents per U.S. gallon on premium grade lubricants and 2 cents per US gallon on no-premium grade lubricants respectively and 60 cents and 25 cents per pound for premium and no-premium greases. After the devaluation of rupee (June, 1966) blending fees payable by the Company were enhanced by 57.5 per cent.

8.86. In February, 1967 the Company asked for reduction in rates of blending fees on premium and non-premium products on the plea that a return of 18 per cent before taxation should be regarded as a very good margin of profit in a successful industry in Indian conditions as against a return of about 75 per cent expected to be realised by IOBL from 1966-67 onwards. Rates of blending fees suggested by the Company and those actually agreed to by IOBL are shown below:—

(In cents)

	Rate suggseted by Company from 1-4-1967	Rate accepted by IOBL from 1-4-1968	Rate suggested by Company from 1-4-1970	Rate accepted by IOBL from 1-4-1970
Premium grade lubricants (rate per U.S. gallon)	3·00	3·25	N.A.	3·00
Non-premium grade lubricants (rate per U.S. gallon)	1·50	1·75	N.A.	1·25 (Bulk) 1·74 (Packed)

8.87. To an enquiry whether any attempt was made to have the blended fee stipulated in Indian currency, it was stated that no attempt was made to have the fee stipulated in Indian currency. The blending fee was again revised with effect from 1-4-1972. The

fee applicable from the beginning till the last revision on 1-4-1972 is given in the statement below:—

	Blending fee prior to 1-4-68		Blending fee from 1-4-1968 to 31-3-70		Blending fee from 1-4-70		Blending fee from 1-4-72	
	Cents/AG	Rs.	Cents/AG	Rs.	Cents/AG	Rs.	Cents/AG	Rs.
1. Premium Grade Lubricants	5·00	100·00	3·25	65·00	3·00	60·00	2·50	48·08
2. Non-premium grade lubricants (Packed) .	2·00	40·00	1·75	35·00	1·75	35·00	1·75	33·65
3. Non-Premium Grade Lubricants (Bulk) .	2·00	40·00	1·75	35·00	1·25	25·00	1·25	24·04

The following table indicates the profit earned by IOBL from 1966-67 to 1972-73:

(Rs. in lakhs)

	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
Profit before tax .	22·93	27·82	28·83	27·20	27·48	43·74	21·72
Deficit of earlier years carried forward . .	34·10	11·17	—	—	—	—	—
Balance available . .	—	16·65	28·83	27·20	27·48	43·74	21·72
Per cent of profit before tax on capital invested	—	40·20	72·00	67·90	68·70	109·35	55
Profit in excess of 18 per cent (before tax) on capital	—	9·45	21·63	20·00	20·28	36·54	—

8.88. It would be seen that even after the reduction of blending fees, the return on capital employed has been increasing from year after year, till 1971-72.

8.89. As regards excessive profits made by IOBL the Corporation stated that these had been ploughed back and would not benefit MOBIL who on termination of arrangements in July, 1974 would be entitled only to repatriate the share capital.

8.90. The Committee note that under the arrangements between the Corporation and IOBL the Corporation gets its base stocks and additives blended in the IOBL plants in consideration of which the

Corporation was to pay a blending fee at 5 cents for premium grade lubricants and 2 cents for non-premium grade lubricants, 60 cents and 25 cents per pound for premium and non-premium greases. The Committee note that on account of devaluation, the blending fees were enhanced by 57.5 per cent.

8.91. The Committee fail to understand as to why the Corporation should not have stipulated the blending fees in Indian currency in the agreement with IOBL which is an Indian Company and why no attempt was made in this regard either initially or even at the time of the revision of the fees later. The failure to fix the fees in Indian currency has given an unintended benefit to IOBL.

8.92. The Committee recommend that the Corporation should see that such commitments in foreign currencies with Indian firms are avoided in future.

8.93. The Committee recommend that Government should issue suitable directions in the matter to all the public undertakings so that the commitments of this nature are settled in Indian rupees and not in foreign currency, particularly, when the companies with whom contracts are entered into are companies incorporated in India.

IX

ORGANISATIONAL STRUCTURE AND FINANCIAL CONTROL

A. Powers of Chairman/Managing Director

9.1. The overall control of the affairs of the Company rests with the Board of Directors which *inter alia* comprises of a full-time Chairman, a Finance Director and a Managing Director separately for the Refineries Division (including Pipelines Section) and the Marketing Division.

9.2. The overall co-ordination of the Refineries and Marketing Divisions is done by the Chairman whose office is located at Delhi. The Finance Director, also stationed at Delhi, functions as the Staff Officer of the Board of Directors and the Chairman in the matter of financial advice. Each of the Managing Directors it, however, assisted by a Financial Controller.

9.3. The Board of Directors have delegated administrative and financial powers to the two Managing Directors for the day-to-day functioning of the two Divisions. Except in four specified matters *viz.* (i) imports of products, (ii) purchase of additives from M/s. Lubrizol India Ltd., (iii) purchase of steel through import or indigenous source, and (iv) disposal of contaminated off-specification product, the Managing Director of the Marketing Division can exercise his powers with the concurrence of the Financial Controller but without obtaining approval of the Finance Director or the Chairman. He can, however, over-rule the Financial controller, for reasons to be recorded subject to a report being made to the Board of Directors at their next meeting. The Chairman was directly responsible for administering the R&D activities of the Corporation including the functions of the R&D centre being set up at Faridabad.

9.4. While appointing the present Chairman in September, 1971, Government indicated that he would control the work of the Secretary of the Corporation, prepare overall developmental, operational and economic plans, co-ordinate the work of the Divisions, allocate funds to the Divisions in consultation with the Finance Director and with the approval of the Board and discharge any other duty or responsibility which might be entrusted to him by the Board. These were also the powers exercised by his predecessor. Although the Government letter also envisaged by delegation

of further powers to the Chairman by the Board of Directors as may be considered necessary, no additional powers have been delegated to the Chairman by the Board of Directors so far.

9.5. The Management informed Audit in June, 1973 that "a sub-committee of the Board has recently been formed with a view to further streamline the powers exercised by the Managing Directors and the intention is that, thereafter, the powers to be exercised by the Chairman will be reviewed."

9.6. The Ministry of Finance, Bureau of Public Enterprises, communicated in October, 1972 Government's decision that for large multi-unit enterprises and large trading organisations the typical structure of the Board of Directors could be a full-time Chairman-*cum*-Managing Director assisted by at least two functional Directors (one of whom would be in charge of Finance) and part-time Directors. The present composition of the Board of Directors of the Company is not inconformity with the above decision of the Government.

9.7. During evidence, the Committee enquired about the reasons for the Board of Directors of I.O.C. being not in conformity with the decision of Government of October, 1972. The representative of the Ministry explained as follows:

> "The Corporation was formed by the amalgamation of two companies—the Indian Refineries Limited and the Indian Oil Company Ltd. (one was the refinery company and the other was the marketing company). The arrangement made was that there would be a Chairman to perform the functions and coordination of the two wings. These two wings would continue as semi-autonomous wings under Managing Directors with their own financial controllers. Later on one Financial Director was appointed and he was given certain functions. The functions of the two divisions are quite different-one is a production function and the other is a marketing function and a large amount of autonomy is necessary for the efficient performance of these functions. The Chairman's office works only as a co-ordinator".

9.8. As regards the question of having a Chairman-*cum*-Managing Director I.O.C., the Secretary of the Ministry stated as follows:

> "My own view is that this policy would not work for IOC because their sales turnover is very large. It is one of the world's largest companies according to the list that is

published by the magazine 'Fortune'. A large measure of delegation is necessary to the two Managing Directors. Even in the Fifth Plan, the IOC refinery Division has a very big programme."

9.9. The Committee also enquired as to why additional powers were not delegated to the Chairman. They were informed by the representative of the Ministry that "in September, 1971, Government had envisaged the delegation of further powers to the Chairman by the Board of Directors. The Board of Directors have, however, not used this enabling opportunity that was given by the Government and has not yet determined what powers the Chairman should additionally enjoy. We have not intervened in the matter."

9.10. Asked whether under the present set up, the past of Chairman was really useful, the Secretary stated:—

"It depends upon the incumbent, his leadership quality and how he is able to coordinate the functioning of the two wings; it will also depend, I think, on imaginative proposal by this sub-committee that has been appointed. If this sub-committee goes into this matter with deliberation and imagination, it should be able to work out a system whereby a Chairman does become an important functionary of the two wings in seeing that they do perform their functions satisfactorily."

9.11. The Committee find that at present the Chairman of the Corporation does not have any powers over and above those enjoyed by the Managing Directors of the two Divisions. Although the Government letter appointing the last Chairman as early as September, 1971 envisaged delegation of further powers to the Chairman by the Board of Directors, it is only in June, 1973 that a sub-committee of the Board has been constituted to streamline the powers exercised by the Managing Directors and thereafter the powers of the Chairman will be reviewed.

9.12. The Committee desire that the sub-Committee should finalise its deliberations without further delay so that the Board may take a decision about delegation of any additional powers to the Chairman/Managing Directors that may be necessary in the interest of the effective functioning of the two wings of the Corporation.

B. Powers of Finance Director

9.13. While appointing the first whole-time Finance Director in September, 1968, Government order stipulated that he would be

responsible for coordinating financial and accounting work of all divisions, prescribing the financial and accounting procedure to be followed in the Corporation, co-ordinating and placing before the Board annual accounts, budgets, etc., and for being in direct charge of the internal audit organisation of the Corporation. It was also laid down that the Finance Director would advise the Chairman about the distribution of available resources between the two Divisions and would work in close consultation with the Chairman and the two Managing Directors. On a reference by the Chairman in April, 1971 Government clarified in October, 1971 that as each division of the Corporation had its own Managing Director and a Financial Controller or Adviser it would not be feasible for the Finance Director personally to be associated on all financial matters, nor was this intended to be.

9.14. The Committee enquired whether the Ministry was satisfied with the present arrangement. They were informed that duties and powers of the Finance Director had been specified in the Ministry's O.M. of October, 1971. Clarification had now been sought by I.O.C. from the Ministry about the control and powers which Finance Director should exercise over the Financial Controllers of the two divisions, which was now under consideration in consultation with the Ministry of Finance. According to the Ministry it was neither feasible nor desirable for the Finance Director to consider all matters connected with the day-to-day financial working of the two divisions who have already high-level Financial Controllers to assist them. In any case, all matters referred to the Chairman, having a financial bearing, and cases where the Financial Controllers did not concur with the Managing Director were routed to the Chairman through the Finance Director. The only point for clarification was if all matters going to the Board should have the prior clearance of Finance Director, or else the Finance Directors should have his say during the Board meetings.

9.15. During the course of oral evidence of the Ministry of Petroleum and Chemicals in connection with the examination of I.O.C. (Refineries Division), the Secretary of the Ministry, however, stated as follows:—

> "The practice in the Board as far as we are aware is that not all proposals concerning financial matters coming to the Board have the prior approval, concurrence or comments of the Finance Director. Personally, I think that if there is a Finance Director he ought to be able to at least add his comments before the papers are circulated."

9.16. The Committee note that each Division of the Corporation has its own Financial Controller to assist the Managing Director on all matters having financial bearing. In addition, the Corporation has a Finance Director who functions as the Staff Officer of the Board of Directors and the Chairman in the matter of financial advice. The Committee are informed that all matters referred to Chairman having a financial bearing and cases where the Financial Controllers do not concur with the Managing Director are routed to the Chairman through the Financial Director. However, as admitted by the Secretary of the Ministry during evidence, not all proposals concerning financial matters coming to the Board, have the prior comments of the Finance Director. The Committee recommend that the procedure should be such that proposals concerning financial matters coming before the Board invariably include the comments, if any, of the Finance Director so that the Board have a clear idea of the financial implications of the proposals while considering them.

9.17. The Committee also understand that the issue regarding the control and powers, which Finance Director should exercise over the Financial Controllers of the two divisions, is under consideration of the Ministry of Petroleum and Chemicals in consultation with the Ministry of Finance. The Committee recommend that an early decision would be taken in the matter and reported to the Committee.

X

CONCLUSION

10.1. The Indian Oil Corporation Limited, formed on the 1st September, 1964 by amalgamating the Indian Refineries Limited with the Indian Oil Company Ltd., has two main Divisions known as the Refineries and Pipelines Division and the Marketing Division. The Marketing Division of the I.O.C., formerly known as the Indian Oil Company Ltd., was formed with the main objective of ensuring within the shortest possible time the supply of all petroleum product requirements of all Government Organisations (Central and State) all over the country, to build up storage and other facilities for an ultimate handling of at least half of the import trade of deficit petroleum products and to build up additional distribution facilities (including retail outlets) as may be warranted by the growing demand for petroleum products.

10.2. During the course of examination of the working of the Undertaking the Committee find that:

(i) The Corporation's share in the total internal sales has been gradually increasing and it has achieved a market participation of 64.6 per cent in 1973 in major Petroleum Products.

(ii) The Corporation has, by and large, achieved the objective of supplying petroleum product requirements of all Government Organisations throughout the country. The Corporation's share in the total sales to Government Organisations by all the oil companies was on an average about 97 per cent during the last three years.

(iii) The Corporation has also been able to achieve the objective of handling at least half of the import trade of deficit petroleum products. In fact, the I.O.C. is handling the entire import trade except the import of certain proprietory brands of highly specialised finished lubricants for aviation and marine industries.

(iv) The total number of retail outlets of I.O.C. has increased from 1212 as on 31-3-1967 to 3311 as on 31-3-1973.

(v) At the end of June, 1973, the Corporation offered 583 locations for dealership/distributorship for rehabilitation of defence personnel, nominations were received in 533 cases and the Corporation made allotments in 443 cases out of which dealership/distributorship were commissioned in 128 cases.

(vi) The total sales of petroleum products increased from 81 lakhs kilo litres in 1968-69 to 154 lakhs kilo litres in 1972-73.

(Vii) Bridging expenses of the Corporation (*i.e.* difference between the actual expenditure incurred in the transportation of petroleum products to up-country points by rail and/or road and the freight recoverable by the most economical route) came down from Rs. 115 lakhs in 1968-69 to Rs. 44 lakhs in 1972-73.

(viii) The turn-over of the Marketing Division increased from Rs. 526 crores as on 31-3-1969 to Rs. 997 crores as on 31st March, 1973 representing an increase of about 89 per cent over that of 1968-69.

(ix) The total book debts outstanding against DGS&D, Semi-Government Parties and Private Parties came down from Rs. 31.99 crores as on 31-3-1969 to Rs. 27.59 crores as on 31-3-1973. The outstandings expressed as number of days' sales correspondingly decreased from 22 days' sales as on 31-3-1969 to 10 days' sales as on 31-3-1973.

(x) As seen from the working results of the Marketing Division, based on annual accounts of the Corporation, the net profits increased from Rs. 13.13 crores in 1968-69 to Rs. 33.42 crores in 1972-73.

10.3. (a) The Committee, however, find that although the Corporation has been able to achieve the objective of handling at least half of the import trade of deficit petroleum products, the Corporation's market participation in the more profitable products like Motor Spirit and H.S.D. was less than that in other less profitable products. This affected the profitability of the Corporation and the aggregate profit margins available to the Corporation on the sale of major petroleum products has not kept pace with the market participation.

(b) In spite of the increase in the number of retail outlets from 1967 to 1973 the Corporation has not been able to achieve the objective of building up of additional storage and distribution facilities (including retail outlets) to match the growing demand of petroleum products and the product availability from the public sector refineries. On account of non-development of adequate retail outlets particularly in high consumption areas in A&B class cities, the Corporation's share in the total retail sale of motor spirit was only 19.4 per cent in 1972.

(c) Because of non-availability of adequate retail outlets, the Corporation had also to sell substantial portion of its products thr-through other oil companies under the product exchange arrangements thus yielding a profit margin to the extent of about Rs. 12 crores during 1966-67 to 1972-73 to other oil companies. In addition, the Corporation had to enter into agreements for sale of lubricants to other oil companies thus foregoing profit margin thereon. It also sold lubricants of high viscosity index to other oil companies in excess of their share surrendering larger profit margin thereon to them and sustaining losses on its own sale of greater share of products of low viscosity index.

(d) The product exchange arrangements entered into by the I.O.C. with other oil companies was an inequitable one. Not only the Corporation was not entitled to recover any profit margin on the products treated as outright sale under these arrangements, the Corporation also suffered a loss of Rs. 4.43 crores during 1966-67 to 1971-72 on account of non-recovery of Main Installation Charges from other oil companies. Further, as a result of the practice of not obtaining the deposits towards cost and other elements in respect of products treated as outright sale the other oil companies have all along been enjoying an unintended credit facility of about Rs. 91 lakhs on an average. Although the Committee on Public Undertakings had recommended as early as March, 1967 that these arrangements should be revised forthwith, the negotiations with other oil companies, in this regard have not yet been finalised.

(e) The pricing of both crude and petroleum products in India was based on import parity. However, various surcharges have been levied on petroleum products to compensate the oil companies for specific under-recoveries. The oil companies treated these amounts as part of the overall funds except in the case of Freight Surcharge Pool. There was no regular auditing of the accounts

either by the C&AG or any other auditor appointed by Government. It is only now (September, 1973) that the Ministryhas appointed an inter-ministerial Committee to examine *inter-alia* the legal position of these large funds, to frame guidelines for the maintenance of accounts, to recommend the methods/mechanism of control to be exercised by the Ministry and to consider the feasibility of bringing all these accounts under Consolidated Fund of India.

(f) Though there has been an increase in the sale of Liquified Petroleum Gas (Indane) by I.O.C. from 8,700 M. tonnes in 1968-69 to 79,000 M. tonnes in 1972-73, the sales fell short of the targets fixed by the Corporation during these years. One of the reasons for low sales has been shortage of cylinders. Besides, shortfall in indigenous production of the required type of steel for the manufacture of cylinders, there was inordinate delay on the part of I.O.C./Government in arranging the import of steel to meet the shortage. The Corporation should plan their requirements of L.P.G. Steel well in advance and take steps to procure the cylinders in time so that the paucity of cylinders does not depress production/marketing of L.P.G for which there is widespread public demand.

(h) The working results of the Marketing Division as per the annual accounts indicate an increase in profits from Rs. 13.13 crores in 1968-69 to Rs. 33.42 crores in 1972-73. This is, however, not a true index of the efficiency of the working of the Marketing Division of the Corporation as in the absence of variance analysis, it is difficult to assess the impact of changes in various factors like sales volume, product-mix, pricing marketing margins, etc. on the profits of the Marketing Division.

(i) Although the total amount of outstandings have come down from Rs. 31.99 crores as on 31-3-1969 to Rs. 27.59 crores as on 31st March, 1973, there were heavy outstandings against private parties and these had gone up from Rs. 7.50 crores to 10.41 crores during this period. Out of this, an amount of Rs. 1.20 crores was considered doubtful of recovery. There were several cases where the Corporation failed to make proper enquiries into the credit worthiness of the customers before granting them credit facilities. Further, credit facilities were continued to be given to the customers even where they failed to make payment as per the terms of the credit facilities laid down by I.O.C. The result has been that the Corporation had

to resort to legal proceedings for realisation of dues which means heavy expenditure on litigation.

The Committee appreciate the vision with which the Indian Oil Corporation was set up in 1964 and have no doubt that Government/ Corporation would do their best to see that at the present juncture of our development when oil is becoming scarce all over the world, the resources are so husbanded and distributed as to serve best the national interest.

SUBHADRA JOSHI

Chairman, Committee on Public Undertakings.

NEW DELHI;
April 19, 1974.

APPENDIX I

(Referred to in para 1.7)

Product-wise actual sales vis-a-vis *the product availability and the revised sales targets*

(Figures in '000 Kls.)

	1968-69					1969-70				
	Net product availability	Revised sales target	Actual sales	% of (3) to (2)	% of (3) to (1)	Net product availability	Revised sales target	Actual sales	% of (3) to (2)	% of (3) to (1)
	1	2	3	4	5	1	2	3	4	5
Bulk petroleum products—										
MS	1511·9	563·1	361·7	99·6	23·9	1535·9	430·0	398·6	92·7	26·0
Kerosene	2250·1	2119·5	2143 5	101·1	95·3	2814·9	2402·6	2436·8	101·4	86·6
Av. Gas	65·9	60·2	65·9	109·5	100·0	26·8	78·3	74·5	95·1	278·0
JP-4/ATF	408·3	384·3	375·9	97·8	92·1	479·0	514·1	548·3	106·6	114·5
HSD	1875·2	1760·0	1738·2	98·8	92·7	2258·8	2120·9	2076·1	97·9	91·9
LDO/MLO	555·9	480·0	537·0	111·9	96·6	655·7	664·6	617·4	92·9	94·2
FO/TDO	1492·6	1499·8	1527·1	101·8	102·3	1808·6	1846·8	1900·2	102·9	105·1
RFO/LSHS	865·0	817·6	787·5	96·3	91·0	1083·7	1011·7	1007·0	99·5	92·9
Bitumen	98·6	140·1	107·4	76·7	108·9	123·3	189·5	106·9	56·4	86·7
Lubes and Greases	220·9	196·2	180·2	91·8	81·6	214·1	260·7	177·7	68·2	83·0
Specialities	331·6	355·3	287·3	80·9	86·6	662·6	722·2	600·0	83·2	90·6
TOTAL	9676·0	8176·1	8111·7	..	..	11663·4	10241·4	9943·5	..	..

NOTE :—Excess of sales over product availability in certain cases is accounted for by inter-company transactions and carry over stocks.

(Figures in 000 'Kls.)

	1970-71					1971-72				
	Net product availa-bility	Revised sales target	Actual sales	% of (3) to (2)	% of (3) to (1)	Net product availa-bility	Revied sales target	Actual sales	% of (3) to (2)	% of (3) to (1)
	1	2	3	4	5	1	2	3	4	5
Bulk petroleum products—										
MS	1481·4	470·7	468·0	99·4	31·6	1505·6	543·3	549·5	101·1	36·5
Kerosene . .	2396·6	2598·4	2449·6	94·3	102·2	2952·4	2743·5	2788·6	101·6	94·4
A. Gas . .	32·5	67·4	77·1	114·4	237·2	75·6	78·5	87·4	111·3	115·6
JP4ATF	611·7	627·2	604·2	96·3	98·8	705·2	790·7	679·4	85·9	96·3
HSD . .	2394·7	2426·4	2266·1	93·4	94·6	2916·1	2535·4	2704·9	106·7	92·8
LDO/MLO . .	712·7	708·2	682·0	96·3	95·7	755·3	726·0	863·0	118·9	114·3
O/TDO	2272·7	2144·7	2186·3	101·9	96·2	2602·7	2614·1	2549·2	97·5	97·9
RFO/LSHS . . .	1017·7	1141·8	1030·6	90·3	101·3	1057·3	1135·3	1088·4	95·9	102·5
Bitumen	191·0	177·0	182·8	103·3	95·77	335·1	284·6	323·2	113·6	96·4
Lubes and Greases .	379·3	332·3	245·4	73·8	64·7	360·9	337·3	307·2	91·1	85·1
Specialities . .	1202·2	929·8	834·9	89·8	69·4	1281·9	1537·3	1071·4	69·7	83·6
TOTAL	2692·5	11623·9	11027·0	..	..	14548·1	13326·0	13012·5	..	..

(Figures in '000 Kls.)

	Net Product availability	Revised sales targets	1972-73 Actual sales	Percentage of (3) to (2)	Percentage (3) to (1)
Bulk Petroleum Products					
MS	1329·1	661·2	598·7	90·5	45·0
Kerosene	2892·3	3077·7	2946·9	95·8	101·9
AV Gas	61·5	90·1	67·8	75·2	110·2
ATF	736·5	758·6	722·8	95·3	98.1
HSD	2981·8	3173·5	2980·9	93·9	100·0
LDO/MLO	1046·1	961·3	1183·6	123·1	113·1
FO/TDO	3367·0	3552·0	3435·1	96·7	102·0
RFO/LSHS	1099·5	1063·1	1189·0	111·8	108·1
Bitumen	441·7	452·8	423·9	93·6	96·0
Lubes and Greases	417·5	383·4	409·0	106.7	98·0
Specialities	1313·4	1528·6	1527·1	99·9	116·3
TOTAL	15686·4	15702·5	15484·8	98·6	98·7

NOTE :

1. Actual Sales do not include KNPC/Own use as in earlier years.
2. Actual Sales include Methanol Misc/Distilled water as in earlier years.

APPENDIX II

(Referred to in para 2.39)

Performance of Retail outlets in four metropolitan cities of Bombay, Madras, Delhi and Calcutta

	BOMBAY							MADRAS						
						Return							Return	
	N	P	G	T	Gross block (Rs. in lakhs)	Total (Rs. in lakhs)	Percentage on gross block	N	P	G	T	Gross block (Rs. in lakhs)	Total (Rs. in lakhs)	Percentage on gross block
1. Retail outlets owned and operated by the company	..	..	..	..	..	..	..	..	..	..	..	..		..
2. Retail outlets owned by the Company but operated by the dealers	5	6	1	12	22·46	0·11	0·5	6	6	3	15	12·53	0·42	3·3
3. Retail outlets owned and operated by the dealers	1	..	4	5	1·18	0·94	79·0	1	1	27	29	5·77	5·27	91·[illegible]

N: Outlets showing 'NIL' return.

P: Outlets showing poor return (below 12 %)

G: Outlets showing good return.

T: Total number of outlets.

	DELHI							CALCUTTA						
	N	P	G	T	Gross block (Rs. in lakhs)	Return		N	P	G	T	Gross block (Rs. in lakhs)	Return	
						Total (Rs. in lakhs)	Percentage on gross block						Total (Rs. in lakhs)	Percentage on gross block
1. Retail outlets owned and operated by the Company	..	..	..	..	..		..	..	..	1	1	0·32	0·11	34·59
2. Retail outlets owned by the Company but operated by the dealers	3	3	7	13	12·25	2·51	20·52	12	3	1	16	18·02	(—)1·89	
3. Retail outlets owned and operated by the dealers	2	1	24	27	4·35	5·22	120·11	8	3	22	33	4·95	1·95	39·3

N: Outlets showing 'NIL' return.
P: Outlets showing poor return (below 12 %)
G: Outlets showing good return.
T: Total number of outlets.

APPENDIX III

(Referred to in para 5.45)

No. IS-28011/4/73-PPD

GOVERNMENT OF INDIA

(Bharat Sarkar)

MINISTRY OF PETROLEUM AND CHEMICALS

(Petroleum Aur Rasayan Mantralaya)

New Delhi, the 4th September, 1974

OFFICE MEMORANDUM

SUBJECT.—*Working of various pool accounts (like C&FA/C and F.S.P. A/C.) presently in operation in respect of petroleum products.*

The undersigned is directed to say that it has been decided that the existing Pool Accounts of oil companies like C & F. Adjustment Account, Freight Surcharge Pool Account etc. (list attached) which are maintained by the oil companies under the present informal pricing scheme should be examined by a small Committee of officials with a view to see whether the existing mechanism is adequate to ensure that the said accounts prepared by the oil companies, are in accordance with the instructions issued by Government to them from time to time. It has accordingly been decided to set up a Committee consisting of:—

1. Shri M. Naraswami, OSD in the Ministry of P. & C.

2. Shri R. Narasimhan, DFA, Ministry of Finance to undertake this study. The Committee may also co-opt other members wherever considered necessary.

2. This Committee will have the following terms of reference:

(i) To frame guide-lines for maintaining C&F Account, F.S.P. Account etc., by the oil companies.

(ii) To recommend the method/mechanism of control to be exercised by the Ministry.

(iii) To examine the legal position of these large funds

(iv) To determine whether the Auditors' certificates at present furnished by the oil companies are adequate if not in what form the Auditors may be asked to give the requisite certificates.

(v) The Committee will also examine and make recommendations regarding the maintenance and operation of the accounts, or any aspect the Committee may consider relevant but not specifically moved by the above terms (i) and (iv).

(vi) To consider the feasibility of bringing all these acocunts under the Consolidated Fund of India.

3. The Committee will submit its report to this Ministry within period of three months.

Encl: As above.

Sd/- (P. P. Gupta),
Under Secretary to the Govt. of India.

To

(1) Shri M. Naraswami, OSD, Ministry of P. & C.

(2) Shri R. Narasimhan, Deputy Financial Adviser, Ministry of Finance (Deptt. of Expenditure), New Delhi.

Copy for information to:

Shri P. C. Bhatacharya, Financial Adviser, Ministry of Finance, Department of Expenditure, New Delhi.

Sd/- (P. P .Gupta),
Under Secretary to the Govt. of India.

APPENDIX IV

(Referred to in para 6.6)

Statement showing profit margins allowed by the WGOP/OPC on various items of petroleum products

Products	Unit of sale	Profit margin as per WGOP	OPC
		Rs.	Rs.
Aviation Spirit 100/130 Octane	Kl.	21·89	21·62
Aviation Spirit 115/145 Octane	Kl.	22·31	22·11
Aviation Spirit 73 clear	Kl.	21·19	20·82
ATF	Kl.	11·47	9·44
Motor Spirit	Kl.	19·18	17·15
HSD	Kl.	17·64	13·39
Kerosene/Superior	Kl.	11·44	8·69
Kerosene/Inferior	Kl.	7·73	4·44
LDO	Kl.	6·95	5·30
FO	MT.	4·91	3·09 (Kl.)
Bitumen straight grade	MT.	8·84	6·66
Lubes and Greases	Kl.	20·63	23·60
Specialities	Kl.	9·71	—

APPENDIX V

(Referred to in para 6·9)

Profits after making adjustments of under/over-recoveries in respective years to which they relate

(Rs. in lakhs)

	1968-69	1969-70	1970-71	1971-72	1972-73
Sales volume (Lakhs/KL)	81·12	102·28	114·30	135·90	165·20
Net profit on this sale as per profit and Loss account (i.e. before adjustment)	1313·79	980·90	907·63	2036·81	3341·77
Less : Income/Expenses pertaining to previous year	74·80	119·02	97·66	(—)107·73	(—)284·61
Net operating profit for the year	1388·49	1099·92	1005·29	1929·08	3057·16
Deduct : extraneous Income(—)/ Add : extraneous losses(+)					
Adventitious gain/losses due to duty and price changes	—	(—)28·17	(+)64·2	(—)171·80	(—)42·11
Gain/Loss on imports	(—)19·66	(—)61·88	(+)85·85	..	—
Gain/Loss on lubricants	(—)139·32	(+)24·44	(+)345·13	(+)476·70	—
Losses on account of Under recoveries of :					
(i) Railway freight	(+)81·92	(+)167·39	(+)47·70	(+)63·62	(Prov.) (+)15·00
(ii) P.P.D.	(+)22·43	(+)47·38	(+)7·10	—	
~~(iii)~~ Coastal underrecovery	(+)279·62	(+)397·00	(+)108·80	(+)23·24	
(iv) Sale Tax (MRL)	(+)37·00	(+)68·00	(+)139·00	(+)26·25)	
(v) Central Sales Tax Surcharge	—	(—)75·00	—	(—)60·00	+)17·37
Gain on account of duty relief	(—)238·79	(—)119·37	—	—	—
ADJUSTED PROFITS	1411·69	1519·71	1803·49	2287·09	3047·42

APPENDIX VI
(Referred to in para 6.20)

Instances of non-adherence to credit policy and the loss sustained

	Name of the party	Amount outstanding as on 31st March, 1972	Reasons
		Rs.	
1.	M/s. Agarwal Oil Co., Delhi . .	1,88,036	Cheques delivered by party between May and August 1967 were dishonoured but came to the notice of the Company only in August 1967.
2.	M/s. Coloured Glass Co., Bombay .	67,132	Credit limit of Rs. 21,000 of 21 days was not enforced resulting in recovery becoming doubtful.
9.	M/s. Dholpur Glass Work Ltd., Dholpur.	41.393	Railway receipts were sent direct to the party instead of routing through Bank resulting in non-recovery of dues. The firm has gone into liquidation in May, 1969.
4.	M/s. Sukh Sagar Shipping Co., Bombay.	43,061	Credit limit of Rs. 20,000 for 30 days was not enforced. The Company went into liquidation in July, 1968.
5.	M/s. P.O.L. Consumers Co-operative Society Ltd.	1,10,029	Contrary to the policy credit was extended to the consumer co-operative society.
6.	M/s. Corporate Traders, Jorhat . .	1,86,481	Despite fraudulent practice adopted by the dealer supplies were continued which resulted in accumulation of outstandings.

The latest position in regard to these cases is given below:

(i) *M/s. Agarwal Oil Company, Delhi—Rs.* 1,88,036/—

A departmental enquiry was conducted based on which responsibility was fixed on two members of the accounting staff attached

NOTE:—All the above cases are pending either in the courts or with official liquidators.

to Shakurbasti Installation. Necessary suit has also been filed for the recovery of Rs. 1,88,036.19, which has been decreed in favour of Corporation for a principal amount of Rs. 1,61,636.19 claimed in the suit and interest 6 per cent from the date till realisation.

(2) *M/s. Dholpur Glass Works Ltd., Bombay—Rs.* 41,393/-

This customer was receiving FO supplies in tank wagons ex-Sewree on 30 days credit term. Outstanding amount represents a value of 14 tank wagons less payment received. Towards middle of 1966, after knowing customers's financial position, it was decided to make further despatches on RR through bank basis and recovering Rs. 1,000/- per tank wagon towards earlier outstanding. Reasons given for accumulation on this amount seem to be incorrect inasmuch as customer was enjoying 30 days credit term initially. We filed a compulsory winding up petition with Jodhpur High Court in early 1968 and the High Court ordered the company to be wound up in May, 1969. Thereafter, official liquidator is presently on his job for realisation of the Company's assets.

It may be mentioned here that in the highly competitive situation prevailing at that time, credit on a selective basis has to be given and in doing so certain amount of calculated risk has been taken. Considering the very large turnover of the Corporation, the amount involved in this case is negligible.

(3) *M/s. Sukh Sagar Shipping Company, Bombay—Rs.* 43,061/-

An investigation was conducted in regard to this outstanding and responsibility fixed. The party has become insolvent and the official liquidator appointed. We have lodged our claim with the liquidator and the claim has been admitted.

(4) *M/s. P.O.L. Consumer Co-operative Society Ltd., Nowgang—Rs.* 1,10,029/-.

The aforesaid consumer co-operative society at Nowgong (Assam) were our dealers who were allowed credit facility upto Rs. 45,000 (representing their monthly offtake of our products) against a security deposit of Rs. 10,000. The Co-operative Society was not prompt in their remittance of our dues and after several contacts, they deposited with us two cheques amounting to Rs. 45,000 in March, 1963. Both the cheques, however, returned uncashed on presentation to their bankers, as the Society did not have sufficient funds. In April, 1963, on party's demand the products were shipped and five

railway receipts for the shipments delivered to the bank. The Co-operative Society failed to retire the above five railway receipts, and instead got the products released on indemnity bond. When this came to our notice, efforts were made by us to collect our dues and we contacted the Chairman of the Society. We made various representations from time to time for the recovery of the amount to the then Minister for Co-operatives and the Secretary, Department of Co-operatives and Education, Government of Assam. Assam Government had ordered an enquiry into the affairs of the Society. We are, however, not aware of the result of the enquiry.

Finding no other alternative, a suit was filed against the party on 27th October, 1965 and the suit was decreed on 22nd June, 1970 for Rs. 1,04,124.14. Security deposit amount of Rs. 10,000 has been adjusted. The execution proceedings against the decree awarded in our favour, are in progress.

(5) *M/s. Corporate Traders, Jorhat—Rs.* 1,86,481/-.

The matter was investigated and responsibility fixed on the officer concerned. A civil suit has been filed for the recovery of the outstanding.

(6) *M/s. Coloured Glass Company, Bombay— Rs.* 67,132.

Marketing of Furnace Oil during 1965-66 was highly competitive and IOC had to offer "30 days" credit terms, offer rebates on a selected basis and also provide storage facilities where justified at considerable cost.

M/s. Coloured Glass Co., were drawing their F.O. supplies at approximately 230 Kls. P.M. from M/s. Burmah Shell on 60' days credit basis. On our follow up, they agreed to give us 50 per cent of their business provided we extend a minimum of 30 days' credit facility. Accordingly, credit facility upto a monetary limit of Rs. 25,000 with a time limit of 30 days was approved on 30-11-1965. Consequently, supplies were commenced in mid 1966. After some period, they commenced drawing major portion of their requirements from IOC.

Their payments flowed regularly till May, 1968 when one of their cheques bounced and credit facility was suspended. However, with a view to not to lose their business, the credit facility was restored on 6-7-1968, but the time was reduced from 30 days to 21 days keeping the monetary limit at Rs. 25,000.

Again on 29-3-1969, the party's cheque bounced and we suspended their credit facility effective 1-4-1969. At this juncture, the party owed a sum of Rs. 1,18,305.77 covering the supplies made roughly for the period January—March, 1969. After due consideration of various factors, it was decided that the best course would be to allow supplies to the party on cash basis and at the same time recover our outstandings by way of equal instalments from the customer instead of taking recourse to legal proceedings. By this way we succeeded in recovering a sum of nearly Rs. 41,000 during April—June 1969 when the party stopped drawing supplies from us.

After a considerable follow up, when no payment towards outstandings were forthcoming, we filed a suit in October, 1970 and this case is now ending with the Bombay High Court for hearing.

Still the efforts were continued to find out ways and means to liquidate the dues. Accordingly, once again the party was induced to clear their outstandings by drawing supplies against cash payment together with equal instalments towards old dues. This has resulted in further recovery of Rs. 5,800 during 6th October—8th November, 1971. This arrangement also did not work as their factory was closed in November, 1971 for want of funds.

From the above, it will be seen that since 1969 when we first realised the financial weakness of the party the following corrective action was taken:—

(1) All supplies were released against cash.

(2) Part of the dues were recovered by collecting in instalments along with supplies.

(3) Legal suit was filed to ensure that our case does not become time barred.

From the above case history, it will be seen that required credit investigation was undertaken in respect of this customer right from the beginning. The decision to extend credit was undertaken by the competent authority giving due consideration to the prevalent competitive conditions in the market in line with our marketing policy in vogue at that time.

The above course of action has been rewarding as it has resulted in the reduction of outstandings from Rs. 1.18 lakhs to Rs. 71,687.33 as of date.

The suit has been filed in the Bombay High Court and is pending.

7. A review of settlement of the Company's claims by Airlines has indicated that due to inability of the Company to secure payment of its bills from an airline within 30 days, the Company's dues on the date of devaluation of the pound sterling (19-11-1967) could not be recovered at pre-devaluation rate of exchange (Rs. 21-£ 1) and the Company had to accept the dues at the post devaluation rate (Rs. 18—£ 1) resulting in a loss of Rs. 2.47 lakhs. As the Airline in question subsequently went into liquidation (November, 1968), further claims of the Company amounting to Rs. 6.04 lakhs (£ 33,554) in respect of supplies made during July, 1967 to November, 1968 were outstanding against which the Company is not likely to receive more than Sh. 1-6d per pound of its dues as advised by the solicitors in February, 1970.

The Management have stated (January, 1973) that £ 4,362.15 (Rs. 0.70 lakhs) had been recovered from the party up to December, 1972 and that the amount still due is Rs. 5.25 lakhs. Out of this, a sum of Rs. 513 lakhs has been written off by the Board in February, 1973.

According to IOC, this was IOC's first international airline customer canvassed in the teeth of severe competition from foreign oil companies. The payment had to be made from the party's London Office and thereby there was some inevitable delay between the submission of Bills and receipt of payments. Follow-up through correspondence was, however, maintained by us. Since we had to establish our credentials as a supplier of aviation fuel to International airlines, it was in our long term interest not to precipitate matters for minor deviations on the credit period. The firm's liquidation came rather unexpectedly and the general aviation industry itself, we understand, were taken by surprise.

The Committee were aslo informed that the matter has been investigated and proper procedures were established for adhering strictly to the credit procedures allowed to parties. No malafides were found on the part of any officer in connection with this case.

8. In May, 1969 a dealer was granted credit for 30 days with a monetary limit of Rs. 50,000; this was extended upto October, 1969 pending finalisation of credit investigation report.

On the consideration of the credit investigation report on 17-11-1969 the Branch Manager did not sanction credit facility to the dealer as his financial position did not pass the liquidity. However, supplies continued to be made to the party on credit till 31st March, 1970. On 6th April, 1970 a proposal to grant a temporary credit facility up to Rs. 50,000 for a period of three months was sanctioned by Branch Manager on the basis of a report that the paying

habits of the party were satisfactory. The report was, however, incorrect inasmuch as an amount of Rs. 95,223 was outstanding against the party on 31st March, 1970.

The party stopped drawing supplies from June, 1970 when an amount of Rs. 1.64 lakhs was outstanding out of which a sum of Rs. 0.24 lakh is yet to be recovered (January, 1973).

The Management have stated (January, 1973) that withdrawal of the temporary credit facility would have resulted not only in loss of business but uprooting the consumer outlets and would have also posed problem of collecting the outstandings. Regarding the supplies in excess of the credit limit of Rs. 50,000 it has been stated that it was not practicable to keep day to day control on the supplies which were made from more than one location and that the existing reporting system for granting of credit is the best that the Company can do.

According to IOC they were very keen to secure the business of this consumer for Motor Spirit and High Speed Diesel Oil at Bombay and Poona as their competitors were also trying to get this business. In order to make sure about the party's credit-worthiness, they were asked to provide their balance sheet to prepare the credit investigation report. In the meantime, in order not to lose the customer's business the recommendation of the District Office to extend temporary credit facility to the customer pending finalisation of the formalities required for setting up permanent credit facility, was accepted by the Branch.

Even though the credit investigation report did not justify granting credit facilities to the customer for the period 17-11-1969 to 31-3-1970, it was felt that the withdrawal of the credit facility at that stage would immediately have resulted in losing the valuable business of Motor Spirit and High Speed Diesel Oil as it was apprehended that competitors would immediately offer the customer consumer pumps at the locations desired by him.

The Branch Manager authorised temporary credit facility on the report dated March, 31, 1970 from Branch Sales endorsed by the Accounts Department which indicated that the paying habit of the party was not unsatisfactory. This report was on the basis of information obtainable at that point of time and the fact that over Rs. 95,223 was outstanding against the party came to light somewhat later on account of the inherent time lag in obtaining information relating to customer outstandings particularly at the end of the financial year.

The balance amount of Rs. 24,000/- has not yet been recovered in spite of best efforts so far. They were now taking legal action for the recovery of the amount.

9. The Company entered into a contract with a foreign Airline for the supply of Aviation Turbine Fuel for one year from 1-7-1969, on 30 days' credit. Against the supplies made from July, 1969 to June, 1970 the Airline paid only three bills up to the date of termination of the contract (30th June, 1970) leaving a balance of Rs. 16.43 lakhs in respect of the remaining 9 monthly bills.

The Airline started taking supplies from another oil company from 1st July, 1970 and the Company took up the question of settlement of outstanding bills for the first time in October, 1970. During the period from October, 1970 to March, 1972 the Airline made payments aggregating Rs. 10.79 lakhs leaving a balance of Rs. 5.64 lakhs which has not been recovered so far (December, 1972). The loss of interest on the extension of credit facility in excess of 30 days works out to Rs. 2.41 lakhs upto 31st October, 1972.

The Company has stated (January, 1973) that after consulting the Ministry of Petroleum and Chemicals, it has been decided to send a legal notice to the Airline and interest on outstandings will be added in the final bill.

On an enquiry as to why the credit limit of 30 days was not enforced, the Management have further stated (January, 1973) as under:—

> "We did not press the question of payment as IOC was in the early stages of International Airlines business and had to prove its competence to serve International Airlines as this is considered to be a very sophisticated business, the quality to be of utmost importance. To prove that IOC can supply aviation products and get the satisfaction of the customer we could not conceive losing the business even at the extra cost involved in holding up the dues from Airlines which we were able to enrol as our customers on the basis of global tenders. In any case, for a company like us which had achieved position of a major Oil Company in the country we had to make a break-through in the aviation business which is considered to be a very prestigious business."

10. The Corporation informed that they entered into a contract for the supply of ATF to Messrs United Arab Airlines (now known as Egypt Air) for a period of one year from 1st July, 1969 to 30th June, 1970, the terms of payment being 30 days' credit.

Although bills were being forwarded by the BFC Western Branch to the local office of UAA for onward despatch to their HQs at Cairo for arranging payment, the party was extremely slack in effecting payment to us. As soon as this matter came to the attention of the Head Office, continuous follow-up was made both with the local office and with the Head Office of Egypt Air at Cairo. The matter was also referred to the Ministry of Petroleum and Chemical with a request for assistance through diplomatic channels. One of the officers from the Aviation Department of IOC also visited Cairo on his way from a meeting at Geneva and called on the Chief of the Fuel Tender Committee and the Financial Controller of Egypt Air on 9th May, 1971, who at that time assured that payments will be made by the end of June, 1971. Our officer was accompanied by a representative from the Indian Embassy at Cairo.

Finding that payment was not forthcoming as per the promises made to our officer and to the representative of the Indian Embassy, we sent urgent Telexes and letters including one to the President of the Airline requesting for payment.

As a result of our continuous pressure, the Airline paid a sum of Rs. 8,50,305.13 reducing the outstanding from 14,14,247.01 to Rs. 5,63,941.88. The last payment received by us was Rs. 1,57,480.32 on 6th March, 1972.

Finding that no further payments came after 6th March, 1972, we kept our follow up efforts, with Egypt Air including calls on the local Manager, who merely assured that he will bring to the attention of their HQs again.

Since we cannot allow this situation to continue, we referred the matter to our Ministry to find out if there will be any objection to our sending a legal notice to the Airline. Our Ministry referred the matter to the Ministry of Foreign Trade and wrote to us on the 29th September, 1972 stating that there is no objection for the Ministry of Foreign Trade to IOC taking legal action if all possible methods of amicable settlement have been exhausted.

It was therfore decided to send a legal notice to M/s. Egypt Air and our solicitors M|s. Amarchand & Mangaldas & Hiralal Shroff & Co. were consulted. The draft notices were reviewed and finally approved. Subsequently the notice for the recovery of the due amount with interest was served on the party on 21st September, 1973. Meanwhile the party has advised remittance of 40,000 dollars (approximately 2.9 lakhs of Rupees) which is yet to be received by us. We are following up with our bankers for tracing the same.

APPENDIX VII

(Referred to in Para 6.27)

Remedial measures suggested by Internal Audit for improving the position regarding outstanding and action taken by the Management

Remedical measures suggested	Action Taken thereon
(i) The tempo of expediting/maximising the collection efforts as set during the close of the financial year should be maintained throughout the year	The tempo of expediting/maximising the collection efforts from our side is being maintained throughout the year.
(ii) Customers may be pursuaded to pay bills on the basis of proof of supply, adjustments wherever required being adjusted from subseque bills. This relates to those cases where payment is delayed as a result of procedural delay at the customer's end.	The terms of payment are settled at the time of finalisation of contract. The customers are persuaded to agree to our term of payment of the bills on the basis of proofs of supply at the time of the renewal of the contract.
(iii) Continuous and vigorous efforts are required to be continued to liquidate the outstandings for supplies made upto 31-3-70.	The outstanding for supplies made upto 31-3-70 has been brought down to Rs. 1·25 crores as on 31-3-73 from Rs 2·95 crores as on 31-3-71. Vigorous efforts are continued to liquidate the balance amount.
(iv) Concentrated efforts are required on the part of field staff in minimising unlinked receipts and short payments.	Concentrated efforts are maintained by the field staff in minimising unlinked receipts and short payments.
(v) Collection calls may be created one each at Bombay and Delhi, which should exercise effective control over the outstandings of "centralised" customers.	Effective control on centralise customer is exercised by the respective department in the HO at Bombay and therefore it is not considered necessary to create separate cells at Bombay and Delhi as suggested by the Internal Audit Department.
(vi) Further detailed study may be undertaken for finding out the reasons for abnormal delays in submission of bills and suggesting remedial action.	Detailed studies have been made by E.R. Department in some of the locations in this regard.
(vii) The procedure of discounting of the bills through the customer's bankers may be adopted in replacement of giving open credit as at present.	This will considerably increase the workload at the Branches but the Branches are not geared up to handle this additional burden.

1	2
(viii) The practice of releasing supplies without finalisation of rates should be strictly, discouraged, a maximum period of one month should be fixed for obtaining acceptance of rates in exceptional cases.	The suggestion of the Audit has been implemented.
(ix) The Branches should submit comprehensive customerwise/categorywise statements of outstandings to the concerned department/field staff in time.	Comprehensive statements are submitted by the Branches but they are invariably delayed due to insufficient data processing facility.
(x) Consolidated periodical reports be mandatory from the field staff (on the statement of outstandings, sent to them) in which full information regarding the stage of each bill etc. should be given.	Periodical reports are received by the Branch from the field staff giving necessary information regarding the stage of each outstanding bill.
(xi) The back-lag of outstandings from cash customers should be analysed on a priority basis to determine the correct outstandings, from effective recovery.	Cash Customer's accounts are being analysed by the respective Branches.
(xii) The reasons leading to the delays in analysing the cash customers accounts and unauthorised credits which have been afforded must be reviewed.	These are being reviewed by the Branches.
(xiii) Credit control for private credit parties should be decentralised to the Branches.	Credit control for private parties has already been decentralised to the Branches.
(xiv) A comprehensive review of the overdues should be made and sight draft facilities should be extended in a few cases.	Overdue outstandings are reviewed from time to time. Sight draft facilities have also been extended in a few cases.

APPENDIX VIII

(Referred to in Para 6.41)

Important cases reported by the Internal Audit Department to the Board of Directors

No. and date of the Board meeting	No. of cases	Brief particulars of important cases reported by the Internal Audit Department to the Board of Directors.
69th meeting held in July, 1971	(1)	The benefit expected from the purchase of a depot, in 1968 from Caltexat karad in the shape of saving of bridging expenses of Rs. 1·65 Lakh annually, did not materialise as the products were moved from Poona or Bombay to Karad by road instead of by rail.
	(2)	Another depot was purchased at Karad from Burmah-Shell in 1971 on similar consideration, with the purchase of this depot, the earlier depot, it was apprehended, will fall into complete disuse.
		The case is under discussion with Managing Director.
70th metting held in August, 1971	(1)	Net saving of Rs. 0·73 lakh per annum on account of octroi duty, toll tax transit tax, etc., which were being paid by IOC but were not included in the selling prices. Recovery made by increasing the prices later on.
	(2)	Suggestions for improving the liquiddity position by making collection of outstanding dues expeditiously.
	(3)	Out of debts amounting to Rs. 1·36 lakhs proposed by Management for write-Off by the Board, debts amounting to Rs. 0·26 lakhs were established to be recoverable, and ways of establishing debts of remaining amounts were suggested.
		The case is under discussion with Mananging Director.
75th meeting held in November, 1971 (Postponed from July, 1971)		Irregularities in connection with delevery of lube oils to certain distributors resulting in loss of Rs. 32,000 to the Corporation. The matter was investigated by the CBI, and on the basis of the opinion of the CVc the co-

1	2
	cerned officer was cautioned. The case was noted by the Board in its meeting held on 19-1-1973.
84th meeting held on 19th October, 1972	(1) Recovery of Rs. 9·01 lakhs in foreign exchange, representing port and wharfage charges incurred on import to Furnace Oil from Kuwait was effected after the internal audit pointed out that it was to be borne by the Foreign Supplier under the terms of the agreement.
	(2) Disadvantages arising out of the working of the products Exchange agreement along with suggestions for amendment of the agreement (See also Chapter III of this Report).
	(3) Import of lubricants from Rumania-Sale to other Oil Companies excepting ESSO to whom product was given on loan for return 'tonne to tonne basis' a proposal of ESSO for cash settlement on the basis of price ruling at the time of import was commented upon by Internal Audit as being adverse to the interest of IOC and favourable to the Company by about Rs. 1 crore, apart from the question of bearing sales tax liability in this and other cases.
	(4) A Study of sale of Furnace Oil including allowance of rebates and discount.
	(5) A case of delay in recovery of excise duty and MI charges amounting to about Rs. 67 lakhs from an oil company was reported.
	(6) Wrong payment of sales tax of over Rs. 20 lakhs to the Punjab Government instead of to Himachal Pradesh Government.

All the above cases are under consideration of the Board and no final action has been taken so far.

1	2
87th meeting held on 19th January, 1973.	(1) Agreement with NAPRL for sale of transformer oil. This case is under consideration of the Board (See also para 7·22 to 7·45 of this Report).

APPENDIX IX

(Referred to in Para 7.59)

Suggestions made by the Finance Director and the preliminary comments of the Management

Suggestions made by the Finance Director in his note and the preliminary comments of the Management:—

(i) *Suggestion*

In future, all new lube products which are introduced in the specific concurrence of the F.D. may be taken indicating therein the mechanism of fixing the price.

Comments

The Ministry of P & C have with effect from 1st September, 1973 directed that no new product should be introduced in the market without Government specific approval on price fixation. Accordingly, we have no other alternative but to approach the Government for any price fixation of lube products.

(ii) *Suggestion*

In our future agreements with the Association of State Transport Undertakings, efforts should be made to reduce the existing level of discounts both to association as well as to State Undertakings.

Comments

Presently in the case of supplies of lubes to S.T. Undertakings through ASRTU, we are giving a Secretarial and Administration rebate of 1 per cent on the Product Selling Price. Even though we have made an attempt to fix it up on a per Kl. basis (in view of the increase in price) ASRTU was not agreeable to our proposal and insisted on the continuance of the existing system. However, we will again try to fix up rebate on a per Kl. basis at the time of negotiation for the next contract.

(iii) *Suggestion*

Prompt payment discounts to dealers should be considerably reduced if not completely eliminated.

Comments

Prompt payment discount is generally given to State Transport and other Government customers only.

(iv) *Suggestion*

In case of imported product which are being supplied to Government, efforts should be made to enter into an agreement on canalisations basis providing for a percentage of margin instead of the present arrangement of quoting a rate subject to a variation of customs duty. This system is leading to a lot of under recoveries due to increase in prices between the period when rates are offered against tender and date of supply. In cases where we are supplying both to Government and other parties on the basis of general import made by us, there should be sufficient margin kept while quoting the prices to Government for increase in the costs on base stocks, additives, ocean freight etc.

Comments

Since the prices are frozen, no price increase can be effected unless it has the approval of the Government. Further, with the introduction of C & F Adjustment Account for lubes, it may not be possible to negotiate with DGS & D for a certain percentage margin.

(v) *Suggestion*

We are quoting for the lubes business to Government of India. It is felt that where a tender for a contract is above a certain limit, say Rs. 50 lakhs or over, concurrence of FD may be taken about the rate at which the prices should be quoted.

Comments

As stated above, the prices of lubricants are frozen as of 1st May, 1970 and we cannot offer any other price than the frozen price with statutory increases from time to time. It

is rather impractical to approach FD for approval before submitting every tender as this would delay submission of quotations to DGS & D.

(vi) *Suggestion*

There has to be a better planning and follow up of the DGS & D contracts on lubes so that we are able to supply the products within a stipulated period and the corporation does not lose for supplies made subsequent to the stipulated period on account of increase in excise duties and other levies.

Comments

Except for reasons beyond control, supplies are always made with stipulated period.

(vii) *Suggestion*

In case of Madras Lube Plant, we are able to debit to the Block Control Account only actual cost plus the marketing margins what has been allowed by the Government. Whereas for productions which are manufactured in IOBL Plants, we are debiting the cost paid to the IOBL, which includes a certain profit element, which is more than 20 per cent of the capital by way of blending fees. In case Madras Lube Blending Plant was a separate company or a subsidiary of IOC we would have been able to recover in addition to the marketing margin the profit on the capital employed therein. We may therefore take up with the Government that they should allow us at least 12 per cent return on the capital employed in the Madras Lube Blending Plant. In other words, if they do not agree to this arrangement, they should allow us to charge interest on the capital employed as an additional element. This would give an additional income of about 14 lakhs per annum to the Corporation.

Comments

This matter has already been taken up with the Government and in the Block Control Audited statement submitted to Government, processing fees equivalent to the fees recovered from other oil companies have been charged for own production.

(viii) *Suggestion*

The matter regarding the reviewing of the entire pricing structure on lubes has to be pursued with the Government so that the present anomalies which are to the disadvantage of IOC are removed.

Comments

The High Power Committee appointed by the Government have since submitted their report to the Government and the Government's instructions received from time to time are implemented. It may be mentioned that the Company has now been compensated for past super losses.

APPENDIX X

Summary of conclusions/recommendations of the Committee on Public Undertakings contained in the Report.

Sl. No.	Reference to Para No. in the Report	Summary of conclusions|recommendations.
1	2	3
1	1.20	The Committee find that there has been gradual increase in the volume of sales of IOC and it reached a figure of 12.28 million tonnes in 1972 which represented a market participation of 57.3 per cent as against 42.5 per cent in 1968. The Corporation has also by and large achieved two of its objectives of meeting all petroleum product requirements of Government organisations (Central and State) and the handling of at least half of the import trade of deficit petroleum products. In fact, the import of all petroleum products is now being canalised through IOC except for a few proprietory brands of highly specialised finished lubricants for aviation and marine industries. A review of the productwise sales of the Corporation, however, reveals that it has less market participation in more profitable products (HSD and MS) and greater market participation in less profitable products. In the case of Motor Spirit the share of IOC was only 26 per cent in 1972 as against the overall market participation of 57.3 per cent. In the case of retail sales of M.S. its share was barely 19.4 per cent in 1972. The Committee are constrained to observe that the Corporation's participation in profits fell short of its market participation as compared to other oil companies. The reasons

1	2	3
		for unsatisfactory performance in the sale of M.S. have been dealt with in detail in the subsequent paragraphs of this Report.
2	2.27	The Committee regret to note that the IOC has not been able to achieve the objective of building up adequate storage and distribution facilities for retail sale commensurate with the growing demand for petroleum products. Although the production of motor spirit in public sector refineries increased from 9.84 lakhs tonnes in 1967 to 11.14 lakh tonnes in 1972, the setting up of retail outlets for the sale of motor spirit has not been adequate with the result that the IOC's share in the total retail sale of motor spirit was only 79.4 per cent in 1972 as against 8.7 per cent in 1967.
	2.28	The Committee find that although the Retail Outlets Committee had suggested the setting up of 580 retail outlets per year from 1968 to 1972, this target was revised to 250 outlets only per year from 1971 onwards, initially as a result of discussion with the Ministry and later, on account of an out-of-court settlement by IOC with other private oil companies. The Committee find that even this reduced target of 250 outlets was not achieved by the Corporation since 1971. The representative of the Ministry admitted during evidence that the progress in developing the storage and distribution facilities has not been satisfactory and the Corporation should have done better. The Committee are constrained to observe that because of non-availability of adequate retail outlets, the Corporation had to sell substantial portion of its products through other oil companies under the product exchange arrangements, foregoing the profit margin to the extent of Rs. 11.93 crores during the years 1966-67 to 1972-73 on motor spirit. In addition, the Corporation had to enter into agreements for the

1	2	3
		sale of lubricants to other oil companies by sacrificing profits margin thereon. This aspect has been dealt with in detail in subsequent paragraphs of this Report.
	2.29	According to the Corporation, the main difficulty in setting up retail outlets and in improving its over-all participation in retail sale was non-availability of suitable sites in strategic areas in major towns where there was high consumption of motor spirit. In this connection, the Committee find that in respect of retail outlets of private oil companies on public land in the four metropolitan cities and 26 other selected towns, the Retail Outlets Committee had recommended the transfer of the retail outlets to the IOC on the expiry of the existing leases. Out of 62 retail outlets on such land which were offered by other oil companies in pursuance of this recomendation of the Retail Outlets Committee, the IOC had taken over only 33 outlets up to 1973. The Committee were informed that out of the remaining 29 outlets the IOC was not interested in taking over 17 of them. The Committee recommend that the detailed reasons as to why the IOC was not interested in taking up these 17 outlets should be gone into by the Ministry and a report submitted to them.
	2.30	One of the reasons advanced for not taking up some of new outlets was that the rent demanded for the lands by the Ministry or State authorities concerned was prohibitive. The Committee strongly urge that Government should take concerted measures to persuade the State Governments/Municipal Authorities to give all possible facilities and consideration to the IOC in the acquisition/leasing of land at reasonable rates for setting up the required retail outlets.
	2.31	The Committee also recommend that Government/Corporation should formulate a perspective

1	2	3
		plan of establishment of retail outlets consistent with the production and availability of motor spirit and the actual implementation of the plan should be reviewed periodically so that the reasons for shortfall in this regard could be identified and the remedial measures taken in time. The Committee would also like that establishment of outlets should be such as to enable greater participation by IOC in retail trade of products having greater margin of profit.
	2.32	The Committee were informed that there were 19 retail outlets of the private oil companies on land belonging to public sector undertakings. The main reason for these not being transferred to IOC was stated to be that the Central|State Public Undertakings were bound by their prior commitments to private oil companies. As it has now been decided in the out-of-court settlement that the land belonging to public sector undertakings would be treated as private and not public land, it was upto the public undertakings as land owning authorities to offer sites to IOC after expiry of the present leases. The Committee are surprised at this complacent attitude of the Ministry and urge that Government should immediately undertake a review of each of the 19 retail outlets with a view to finding out suitable ways and means of assisting the IOC to set up retail outlets there at the earliest. The Committee would like to be informed of the concrete progress made in this behalf within six months. Government should also ensure that all new retail outlets on lands belonging to public undertakings are offered first to the IOC which has an All India network and should be able to meet in full the requirements of public sector.
3	2.52	The Committee find that the average throughput of Motor Spirit per month per retail outlet

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		of the Corporation was lower than the industry's average not only in the four metropolitan cities but in Group B and C towns also. In the case of Bombay and Calcutta, the average throughput of Corporation's retail outlet was lower than industry's average in 1966. Another disturbing feature was that in Bombay, the gradual improvement registered upto 1970 could not be maintained and the throughput went down to the level of 1966. The low throughput also affected the profitability of the retail outlets. A study of 1119 retail outlets during 1969-70 showed that 283 retail outlets gave nil or poor return on investment.
	2.53	From the reasons advanced by the Corporaton for the retail outlets showing nil or poor return on investment, the Committee cannot help observing that enough care was not taken either in selecting the dealers or the sites for location of the outlets. The Committee are not able to appreciate why IOC should not profit by their experience and take a judicious decision both in the location of the retail outlets and in selecting the dealers.
	2.54	The Committee are also surprised to find that a study of the performance of the retail outlets was undertaken first in 1969-70 and thereafter, it is only now (October, 1973) that a second study has been taken up even though it was admitted by the Corporation that the study made in 1969-70 did not take into account certain items of expenditure and, therefore, the profitability indicated by the said study was over-stated. The Committee desire that such studies should be made more frequently and with greater care so that the reasons for poor performance of the retail outlets could be identified and suitable remedial action taken in time. The Committee nned hardly point out that in view of the fact

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		that there were difficulties in setting up new retail outlets particularly in major towns, there is imperative need to improve the throughput of existing retail outlets so as to increase the sale of motor spirit and thereby the profitability of the retail outlets.
	2.55	In this connection, the Committee would like that the Corporation should also examine the facilities offered and services rendered by the retail outlets of IOC in comparison with those given by other oil companies with a view to removing the shortcomings, if any, in the working of the retail outlets of the Corporation.
4	2.61	The Committee find that the Corporation prepared a scheme in January, 1972 for the award of dealership|distributorship for retail outlets, kerosene, L.D.O. and 'Indane' for the rehabilitation of Defence Personnel, their wives and dependents. As against 583 nominations received upto 30th June, 1973 for award of dealership/distributorship under the scheme, the allotment letters were issued to 443 persons and the number of dealership|distributorship actually commissioned was 128 only. The Committee regret to note the slow progress in the implementation of the scheme. They desire that the working of the Scheme should be reviewed in the light of experience gaind so far and suitable measures taken to resolve difficulties experienced in the commissioning of dealerships|distributorships awarded under the scheme.
5	3.21	The Committee note that the IOC, as early as 1962, entered into product exchange arrangements with private oil companies with the main object of avoiding cross movement of petroleum products and the consequent increase in cost on account of freight. In their 35th Report (Third Lok Sabha) in March, 1967, the Committee on

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		public Undertakings had commented upon this arrangement as inequitable and recommended upon this arrangement should be revised forthwith, all exchange of products should be ex-refineries and the receiving oil companies should bear all incidence of freight, port price differential and any other expenditure involved. Government in reply to the recommendation stated in September, 1967, that "the matter should be left to be regulated by the results of the IOC's current negotiations over the product exchange manual."
	3.22	The Committee regret to note that under product exchange arrangement with other companies, the Indian Oil Corporation was not entitled to recover any profit margin on the products treated as out-right sale with the result that it had to forego a profit margin on motor spirit amounting to Rs. 11.93 crores during the period 1966-67 to 1972-73. The Committee also note that although under the existing arrangement the other oil companies had to make fortnightly deposits with the IOC in advance in respect of notional railway freight from the normal port of supply to the proposed destinations and excise duty, no deposits had been made in respect of cost and other elements on the products treated as outright sale. As a result of this practice, the Committee find that the other oil companies had all along been getting unintended credit facility of about Rs. 91 lakhs on an average in respect of MS. The Committee also note that under the product exchange arrangements, no main installation charges were being recovered in respect of despatches to main installations and in respect of motor spirit suplies to locations other than Main Installations only bulk loading charges were being recovered as against the full MI charges. Consequent on this the Committee find

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		that the Corporation had already lost Rs. 4.43 crores during the period 1966-67 to 1971-72. The Committee regret to note that inspite of these defects, the Corporation took up the question of revision of the arrangements in two stages first in January, 1971, and later in February, 1972. Even then, agreement is stated to have been reached with the other oil companies only in regard to revision of some of the clauses. The Committee were informed that the formal revision of agreement would be taken up only after the negotiations in regard to other clauses of the agreement, which are still in hand, are completed. The Committee take a serious view of the inordinate delay in the revision of the agreement. The Committee are constrained to observe that inspite of their recommendation as early as 1967, no serious action was taken by the Ministry to set right the arrangement and instead left such an important matter to the Corporation without pursuing it in right earnest.
	3.23	The Committee also note that under a recent agreement between I.O.C. and Caltex, the latter would be transferring 143 of their retail outlets to the I.O.C. The Committee, however, find that these outlets are generally not in areas where there was high consumption of motor spirit and only 10 of them are located in metropolitan cities. The Committee feel that IOC Ministry should have in the light of their experience so far, persuaded Caltex and secured more outlets in high consumption areas.
	3.24	The Committee also find that although the outright sale of motor spirit to Caltex had been stopped Caltex would be giving in exchange products which would give IOC a gross margin of

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		only 73.45 per cent of the margin on motor spirit supplied to them (Caltex). The Committee see no justification why Caltex could not have been persuaded to give products in exchange which would have given IOC an equal margin of profit.
	3.25	The Committee are unhappy that even after the experience of the working of product exchange arrangements for several years the Corporation did not make serious efforts to secure better terms to the best advantages of the Corporation and the country. They strongly urge that negotiations with the oil companies should be completed without any further delay and the revised product exchange agreement finalised in right earnest keeping the interest of the IOC in view. The Committee should be informed of the precise progress made in finalising and signing the revised agreements within six months of presentation of the Report.
	3.26	The Committee also recommend that the working of the product exchange agreement should be continuously reviewed by the IOC|Ministry and the findings thereof included in the Annual Report of the Corporation and the Government review thereon.
6.	3.31	The Committee note that although it was as early as 1966 that the dispute arose between the Burmah-Shell and the IOC in regard to payment of devaluation duty on the products outstanding for return by the Corporation to the Burmah-Shell as on 5th of June, 1966. Under the Installation Exchange Account, the matter was kept pending for settlement. It was only in October, 1969 that the case was referred to the solicitors. Even after this the Committee find that the suit was filed agains Burmah-Shell for the re-

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		covery of the amount withheld by them only in March, 1971. In the opinion of the Committee, this delay of over 5 years on the part of the IOC seems hardly justified. The Committee would like to be informed of the outcome of the case.
7.	4.16	The Committee note that prior to 1-6-1970, the pricing of petroleum products was on the principle of import parity and the pricing points were the 8 main ports. The supply areas were demarcated on the basis of equal costs lines. From 1-6-1970, the inland refineries also became pricing points in addition to the main ports and the supply areas were redefined also on the basis of equal costs lines. Under the pricing formula the cost of movement within the economic supply area and inter-zonal movement within the supply area towards the cost line was included in the selling price and movements outside these areas involved additional expenses and therefore under-recoveries. The Committee note that with effect from 1-6-1970, the Government of India introduced a "freight surcharge pool" scheme to compensate such under-recoveries and the oil companies could adjust under-recoveries on account of only authorised movements of petroleum products as decided in the Monthly Supply Plan meeting. Government also laid down certain norms which are uniformally applied to all the companies for regulating these under-recoveries from the Freight Surcharge Pool. The Committee find that since the introduction of the freight surcharge pool, a sum of Rs. 41.10 crores had been re-imbursed to the IOC till 31st March, 1973, and Rs. 1.22 crores could not be adjusted against the freight surcharge pool as it pertains to unauthorised railway movement or the coastal movement of the products not conforming to the norms laid down by Government.

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	4.17	The Committee stress that the Corporation should exercise strict control over the movement of the products and should plan their movements suitably to ensure that unauthorised movements not reimbursible from the Freight Surcharge Pool are kept to the minimum, so that the Corporation is not unnecessarily saddled with such expenditure.
	4.18	The Committee also note that the Corporation has been taking credit for the full amount of under-recoveries on account of certain unauthorised movements in anticipation of the approval of Government. The Committee feel that it is not correct to treat the entire amount in such cases as adjustable against the Freight Surcharge Pool unless it is authorised by Government under the pool accounts.
	4.19	The Committee would also like Government to review periodically the actual movement of the products by the Corporation specially those movements which do not qualify for reimbursement from the Freight Surcharge Pool, so as to take effective measures to reduce, if not altogether eliminate, such movements. The Committee would like to be informed of the guidelines/concrete measures taken in pursuance of the foregoing recommendation.
8.	4.29.	The Committee regret to note that there had been heavy expenditure on bridging i.e, on uneconomical transportation of petroleum products by road instead of by railway tank wagons. The Committee note that the expenditure on this account had come down during the last five years, from Rs. 115.60 lakhs in 1968-69 to Rs. 44.41 lakhs in 1972-73. In order to minimise this expenditure, while it is essential that adequate tank wagons are made available to IOC, the Corporation should also on its part ensure

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		that there was maximum utilisation of available tank wagons. To improve the wagon turn round, measures should be taken to remove the constraints at the terminals by providing adequate storage and handling facilities and improving operational efficiency at the depots. The augmentation of shortage capacity at up country depots should also help in meeting the additional seasonal demand for petroleum products, without resorting to large scale road movements, as the products could be stocked at the depots during the lean period. If the planning for movement was done in a realistic manner the Committee expect that there should not be scope for large deviations from the planned movements of petroleum products which give rise to claims on account of bridging.
	4.30	The Committee also desire that Government should periodically review the expenditure on bridging by IOC with a view to ensuring that the bridging expenses are kept to the minimum. The Committee suggest that the bridging expenses may be suitably reviewed at the supply plan meetings so that all connected problems receive contemporaneous attention of all concerned.
9.	4.35	The Committee regret to note that the expenditure on movement of products to the depots was particularly heavy in Southern Branch in Vijayawada where the expenditure ranged from Rs. 8.66 lakhs in 1968-69 to Rs. 6.17 lakhs in 1971-72 and the heavy incidence of bridging exependiture was due to insufficiency of storage facilities in relation to the throughput of the depots. It took the Corporation more than three years to resite the depot at Tadepalli. The Committee desire that such inordinate delays which result in unnecessary expenditure on

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		bridging should be avoided. The Committee recommend that the position in regard to other zones should also be critically reviewed to ensure that there is no avoidable expenditure on read movements.
10.	4.38	The Committee note that Government informed the oil companies as early as May, 1971 that pending further consideration of the manner of treating the cost of movement of products through the product pipelines for the purpose of reimbursement from the Freight Surcharge Pool, products actually moved through product pipelines would be treated to have been moved by rail by shortest route and adjustments, if any, would be made later. The Committee regret to note that so far no final decision has been taken in the matter and Government have now decided to remit the problem to the next Pricing Committee. The Committee find that as a result of the delay in taking the decision the Corporation had been taking credit in its accounts for the profit made by the Pipelines Division to the extent of 4.32 crores and Rs. 6.93 crores in 1970-71 and 1971-72 respectively. The Committee would like Government to settle the matter at an early date.
11.	4.45	The Committee feel that as the pipeline movement of superior kerosene from Gauhati to Siliguri is resorted to only to suit the operational requirement of IOC's pipelines, the Corporation could have been asked to bear the under-recoveries arising out of the rail movement ex-New Jalpaiguri at least to the extent of the rail freight earned by it by moving the product through pipeline from Gauhati to Siliguri. The Committee desire that Government should expedite their decision in this regard.

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12.	4.51	The Committee regret to note that although the prices fixed by the OPC envisaged that recovery of retail pump outlet charges in respect of MS & HSD should include free delivery within a round trip of 39 K.M. from the storage point and actual transportation charges in respect of road delivery beyond the above distance, no records were being maintained by the Corporation to segregate the expenditure on transportation within an outside the free delivery zone and the Corporation has been charging a uniform rate of 18 paise per KL|KM in respect of delivery beyond the free delivery zone. The Committee were informed that the actual cost of transportation includes other elements which could not be accurately determined and levy of flat rate was as per the practice which had been in force for a long time. The Committee feel that, in case, there were genuine difficulties in maintaining proper accounts so as to ensure recovery of actual charges instead of flat rate, there was hardly any justification for accepting in toto the recommendation of the Oil Price Committee which in the opinion of the Ministry cannot be implemented. They desire that this matter may be considered by the next Oil Pricing Committee to remove the present anomaly.
	4.52	The Committee were also informed that the cost of transportation by the Corporation's tankers in some cases was higher than that by hired tankers. The Committee would like that this matter may be gone into in detail and effective action taken to bring down the cost of transportation in Corporation's own tankers.
13.	4.65	The Committee regret to note that the tanker Desh Alok was chartered by the Corporation from the Shipping Corporation of India with effect from 1st February, 1967, but the

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		charter party agreement was signed only on 8th December, 1969 i.e. after more than one and a half year of the chartering of the tanker. Although the charter party agreement contained the warranties in respect of speed and pumping rate of the tanker, the Corporation could not enforce its claims for sub-standard performance in the absence of specific provision of norms/guidelines for quantifying such losses/recoveries. As a result, an agreement was made with the Shipping Corporation of India in June, 1969 whereby the Corporation agreed to forego claims amounting to Rs. 15.09 lakhs for sub-standard performance of the tanker upto 31st may, 1969.
	4.66	The Committee also find that the agreement was also finalised by the Corporation without obtaining any legal opinion in the matter. The Committee recommend that the agreements for chartering of ships should be finalised with greater care and in consultation with legal experts to ensure that the interests of the Corporation are fully safeguarded.
14.	4.78	The Committee regret to note that the charter party agreements for the tankers 'Jag Jwala' and 'Ampuria' chartered by IOC did not contain any warranty clause resulting in an avoidable loss amounting to Rs. 22.66 lakhs to the Corporation on account of sub-standard performance of the tankers. The Committee have elsewhere commented about the sub-standard performance of another tanker 'Desh Alok'.
	4.79	The Committee also regret that the Corporation also suffered loss of charter hire on account of the detention of company's tankers at Cochin to the extent of Rs. 5.73 lakhs as the agreement with Cochin Refineries Limited did not

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		provide for the recovery of such losses. According to IOC the absence of provision for recovery of hire for detention period has to be viewed in conjunction with the difficulties in positioning the tanker according to schedule. The Committee do not consider these defficulties to be unsurmountable. They would urge that measures should be taken by the Corporation with a view to improving the situation to aviod the loss of charter hire.
15.	5.21	The Committee find that the Freight Surcharge Pool Account was created by levying a surcharge on the petroleum products with effect from 1st June, 1970. They, however, regret to note that instead of finalising the rules for the operation of the account immediately after the scheme was introduced, it took the Government about two years to frame the detailed rules for the operation of the account and the procedure to be adopted for withdrawals therefrom. Pending Ministry's clearance of *inter se* agreement between the oil companies, the individual oil companies were allowed to keep the surplus with them and it was only after the Ministry's approval was given on 10-4-1972 that the Companies deposited in the bank in April, 72 a sum of Rs. 6.44 crores. The Committee regret to point out that the delay in the finalisation of the *inter se* agreement resulted in an interest free use of the surplus fund by the oil companies till April, 1972. The Committee are surprised to find that even after this, Government could not take a decision regarding utilisation of the surplus fund till April-May, 1973 upto which a sum of Rs. 11.03 crores remained in current account with State Bank of India resulting in loss of interest to the extent of Rs. 62 lakhs.

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	5.22	The Committee find that as on 30th June, 1973, an amount of Rs. 16 crores was lying in the fixed deposit in respect of this account. The Committee desire that the Government should undertake a review of the Freight Surcharge Pool Account and consider the feasibility of revising the surcharge suitably in view of the continuing surplus in the Pool Account.
	5.23	The Committee find that a sum of Rs. 7 crores had been advanced as loan to the Calcutta Port Authority to provide funds for dredging operations. The Committee feel that funds for such purposes should have appropriately been found from the annual budget of the Port Trust Authorities with proper financial sanction and the Freight Surcharge Pool Account should not have been utilised for tiding over temporarily the ways and means position of Government. The Committee would like to be informed whether the temporary loan of Rs. 7 crores has since been recovered in full.
16.	5.31	The Committee find that the main object of creating the C&F adjustment Account was to provide for the effect of fluctuations in the freight or wharfage with reference to the rates ruling on certain dates. They however, regret to note that the funds collected for this 'Account' through the levy of surcharge on petroleum products have been utilised for some purposes which cannot be said to be strictly falling within the scope of the Account. Thus, a sum of Rs. 4.23 crores was paid to Madras Refineries Limited out of this Account because of higher freight paid by the Refinery on the import of crude due to the delay in the development of Madras Port facilities. The Committee see no justification for Government taking recourse to the C&F adjustment account for compensating the Madras Refineries with the difference in

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		freight for reasons other than those for which the Account was established. The Committee desire that detailed rules should be drawn up without further delay specifying the nature of the items which would qualify for adjustment out of the C&F Adjustment Account and a copy thereof laid on the table of the Houses of Parliament.
17.	5.35	The Committee regret to note that the development of port facilities has not kept pace with the increasing volume of oil traffic. The delay in the completion of adequate port facilities to receive large size tankers at Madras Port resulted in heavy loss of over Rs. 4 crores to Madras Refineries Ltd. which had to be compensated by Government from the C&F Adjustment Account. The Committee also find that IOC had also to bear a heavy incidence of demurrage to the extent of Rs. 1.34 crores on detention of tankers due to inadequate tanker handling facilities at the ports.
	5.36	The Committee were informed that a Study Group set up by the IOC in October, 1971, to suggest both short term and long term measures to improve the tanker handling facilities based on the expected volume of traffic between 1972-79, had submitted its report to Government in May, 1972 and the report is now under the consideration of Planning Commission/Government. The Committee understand that in the meantime the IOC had been permitted to recoup the losses due to demurrage which could be clearly attributed to limitation of port facilities from C&F Adjustment Account. As the C&F Adjustment Account has been created out of specific surcharge provided in the price structure for petroleum products, in the ultimate analysis this means increased burden on the consumers of petroleum products.

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		The Committee, therefore, recommend that Government should in the light of the recommendations of the Study Group of IOC, take concerted measures for the expeditious development of the ports and the tanker handling facilities to cope with the projected volume of traffic to be handled at each port during the Fifth Five Year Plan. The Committee would like to be informed of the concerted measures taken in this behalf to reduce, if not eleminate the burden of demurrage charges paid on tankers for want of adequate handling facilities at ports.
18.	5.47	The Committee find that Government have levied various surcharges on petroleum products to compensate the oil companies for specific under-recoveries. However, the amount collected under the various schemes formed part of neither the Consolidated Fund of India nor the Public Account. Except in the case of Freight Surcharge Pool, the amounts collected by the levy of these surcharges formed part of the overall funds of the oil companies. There was also hardly any effective control exercised by Government on the utilisation of funds in the various pool accounts. The oil companies were required to submit accounts to the Ministry audited by their own private chartered accountants. There was no regular auditing of these accounts either by the C&AG or any other auditor appointed by the Government. It was only in June, 1973, that the Ministry appointed an auditor to check up the accounts of the oil companies in respect of Freight surchange Pool. It was again only in September, 1973, i.e. after the Committee had taken up the examination of I.O.C. that the Ministry appointed an inter-ministerial Committee to examine *inter-alia* the legal position of these large funds, to frame guidelines for the maintenance of the accounts,

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		to recommend the methods/machanism of control to be exercised by Government and to consider the feasibility of bringing all these accounts under the Consolidated Fund of India. It is surprising that the Ministry thought of examining all these aspects only at this late stage rather than at the time of taking the decision to introduce the various schemes.
	5.48	The Committee also find that the inter-ministerial Committee which was to submit its report by 4th December, 1973 has not yet done so. In the meantime, the Ministry had also decided to refer the overall question covering all aspects of the various accounts to the next Pricing Committee. The Committee desire that Government should examine whether there was need for the levy of the various surcharges on petroleum products to compensate the oil companies for specific under-recoveries and to maintain the various pool accounts/surcharge schemes, thereby increasing the burden on ultimate consumer and making the pricing formula more complicated. In case, these were considered inevitable, suitable measures should be taken for an effective control over the funds collected under the various schemes and for the maintenance of proper accounts and audit thereof in consultation with the C&AG in the light of the recommendations of the inter-ministerial Committee and the Oil Pricing Committee.
19.	5.57	The Committee find that in respect of lubricants, greases and specialities the pricing formula provided a system of block control on marketing and distribution charges and profit per unit of different products falling in each group. The oil companies were permitted to fix the prices of individual products under each group in such a manner that after meeting the actual costs, the balance left for all the products

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		under any one group did not exceed the distribution and profit margin per unit permitted by the Oil Price Committee. However, the actual profits made by the oil companies exceeded the permissible limits and since the oil companies failed to make voluntary reduction in prices as and when called for, there was large accumulation of super profits by the private oil companies inspite of Government having levied non-recoverable additional duties.
	5.58	The Committee also find that the Corporation requested Government in October, 1969 to review the entire scheme of pricing of lubricants, greases and specialities. The Corporation again represented to Government in March, 1972 as the Corporation was required to pay non-recoverable duty during 1971-72 without any super profit balance to be absorbed, unlike other oil companies who made super profits in earlier years suitable mechanism might be evolved to set right the imbalance. The Committee regret to note that no immediate action was taken by Government in this regard and it was only on 30th July, 1973 that instructions were issued by the Ministry directing all the oil companies to credit/debit the over-recoveries/under-recoveries to C&F Adjustment Account. The Committee regret to note that the long delay in taking a decision in this regard had resulted in giving the benefit of use of large surplus funds to the private oil companies.
	5.59	*The Committee also note that although the over-recoveries were required to be credited to the C&F Adjustment Account within two

*At the time of factual verification, the Ministry of Petroleum and Chemicals stated as follows:—

"The latest position is that Esso's full liability in this regard has been cleared; and Burmah-Shell and Caltex have paid first of the two equal annual instalments which they have agreed to pay to clear the account, the second instalment will be paid during the current year."

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		months from the date of the order, it had not been done so far and the private oil companies had *inter alia* represented that payment in one instalment would seriously impair their ways and means position. They were, therefore, negotiating with IOC to pay the amount in instalments. The Committee would like that a decision in this regard should be taken early and put into force.
	5.60	The Committee also find that as in the case of Pool Accounts/Surcharge Schemes, there was hardly any effective control over the block-control accounts by Government. Till recently there were no guidelines for determining cost of production to ensure that it was not overstated by the oil companies, and if oil companies offered rebates to customers these would be reimbursed from profits. There was also no detailed auditing of these accounts by auditors appointed by the Government to verify the correctness or otherwise of the over-recoveries shown by the oil companies. **The accounts** submitted by the private oil companis, as audited by their chartered accountants were only scrutinised by the Ministry in consultation with the Cost Accounts Branch of the Ministry of Finance. As it has now been decided that the over-recoveries/under-recoveries in respect of block-control would also form a part of C&F Adjustment Account, the Committee recommend that suitable measures be introduced to place the maintenance of these accounts on sound footing and to have an effective control over them.
20.	6.3	The Committee regret to note that in spite of their recommendation in their 35th Report (3rd Lok Sabha) in March, 1967 that strict control over costs should be ensured it was only from 1969-70 that accounting system integrating both cost and financial accounts has been introduced.

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		It has been admitted by the Management that the present system does not cover many other aspects of cost analysis and there is scope for improvement. The Committee need hardly emphasise the importance of having a systematic analysis of costs of all the significant aspects of the undertaknig so that it can be a real aid to management judge and improve the working of the organisation. They desire that necessary measures should be taken without delay to remove the deficiencies in the existing costing system. The Committee are not convinced that at least some analysis of other aspects of cost is not possible till a computer is installed. The Committee would like the Corporation to improve the costing system within the existing resources so that it serves as an effective tool of management control to effect economies and improve efficiency.
21.	6.11	The Committee find that based on the annual accounts, the net profit earned by the Marketing Division of IOC was Rs. 3341.77 lakhs during 1972-73 as compared to Rs. 2036.82 lakhs during the previous year. However, the profit as shown in the accounts is the net result of inter-action of a number of variable factors operating in different years. According to IOC, after taking into consideration the impact of quantifiable variable factors like non-recoverable duty, reimbursement of recoveries from pool accounts surcharge schemes etc., the adjusted profit for 1972-73 would amount to Rs. 3047.42 lakhs. On the other hand, the adjusted profit for the year on the lines indicated by Audit would be still lower i.e. only Rs. 1429.07 lakhs.
	6.12	In the opinion of the Committee, the profit or loss as indicated in the accounts of the Corporation is not a true index of the efficiency of the working of the Marketing Division of the

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		Corporation. The Committee recommend that for a proper assessment of the working results of the Marketing Division and to have a realistic appreciation of the financial position of the various activities from year to year, the Corporation should prepare a variance analysis showing the impact of changes in various factors like sales volume, product-mix, rate variance, margin variance, movement and distribution pattern and change in pricing points etc. on the profits of the Division. This would help the management in locating areas where improvements could be effected so that suitable measures could be taken in time.
22.	6.28	The Committee find that the total amount of outstandings, expressed in terms of number of days' sales, have gradually come down from 22 days as on 31st March, 1969 to 10 days as on 31st March, 1973. However, in respect of private parties there were heavy outstandings and these had gone up from Rs. 7.50 crores as on 31st March, 1969 to Rs. 10.41 crores as on 31st March, 1973. The Committee regret to note that there were 45 private parties against whom the amount due was more than Rs. 1 lakhs and the amount was outstanding for more than 30 days. As on 31st March, 1973, the total amount of book-debts outstanding for more than six months was as high as Rs. 5.69 crores.
	6.29	From some of the illustrative instances which came to the notice of the Committee, they regret to note that, in several cases, the Corporation failed to make proper enquiries into the credit worthiness of the customers before granting them credit facilities. It is also surprising that the credit facilities were continued to be given to the customers even where they failed to make payment as per the terms of credit facilities laid down by IOC and in one instance the

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		credit facility was not withdrawn even though the credit investigation report did not justify granting credit facilities to the customer. The result has been that there were several cases where legal proceedings had to be resorted to for realisation of dues which means heavy expenditure on litigation. An amount of Rs. 1.20 crores was considered doubtful of recovery as on 31st March, 1973.
	6.30	The Committee urge that the Corporation should ensure that the credit policy laid down by it is strictly adhered to. Prompt and deterrent action should also be taken against the officials who fail to follow the prescribed credit policy without adequate justification.
	6.31	From the instances mentioned in Appendix VI of this Report, the Committee also find that in some of the cases the responsibility for lapses has not yet been fixed. Even in cases where the responsibility is stated to have been fixed, the specific action taken against the delinquent officials has not been intimated to the Committee. The Committee would like to be informed of action taken against the delinquent officials in all these cases. The Committee would also like that these cases should be vigorously pursued with a view to realising the outstandings from the patries. The Committee would like to be informed of the outcome in each case.
	6.32	The Committee also find that the Internal Audit suggested in its Report in July, 1971 various remedial measures to improve the manner of collection of outstanding, maintenance of records therefor and for minimising outstandings. The suggestions made include *inter-alia* (i) detailed study for finding out the reasons for abnormal delays in submission of bills, (ii) review of the reasons leading to delays in ana-

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		lysing the cash customer accounts and extending of unauthorised credits, (iii) submission of timely comprehensive customer-wise/category-wise statements of outstandings to the concerned Department/field staff and (iv) analysis of back-log of outstandings from cash customers on a priority basis to determine the correct outstandings for effecting recovery.
	6.33	The Committee would like these suggestions to be examined for implementation forthwith so that the management may exercise close and continuous watch over the outstandings and take timely measures for the realisation of the amounts.
23	6.38	The Committee regret to note that the IOC had written off a sum of Rs. 44.62 lakhs as bad-debts during 1969-70 to 1972-73 and this included a sum of Rs. 13.70 lakhs pertaining to cases where the Corporation was unable to establish its debts for want of documentary proof. It is surprising that the Corporation in some cases failed to exercise even the elementary care of keeping proper documents for the debts raised by it. The Committee also find that in some cases put up by the Management to the Board for writing off certain debts, the internal audit had either been able to locate the proof of supply or had established that the debt was recoverable. The Committee cannot help concluding that the Management did not make a thorough check to locate the proof of supply and/or to try all possible ways to recover the debts before putting proposals to the Board for write off of these debts. The Committee desire that all the cases of bad debts written off for want of documentary proof should be thoroughly investigated and responsibility fixed for such loss of documents.

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	6.39	The Committee are also unable to agree with the view of the IOC that the amount involved in these should be written off as 'bad debts' as these were clear cases of losses due to failure of management to establish these as debts and were not 'bad debts' in the normal sense. They therefore, desire that all these cases should be reviewed and regularised by obtaining the sanction of higher authorities competent to write off the losses.
24	6.42	The Committee find that there have been abnormal delays in taking action on the points brought to the notice of the Board by the Internal Audit. They need hardly stress that the very objective of having an Internal Audit would not be achieved if prompt action is not taken to remedy the irregularities/deficiencies brought to the notice of the Management.
	6.48	The Committee would, therefore, like to impress on the Management the need for giving prompt attention to the points raised by Internal Audit with a view to cut out wastages, effect economies and plug loop-holes in the working of the undertaking so that the Internal Audit can really be an aid to Management.
25	7.20	The Committee regret to note that there have been shortfalls both in production and sale of liquified petroleum gas. The problems of production of LPG have been dealt with in the report of the Committee on IOC (Refineries Division). In so far as difficulties in marketing of LPG are concerned, one of the main reasons was stated to be inadequate availability of cylinders. The Committee find that against the planned requirements of about 4 lakh cylinders every year, the actual number of cylinders available to IOC ranged between 2.29 lakhs and 3.07 lakhs during the years 1970-71 to 1972-73. This was stated to be mainly due to the inadequate

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		availablelity of special quality of steel required for production of cylinedrs. The Committee regret to note that not only there was shortfall in indigenous production of such steel but the IOC/Government failed to make imports well in time. As pointed out during evidence although IOC was advised as early as June, 1972 to put up an application for import of 5,000 tonnes of steel, the application was received by the Ministry only on 24th February, 1973. It is surprising that the IOC should have taken about 7 months to submit the application for the import of steel. There was also avoidable delay on the part of the Ministries of Petroleum and Chemicals and Steel & Mines in processing the application and in releasing the foreign exchange. As a result the cylinders out of the imported steel would now be available to IOC only during the year 1974-75.
	7.21	The Committee need hardly emphasise the importance of maximum utilisation of available gas from the oil refineries for the production of LPG. Low production and poor availability of LPG means higher consumption and larger import of Kerosene oil which the country can ill afford at present when it is faced with the oil crisis. The Committee, therefore, urge that suitable remedial measures should be taken not only to ensure optimum production of LPG at the oil refineries but to remove any constraints in the marketing of the same as there is extensive public demand for it. The Committee, also stress that Corporation should plan their requirements of LPG steel well in advance and take steps to procure the cylinders in time so that paucity of cylinders does not depress production/marketing of LPG.
26	7.42	The Committee note that although the IOC had raw oil for the production of transformer

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		oil and the Ministry enquired in April, 1963 from the Corporation whether they would like to take up the project, the IOC did not do so as, according to the Corporation, it was not able to secure any collaboration for the production of the transformer oil. Instead it issued 'no objection' to Government in November, 1965 on the proposal of a private firm—subject to negotiations being held for selling-agency rights as the firm was willing to give IOC the first choice of refusal of their entire production at prices which would compare favourably with import parity prices and also the export rights, if necessary. The Committee, however, regret to note that the IOC did not enter into any written agreement with the firm in this regard before issuing 'no objection' certificate on the proposal of the firm. The Committee also find that Industrial Licence was issued on 21st December, 1966 by the Ministry to the firm without settling the question of marketing rights and the prices payable for the products and without incorporating any of these conditions in the licence.
		The Committee were informed that no responsibility for this lapse in the issue of licence was fixed by the Ministry as according to them the officers who enquired into this matter came to the conclusion that it was only a case of inadvertance and no malafide was involved. The Committee are not convinced and recommend that the matter should be re-examined and responsibility for lapses fixed.
	7.43	The Committee also note that, subsequently, as a result of negotiations between the Ministry and the firm it was decided in July, 1971 that IOC would market 50 per cent of the total production of the firm and accordingly the firm agreed to supply 50 per cent of their production

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		of transformer oil at the ex-factory price of Rs. 2,250 per Kl. packed in drums. (Rs. 1,850 Kl. in bulk). The Committee regret to note that IOC accepted to lift the stocks at this price without the approval of the Board and without assessing the reasonableness of the price by an analysis of the costing data furnished by the firm. The Committee were informed that this price was accepted on a temporary basis subject to its being fixed by Government. The Committee are concerned to find that the IOC even at this stage did not have any written agreement with the firm and it failed to commit the firm to accept the price fixed by Government with retrospective effect. As pointed out during the evidence, according to the Cost Accounts Officers of the Ministry of Finance the bulk ex-refinery price in December, 1972 in respect of this firm should be only Rs. 1,528 per Kilo litre as against a rate of Rs. 1,850 charged from IOC. Although the firm was agreeable to abide by the price fixed by the Ministry from the date a decision was taken in this regard, the Committee regret to note that even after it became clear in December, 1972 that the price charged by this firm was higher the Ministry have not been able to fix a reasonable price for the transformer oil.
	7.44	The Committee also note that during April to July, 1972, the Corporation was required to lift 2,025 Kls. of transformer oil earmaked by the firm. However, since the Corporation could not secure any order for sale as the selling price was not competitive, it was unable to lift its share of the oil. It, however, supplied on credit base stock worth Rs. 42.79 lakhs to the firm between May to August, 1972. The Committee were informed that out of 2,025 Kls. of transformer oil earmarked by the firm under the agreement, the Corporation was, upto 31st August, 1973, able to dispose off only 1,498 Kls.

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		While the Corporation made a gross profit of Rs. 1.56 lakhs on this sale, it incurred a loss of Rs. 3.56 lakhs as interest upto 31st August, 1973 on the blocked capital of Rs. 44.91 lakhs representing the value of base stocks supplied to the firm on credit. The Committee are constrained to observed that the entire deal with the firm had been finalised by IOC without a careful analysis of the contractual obligations and financial implications thereof. The Committee, therefore, recommend that Government should conduct a thorough investigation into the matter so as to pinpoint the lapses at the various stages and also fix responsibility for the loss suffered by IOC.
	7.45	The Committee were also informed during evidence that transformer oil manufacturing facility was being abused on a large scale for adulteration of edible oil and Government have appointed an Enquiry Committee to go into this problem. The Committee understand that the final decision regarding the canalisation of the sale of transformer oil and the selling price for it would be taken on the basis of findings of this Enquiry Committee and the results of the inquiry being conducted by the Ministry of Industrial Development in rgerad to the price. The Committee would like to be informed urgently of the decision taken in this regard.
27	7.60	The Committee find that IOC had to enter into agreements with other oil companies in February, 1969 sale of lubricating oils after blending them in its blending plant at Madras because of its inability to sell the entire production on account of inadequacy of retail outlets. As a result, the Corporation had to forego the marketing charges (Rs. 43.88 lakhs) and profit margin (Rs. 12.31 lakhs) on the sale of 52,170 Kls. of lubricating oils during 1970-71 and 1971-

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		72. The Committee are informed that the short term agreement for 5 years with other oil companies was designed to give IOC sufficient time to develop their product range and sales net work and to eventually utilise the entire production at Madras Refineries Ltd. by itself. They find that even in 1972-73 the IOC had sold a total quantity of 37,824 Kls. of lubricating oils to other companies as against the contracted quantiyt of 56,500 Kls. The Committee recommend that IOC should take concerted measures to develop its lube oil sale in the country so that it may be able to sell the entire production and cater to the complete range of industries after the expiry of the present agreement with other oil companies.
	7.61	The Committee also take a serious view of the fact that in several cases IOC sold lubricants and greases below the cost of production without the approval of the Board of Directors although such sales below cost were not within the powers delegated to the Managing Director, It was only in February, 1973, after the matter was raised by Audit that a general note on sale of lubricants was submitted to the Board of Directors requesting them to regularise loss in the earlier years and the continue the sale of lube oil at prices fixed by the Government from time to time. The Committee are informed that the matter was referred by Board to the Finance Director and is awaiting re-consideration by the Board in the light of the observations of the Finance Director and the comments of the Management thereon. The Committee would like to be informed of the final outcome in the matter, and the action taken to regularise these sales.
28	7.70	The Committee find that the IOC sold to private oil companies an aggregate quantity of

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		28,818 Kls. of products of high viscosity index (higher than 90) and 23,352 Kls. of products of low viscosity index during the years 1970-71 and 1971-72 although under the agreement the Corporation was not bound to supply more than 50 per cent of the total quantity of lubricating oils of H.V.I.
	7.71	The Corporation incurred a loss of Rs. 5.90 lakhs on the sale of products of low viscosity index as these had to be moved to far off stations. This loss could have been avoided had the Corporation insisted upon supplying products of H.V.I. and L.V.I. grade in equal proportion.
	7.72	It has been contended by the Management that the agreement does not stipulate that other oil companies should uplift equal quantity of low viscosity oils as compared to heavy viscosity oil. The Committee are unable to agree with this view. In the opinion of the Committee the contention that an oil company can purchase any quantity of high viscosity index without purchasing equal quantity of products of low viscosity index is not tenable as otherwise an oil company can get away with purchasing up to 50 per cent of its annual contracted quantity only of the profitable high viscosity index grades without purchasing any quantity of un-remunerative low viscosity index grades. The Committee have also elsewhere in this Report commented on the loss suffered by the Corporation on account of sale of lubricants to other oil companies because of non-development of adequate retail outlets.
29	8.23	The Committee note that the Ministry of Petroleum and Chemicals informed the Corporation on 12th February, 1972 about their commitment to procure and supply 5 lakh tonnes of crude to Chittagong Refinery during the

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		period March to August, 1972 and asked the Corporation to float enquiries and finalise arrangements for import of crude. On 10th March, 1972 the contract for supply of crude having been finalised, the Marketing Division was asked to arrange for the affreightment. The Corporation floated an enquiry on 14th March, 1972 calling for quotations to be kept open upto 18.00 hrs. IST on 15-3-1972, giving *inter alia,* in the quotation, a firm indication about the freight rate at $ 5.50 per long ton. The Committee also note that while two offers were received, one at 10.45 hrs. on 15th March, 1972 with the rate of $ 5.50 per long ton and another at 13.30 hrs. on 15th March, 1972 with the rate of 6.65 dollars per tonne, a third party first telexed at 16.10 hrs. on 15th March, 1972 asking for extension, but later sent an offer on the same day at 16.40 hrs. quoting a rate of 5.45 dollars per long ton (subsequently revised to 5.40 dollars per long ton at 20.45 hrs. on the same day).
	8.24	In the mean time, the offer of the first party at 5.50 dollars per long ton was accepted by the Company and the letter of acceptance by the Corporation was personally delivered to the party's representative in IOC's office at 16.30 hrs. The Committee were informed during evidence that the whole matter had been handed over to the CBI on the 11th June, 1973 for investigation. The Committee desire that the investigation by the CBI should be completed soon and Government should on receipt of the report of the CBI examine all aspects of the case thoroughly with a view to fixing responsibility for any lapses and to take suitable remedial steps to avoid recurrence of the same. The Committee may also be informed of the action finally taken in the matter.
30	8.29	The Committee find that Government allowed IOC to import engine oil from Rumania dur-

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		ing 1967-68 to 1970-71 and the private oil companies were also to be given a share from these imports. Out of the total imports of Rs. 7.66 crores of engine oil from 1967-68 to 1970-71, engine oil worth Rs. 3.13 crores was given to ESSO on loan basis. In repayment of this, ESSO handed over three import licences for a total C.I.F. value of about Rs. 2.3 crores which were utilised by IOC for importing engine oils. In regard to the balance, due to restrictions on imports, ESSO had proposed to repay the products out of their entitlement of Lube India products subject to the condition of their purchasing an equivalent quantity from IOC at the previously prevailing prices. This proposal was not, however, agreed to by IOC. The Committee feel that the products which were taken by ESSO on loan basis should have been returned by it in time on 'tonne for tonne' basis to the IOC. In the opinion of the Committee, the suggestion of the ESSO to repay the product after purchasing an equivalent quantity from the IOC at the previously prevailing price would give ESSO, an unintended benefit in the context of the increase in price of the Engine Oil. The Committee recommend that the price payable for the product to be taken by ESSO from the I.O.C. should be carefully decided after taking into consideration the prevailing market conditions when such sales are actually effected.
	8.30	The Committee also note that Government have already decided to purchase 74 per cent. of the shares of ESSO and pay them the requisite compensation in this regard. The Committee suggest that Government should take this opportunity of settling the dues outstanding against ESSO before the amount of compensation is finally paid to the firm.
31	8.43	The Committee find that out of the total import of engine oil worth Rs. 7.66 crores by

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		IOC during 1967-68 to 1970-71, engine oil worth Rs. 4.53 crores was supplied to oil companies other than ESSO on outright sale basis and billed for as such after including Sales Tax and service charges. The oil companies however, objected to charging sales tax and suggested that these should be treated as 'sales in course of import' and were prepared to indemnify the IOC in respect of costs, demands and expenses that IOC might incur in treating the transanction as 'sales in course of imports'. The Committee regret to note that IOC agreed to treat the sale of the product to these companies as 'sale in the course of import' even though the legal opinion obtained by IOC was against it. While this course of action is sought to be justified by the IOC on the ground that it had obtained Indemnity from other oil companies in respect of sales tax, costs and expenses, the Committee are distressed to note that the Corporation even after placing the order on the foreign firm on 28-5-1971, resorted to the exchange of predated letters with dates earlier than the date of placing orders to prove the intentions of both the parties to treat the transactions as 'sales in the course of imports'. The Secretary of the Ministry admitted during evidence that this was a serious matter and something which a public undertaking should not have done. Considering that the sales tax liability was to be borne by the other oil companies, the Committee fail to understand as to why the IOC should have resorted at all to exchange pre-dated letters with other oil companies.
		The proper course for the IOC should have been to place all the facts before the sales tax authorities and abide by their ruling. The Committee take a serious view of this action on

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		the part of one of the premier public undertakings and recommend that Government should immediately institute an enquiry into the matter and fix responsibility.
	8.44	The Committee also understand that in the case of sales effected in Eastern Branch, the sales tax authorities did not accept the IOC's contention to treat this as 'sale in the course of imports and an appeal has been filed against the order of Commercial Tax Officer. The Committee would like to be informed of the final outcome of the case.
32	8.48	The Committee find that IOC supplied 200 tonnes of tin plates to a firm in April, 1966 for the fabrication of 1,70,000 tins against a bank guarantee which was valid upto 26th December, 1967. They regret to note that although the firm had supplied only 1,05,048 tins upto April, 1967, it had not returned the balance quantity of tin plates valued at Rs. 1.34 lakhs and the Corporation also failed to safeguard its interests by getting the bank guarantee revalidated well in time before the date of expiry of the guarantee in December, 1967.
	8.49	The Committee also find that the Corporation took action to file a suit against the firm only in June, 1973, which is still pending. It has been stated that the Corporation decided to take legal action after having failed to settle the matter amicably. The Committee are distressed to note that it took the Corporation more than five years to take this decision. Such inordinate delays do not speak well of a commercial organisation like I.O.C. The Committee desire that the matter should be investigated and responsibility fixed both for the failure to take timely action to get the bank guarantee revalidated before the date of its expiry as well

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		as for the inordinate delay in filing a suit against the firm.
		The Committee would also like to be informed of the final outcome of the case.
33	8.54	The Committee regret to note that the IOC agreed to sell imported aviation gasoline to M/s. ESSO as Motor Spirit without carrying out any tests on their own as to whether the product had actually gone off the specifications resulting in a loss of Rs. 73,000 to the Corporation. The Committee have been informed that the officer and the branch concerned had been cautioned for this error.
	8.55	The Committee are also surprised to find that although the sale had been made in July, 1969, the approval of the Board for writing off the loss has not been obtained so far. There were other cases also where sanction of the competent authority for writing off similar losses was taken after a long time. The Committee would like to be informed of the reasons for the inordinate delay in placing the matter before the Board.
	8.56	The Committee note that there were also other cases where aviation gasoline had to be down-graded because of long storage resulting in a loss of Rs. 7.06 lakhs. The Committee recommend that these cases should be investigated and the Committee informed of the outcome. The Corporation should take steps to fix suitable period/norms for storage of aviation gasoline and also for periodical inspection of the products with a view to ensuring that aviation gasoline etc. do not go off specifications during storage.
34	8.59	The Committee regret to note that the Corporation suffered a loss of Rs. 0.62 lakhs due to

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		alleged incorrect gauging and dip measurements by the officials of the Corporation of the HSD received at one of the installations of the IOC on 17th April, 1970.
	8.60	It is surprising that it took the Corporation more than two years to fix the responsibility in this case and it was only on the 9th June, 1972 that the officer was warned to be careful in future. The Committee would urge that the action against the delinquent officials should be prompt and adequate so as to act as a deterrent to others.
35	8.63	The Committee find that the IOC made payment to the Railways for railway freight on all tank wagons loaded from the pipeline installations at Panki (Kanpur) on the assumed carrying capacity of the individual tank wagons instead of the actual carrying capacity which in many cases was found to be lower. Considering the fact that the payment was continued to be made for four years right from July, 1967 to July, 1971, resulting in excess payment of Rs. 16.03 lakhs, upto December, 1970, the Committee are unable to agree with the view of the Corporation that the payment was made due to an oversight. The Committee desire that the matter should be further probed into with a view to fixing responsibility for the negligence on the part of the officials concerned. The Committee would also like to be informed of the refund of the balance claims amounting to Rs. 2.54 lakhs pertaining to the period from January 1971 July, 1971, but not realised upto March.
36	8.74	The Committee find that compounded lubricating oil and greases are subject to 20 per cent ad-valorem excise duty from 29th May, 1971. Provision also exists for set off of excise/countervailing duty paid on lubricating

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		oils and greases used in the manufacture of compounded lubricating oils and greases. The Eastern and Southern Branches of the Corporation paid 20 per cent ad valorem duty on compounded lubricating oils and greases manufactured at the Corporation's Blending Plants at Calcutta and Madras during June to September, 1971 but failed to obtain simultaneously set off of excise/countervailing duty paid on lubricating oils and greases used in the manufacture of compounded lubricating oils and greases. As a result, the claims for refund of excise duty amounting to Rs. 11.13 lakhs were still pending with the Central Excise Authorities.
	8.75	The Committee recommend that the Corporation should devise a suitable method and maintain proper records so that allocation of duty on lubricating oils and greases could be readily available to avail of set off duty. The Committee would also like that vigorous follow-up action should be taken for the realisation of the balance of Rs. 11.13 lakhs on account of refund of excise duty.
37	8.80	The Committee regret to note that the IOC purchased Caltex Depot at Karad at a cost of Rs. 25,000 in 1968 to save bridging expenses. However, due to acute shortage of MG tank-wagons the expected savings of bridging expenses did not materialise and the objectives of purchasing the depot did not materialise. The depot was ultimately closed in June, 1973. The Committee feel that had a proper assessment been made about the availability of tank wagons before the purchasing of the depot, the expenditure incurred on the setting up of the depot could be avoided.
	8.81	The Committee also find that the Internal Audit proposed as early as June, 1971 an exa-

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		mination of all proposals made during the previous two or three years for the purchase of Depot etc. at various stations to find out whether the conditions under which the sanction for the purchase of the depots was accorded have been fulfilled or not.
		The Committee desire that a review of all the depots purchased during the last five years should be undertaken soon and decision taken regarding their continuance or otherwise as a result of such review.
38	8.90	The Committee note that under the arrangements between the Corporation and IOBL the Corporation gets its base stocks and additives blended in the IOBL plants in consideration of which the Corporation was to pay a blending fee at 5 cents for premium grade lubricants and 2 cents for non-premium grade lubricants, 60 cents and 25 cents per pound for premium and non-premium greases. The Committee note that on account of devaluation, the blending fees were enhanced by 57.5 per cent.
	8.91	The Committee fail to understand as to why the Corporation should not have stipulated the blending fees in Indian currency in the agreement with IOBL which is an Indian Company and why no attempt was made in this regard either initially or even at the time of the revision of the fees later. The failure to fix the fees in Indian currency has given an unit ended benefit to IOBL.
	8.92	The Committee recommend that the Corporation should see that such commitments in foreign currencies with Indian firms are avoided in future.
	8.93	The Committee recommend that Government should issue suitable directions in the

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		matter to all the public undertakings so that the commitments of this nature are settled in Indian rupees and not in foreign currency, particularly, when the companies with whom contracts are entered into are companies incorporated in India.
39	8.11	The Committee find that at present the Chairman of the Corporation does not have any powers over and above those enjoyed by the Managing Directors of the two Divisions. Although the Government letter appointing the last Chairman as early as September, 1971 envisaged delegation of further powers to the Chairman by the Board of Directors it is only in June, 1973 that a sub-committee of the Board has been constituted to streamline the powers exercised by the Managing Directors and thereafter the powers of the Chairman will be reviewed.
	8.12	The Committee desire that the sub-Committee should finalise its deliberations without further delay so that the Board may take a decision about delegation of any additional powers to the Chairman/Managing Directors that may be necessary in the interest of the effective functioning of the two wings of the Corporation.
40	8.16	The Committee note that each Division of the Corporation has its own Financial Controller to assist the Managing Director on all matters having financial bearing. In addition, the Corporation has a Finance Director who functions as the Staff Officer of the Board of Directors and the Chairman in the matter of financial advice. The Committee are informed that all matters referred to Chairman having a financial bearing and cases where the Financial Controllers do not concur with the Managing Director are routed to the Chairman through the Financial Director. However, as admitted by the

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		Secretary of the Ministry during evidence, not all proposals concerning financial matters coming to the Board, have the prior comments of the Finance Director. The Committee recommend that the procedure should be such that proposals concerning financial matters coming before the Board invariably include the comments, if any, of the Finance Director so that the Board have a clear idea of the financial implications of the proposals while considering them.
	9.17	The Committee also understand that the issue regarding the control and powers, which Finance Director should exercise over the Financial Controllers of the two divisions, is under consideration of the Ministry of Petroleum and Chemicals in consultation with the Ministry of Finance. The Committee recommend that an early decision would be taken in the matter and reported to the Committee.

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