22

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS

(2013-14)

FIFTEENTH LOK SABHA

MINISTRY OF PETROLEUM & NATURAL GAS

LONG TERM PURCHASE POLICY AND STRATEGIC STORAGE OF CRUDE OIL

[Action Taken by the Government on the recommendations contained in the Eighteenth Report (Fifteenth Lok Sabha) of the Standing Committee on Petroleum and Natural Gas (2012-13)]

TWENTY SECOND REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

February, 2014/ Magha, 1935 (Saka)

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Presented to Lok Sabha on 17.02.2014

Laid in Rajya Sabha on 17.02.2014

LOK SABHA SECRETARIAT
NEW DELHI
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COMPOSITION OF THE STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2013-14)

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2	Shri Ramesh Bais
3	Shri Subhash Bapurao Wankhede
4	Dr. Mehboob Beg
5	Shri Sudarshan Bhagat
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28	Shri Tapan Kumar Sen
29	Smt. Gundu Sudharani
30	Dr. Prabha Thakur
31	Prof. Ram Gopal Yadav

SECRETARIAT

1.	Shri A.K.Singh	Joint Secretary
2.	Smt. Anita Jain	Director
3.	Shri H.Ram Prakash	Deputy Secretary

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Natural Gas having been authorised by the Committee to submit the Report on their behalf, present this Twenty Second Report on Action Taken by the Government on the recommendations contained in the Eighteenth Report (Fifteenth Lok Sabha) of the Committee on the subject 'Long Term Purchase Policy And Strategic Storage Of Crude Oil'.

2. The Eighteenth Report of the Standing Committee on Petroleum & Natural Gas was presented to Lok Sabha on 8.5.2013. The Action Taken Replies of the Government to all the recommendations contained in the Eighteenth Report were received on 6.9.2013..

3. The Standing Committee on Petroleum & Natural Gas (2013-14) considered and adopted the Report at their sitting held on 12.2.2014.

4. An analysis of the action taken by the Government on the recommendations contained in the Eighteenth Report (Fifteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas is given in Annexure-II.

5. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

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

New Delhi;
***12 February*, 2014**
23 *Magha* ,1935 (Saka)

ARUNA KUMAR VUNDAVALLI,
Chairman,
Standing Committee on
Petroleum & Natural Gas.

REPORT

CHAPTER I

This Report of the Standing Committee on Petroleum & Natural Gas deals with the action taken by the Government on the Recommendations contained in the Eighteenth Report (Fifteenth Lok Sabha) of the Standing Committee on Petroleum and Natural Gas (2013-14) on 'Long Term Purchase Policy and Strategic Storage of Crude Oil' of the Ministry of Petroleum and Natural Gas', which was presented to Lok Sabha on 8.5.2013.

2. Action Taken Notes have been received from the Government in respect of all the 15 Recommendations /Observations contained in the Report. These have been categorized as follows:-

(i) Recommendations/Observations that have been accepted by the Government: SI. Nos. 4,12,13,15 (Total 4)

(Chapter- II)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies SI. Nos.- 8 and 10 (Total 2)

(Chapter-III)

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:- 1,2,3,9 and 14 (Total 5)

(Chapter-IV)

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited: - SI. Nos. 5,6,7and 11 (Total 4)

(Chapter-V)

3. The Committee desire that the Action Taken Notes on the Recommendations/Observations contained in Chapter-I of this Report and Final Replies in respect of the recommendations for which interim replies have been furnished by the Government (included in Chapter-V), should be furnished expeditiously.

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

Recommendation SL.No /Para No.1

MINIMIZING DEPENDENCE OVER CRUDE OIL

5. The Committee note that the Indian crude oil imports have been steadily increasing and the country imported 159 MMT in 2009, 163.6 MMT in 2010 and 171.7 MMT in 2011. In the global scenario, the country is 6th largest importer of crude oil and it constituted 9.1 percent of total crude oil imports in 2011 increasing from 8.4 percent in 2009. The Committee find that though India is deficient in crude oil and importing 80 percent of its requirements, the energy mix of the country is predominantly skewed towards crude oil for its energy requirements.

Since natural gas has emerged as an important fuel worldwide because of inherent advantages over other fuels by being more fuel efficient and environment friendly, the Committee would like the Government to shift decisively to gas based consumption in preference to oil by increasing the percentage of gas imports in the overall import basket. Since, the discovery of huge deposits of shale gas worldwide has spawned off new hope in meeting future energy requirements, the Committee recommend that India should also take advantage of this development and promote use of gas in meeting its energy requirements so that dependency on crude oil could be brought down. The Committee therefore desire that MoPNG should prepare a strategic plan in this regard to consciously shift the energy consumption pattern.

6. In their Action Taken Reply, the Ministry of Petroleum and Natural Gas has submitted as below:-

"1. As per the XII Plan document of Planning Commission, the share of oil in total commercial energy consumption in India is expected to decline from 31.5 per cent in 2011–12 to 23.3 per cent in 2021–22 and the share of natural gas and liquefied natural gas (LNG) is projected to rise from 10.3 per cent to 13 per cent in the same period.

2. The natural gas production in the country during the last three years (2010-11 to 2012-13) is as under:

(In MMSCMD)

Company/Regime	2010-11	2011-12	2012-13
ONGC	63.3	63.9	64.52
OIL	6.4	7.2	7.2
PSC	73.4	59.2	39.70
Total	**143.1**	**130.3**	**111.4**

(**MMSCMD** – Million Standard Cubic Meters per Day)

It may be seen that the gas production by ONGC and OIL over the last three years has remained almost constant or has marginally increased. However, during the same period, the gas production under the Production Sharing Contract (PSC) regime has decreased drastically, mainly due to fall in gas production from KG-DWN-98/3 (KG-D6) block.

3. The Government has taken several steps to increase the natural gas production in the country to encourage use of this clean and green fuel. Apart from exploration and production of conventional gas, various unconventional sources of gas are being pursued. The details are as under:

i. In order to accelerate exploration and production of oil/gas, so far 254 exploration blocks have been awarded under nine rounds of New Exploration Licensing Policy (NELP). A total of 124 discoveries have been made under NELP till date in 41 blocks of which 78 are gas discoveries, including major gas discoveries in East Coast. Under NELP In-place gas volume of about 704 Billion Cubic Meters (BCM) has been established as on 01.04.2013. Current gas production from NELP blocks is about 14 MMSCMD.

ii. As far as unconventional energy source of natural gas is concerned, so far 33 Coal Bed Methane (CBM) blocks have been awarded through nomination as well as four bidding rounds. In-Place CBM volume to the tune of 9.9 Trillion Cubic Feet (TCF) has been established so far in 8 blocks. Commercial CBM production had commenced from one block in West Bengal in 2007. Development activities are currently in progress in another 6 CBM blocks. It is estimated that the current CBM production of 0.38 MMSCMD is likely to increase to about 4 MMSCMD by 2016-17.

iii. The presence of gas hydrates have been established in Krishna Godavari, Mahanadi and Andaman offshore areas during “Expedition-01” carried out in 2006. It is planned to undertake “Expedition-02” in future to carry out drilling and coring activities in identified locations in offshore, subject to the approval of the Steering Committee of National Gas Hydrate Programme(NGHP). Currently, there is no technology available for commercial production of gas from gas hydrates, which are mostly under R & D stage.

iv. Resource estimation for shale gas /shale oil have been taken up by several agencies in selected basins/sub-basins in India, such as Cambay, Cauvery onland, KG onland, Ganga, Gondwana and Assam-Arakan etc. GoI has formulated a draft Shale gas/Shale oil Policy which is currently under final approval process. Further, MoP&NG has entered into MoU with Department of State, USA for co-operation in various areas related to Shale Oil/Shale Gas.

4. The projected natural gas production in the country during the current year and next three years (2013-14 to 2016-17) is as under:

(In MMSCMD)

Company/Regime	2013-14	2014-15	2015-16	2016-17
ONGC	64.2	73.0	77.3	105.9
OIL	7.5	10.9	11.2	11.5
PSC	33.6	34.6	38.4	45.2
Total	**105.3**	**118.5**	**126.9**	**162.6**

(The above projections are based on estimates of domestic gas production in XII Plan Document and data submitted by ONGC & OIL to DGH subsequently)

5. National Oil Companies have been employing the best in class technologies for pursuing the objective of improving production from their oil fields/wells. These measures include application of state-of-art and fit for purpose technologies suited for western offshore reservoirs. ONGC has adopted the latest technologies in the area of Drilling operations, Well completion, Stimulation, Work over Operations, Artificial Lift, Water Injection, Offshore Production facilities and remote monitoring/control of operations and production optimization.

6. The Government has appointed a Committee on "Roadmap for Enhancing Domestic Oil & Gas Production and Sustainable Reduction in Import Dependency by 2030", Chaired by Dr. Vijay Kelkar with various Terms of Reference (ToRs) including " Steps to be taken for enhancing domestic Oil and Gas production from the Unconventional as well as Conventional Energy Sources". The Committee is to submit the report within six months".

7. The Committee note that Government has taken several measures to increase the Natural Gas production and has also been pursuing R&D activities pertaining to unconventional sources of gas like CBM, Gas hydrates, & Shale Gas. The Committee however wish to point out that action taken reply of the Government only enumerates the MoPNG efforts to increase domestic Natural gas production by various ways but fails to give any concrete strategy for gradual and systematic shift in the consumption pattern to natural gas and this completely misses out the thrust and crux of the Committee's recommendation. The Committee therefore would like to reiterate that MoPNG must workout the roadmap for bringing in the requisite transition in a time bound manner which will also be in line with the changing global environment.

Recommendation SL.No /Para No. 2

NEED FOR A JOINT VENTURE COMPANY

8. The Committee note that the total crude oil import for 2012-13 by PSU oil companies is estimated at 120 MMT. Among these PSUs, import by IOC is placed at 66.3 MMT, BPCL at 22.80 MMT, HPCL at 17 MMT and MRPL at 14.40 MMT.

The Committee note that till July 1998, the entire requirement of crude oil imports was canalized through Indian Oil Corporation (IOC), the sole canalizing agency. Thereafter the crude oil import was decanalized and private and joint sector refineries were allowed to procure their own requirement of crude oil. Import of crude oil was further decanalized from April 2002, with all PSU oil companies being permitted to import crude oil independently to meet their refinery configuration through term contracts and spot tenders in accordance with the guidelines issued by MoPNG. The Committee, however, note that purchase of crude oil is a complex process which involves negotiations of contract with NOCs or floating of tenders, shipping arrangements, unloading at ports, transporting to refineries etc. are to be made by the OMCs. The Committee also note that private refiners are able to procure crude oil at lower prices.

The Committee are of the view that lot of resources of OMCs are spent on this activity. Instead of all oil PSU's carrying out purchase of crude oil, the Committee recommend for the formation of a joint venture company promoted by all interested PSUs and entrusted with the work of importing of crude oil required for them in line with their refining specifications. The Committee desire that this company may be given enough flexibility as enjoyed by private sector refineries to carry out their operations including price negotiation, hiring of ships and negotiate better terms on freight etc. which will help PSUs save lot of work relating to imports.

9. In their Action Taken Reply, the Ministry of Petroleum and Natural Gas has submitted as below:-

1. “In August 1979, based on a Cabinet decision, the Empowered Standing Committee (ESC) comprising Chairman, IndianOil, Joint Secretary, MoP&NG, Joint Secretary & Financial Advisor, MoP&NG and Joint Secretary, Department of Economic Affairs was formed as a response to the second crude oil shock, in order to enhance flexibility and quick decision making. The ESC, as per the

formation directive, was required to deal with organizing adequate import of crude oil & petroleum products through bilateral negotiations with National Oil Companies (NOCs) as well as purchase the same from the spot market.

2. Till July 1998, the entire requirement of crude oil import was canalized through IndianOil. With deregulation of the Indian refining sector, effective from 01.04.1998, there was a need to decanalize crude oil import for the private and joint sector refineries and accordingly crude oil imports were decanalized w.e.f. July 1998. Subsequently, the Cabinet, in its meeting held on 13.03.2001, allowed the other oil PSUs to import their own crude oil requirement in a phased manner. The Cabinet also decided that the procurement of crude oil through the tender route be continued through company specific ESCs constituted on the lines of the ESC of IndianOil. Accordingly, effective April 2002, separate ESCs were constituted for HPCL and BPCL, and in July 2003 for MRPL.

3. Setting up a JV for procurement of crude oil may not be appropriate for the following reasons:

3(i) Individual PSUs have distinct and unique requirements which would be difficult to aggregate through a JV, as indicated below:

- Varying configuration of refineries govern the crude diet of the particular refinery.
- Continuously changing refinery economics due to changing market fundamentals.
- Varying levels of requirement of each refinery based on economics, market demand, environmental norms, etc.
- Technical factors specific to a particular refinery, infrastructural constraints, shutdowns – planned & unplanned, etc.

3(ii) Crude oil procurement process, within an individual company involves, very close coordination between its various refineries, procurement group, commercial/ shipping and operations groups. It would not be feasible for the JV company to undertake this coordination on behalf of individual CPSUs, given the size and scale of operations. Separating the procurement function from the associated functions, which are refinery specific, may lead to complications and become counter-productive.

3(iii) Creation of a separate JV Company exclusively for procurement of crude oil may result in the creation of an additional establishment with associated costs, which may or may not deliver commensurate benefits and may curtail the flexibility currently available to the refiners.

3(iv) Procurement of crude oil through a JV Company could possibly result in tax implications to the partner oil PSUs, as given below:

a. Procurement of crude oil through another entity like the JV Company will have sales tax implication. In order to avoid sales tax implications, the JV

Company could act as a canalizing agency whereby the contract for purchase of crude oil could be entered into between the overseas supplier and the respective oil PSU and the bill(s) of lading could be prepared in the name of the oil PSU. Even in this case, the commission charged by the JV Company for its services would attract service tax. Therefore, importing crude oil through a JV Company will increase to some extent the cost of procurement due to tax implications. Besides, it is very likely that some of the suppliers may not agree for these kinds of arrangements.

b. The other option is for the JV Company to not act as an agent but to import crude oil in its own name and then transfer the title of the goods as high sea sales i.e. transfer of goods before entering the Indian customs area to the respective oil PSU. While in such transaction there would be no service tax implication, however, there have been in the past issues with tax authorities due to lack of clarity relating to sales tax implications, which have not yet been resolved.

4. Since OMCs are different entities competing in the market for selling their products, hence centralization of crude oil procurement may affect the competitiveness in market and may result in conflict of interest.

5. In view of above, creation of a separate joint venture company exclusively for the procurement of crude oil may lead to creation of an additional establishment with associated costs but with no commensurate benefits and is also likely to curtail the flexibility currently available to refiners to process certain mix of crude as per their processing plan".

10. The Committee had recommended for the formation of a Joint venture company for collective import of crude oil requirements on behalf of all OMC's. In response, the Action Taken Reply of MoPNG have put-forth a number of limiting circumstances and disadvantages in implementing the concept of single JV Company holding charge of purchasing crude oil requirements on behalf of the oil PSUs. In Committee's view these constraints are inconsequential as compared to the intended payback that would accrue to these PSUs. This JV company would be instrumental in cutting down the input cost of PSU Refineries and would save individual PSU resources being spent on this activity as the proposed JVs being autonomous would be able to take decisions at a faster pace. The Committee therefore, strongly reiterate their recommendation and would like the Government should look in to every feasibility of actualizing this concept.

Recommendation SL.No /Para No.3

COOPERATION AMONG OIL IMPORTING COUNTRIES

11. The Committee note that high volatility in crude oil prices which has fluctuated from $ 25 per barrel to $110 per barrel during the past decade has greatly impacted finances of developing countries like India which is required to import 80% of crude oil to meet its energy requirements. The Committee have been informed that if the price of crude oil increases by one dollar the country has to bear an extra burden of Rs 4000 cr. Though hardening in crude oil prices is largely due to increase in its demand, the Committee feel that extraneous factors including speculation, strategic cut down in production by oil exporting countries, geo-political factors like instability in oil producing regions etc. could also be reasons for higher prices of crude oil rather than supply-demand mismatch.

The Committee feel such high crude oil prices would be a burden on the finances of any country especially developing countries like India as it will restrict the allocation of funds for other social programmes like education, health and irrigation etc. While the Committee understand the need for price discovery in the market place in a free market scenario, it could not ignore the fact that this has led to huge volatility and one sided increase in prices has drained away precious resources from many developing countries like India.

The Committee learn that more than 90% of crude oil is imported by six countries/regions which also includes three Asian countries namely, China, India and Japan. Needless to say that demand in these countries have a bearing on the crude oil prices. The Committee however, note that though there are bodies like International Energy Agency (IEA) for enhancing the cooperation amongst various players in the global energy market, there is no forum for oil importing countries to strategize on the fluctuations in the international price of crude oil.

The Committee further note that the OMCs enter into contracts for supply of crude oil with National Oil Companies of oil exporting countries. As per the standard international practices, these contracts are guided by the General terms and conditions which are common to all buyers. The Committee have however, been informed that the terms of sale are predominantly in favour of NOCs.

In view of the above, the Committee would like to emphasize that fair price for crude oil is an imperative for equity and justice to global human community and therefore, recommend that MoPNG/Government should coordinate with other importing countries and take up the issue of fair prices for crude oil through international institutions.

12. The Ministry of Petroleum and Natural Gas submitted the following reply in this regard:

> "Crude oil resources are not uniformly spread in the world and only limited number of countries are significant producers of crude oil. This clearly divides the world into oil exporting and oil importing nations. India is the fourth largest oil consumer in the world after the United States, China, and Japan. India depends heavily on imported crude oil, mostly from the Middle East. The majority of Organization for Economic Co-operation and Development (OECD) countries are also net importers of crude oil and their economics would also struggle without global security in the oil export market.
>
> Following points are worthy of mention where appropriate action is being taken or could be taken in line with the recommendations of the Standing Committee:-

a. International Energy Forum (IEF), Riyadh is a body which provides a common platform for both crude oil consumers as well as producers for fair energy trade, and international cooperation. India, along with other major crude oil importing countries, can use this body to take up the matter regarding crude oil price volatility and fair price through dialogues with major oil exporting countries.

b. India is developing its Strategic Petroleum Reserves (SPR). These strategic oil reserves could help in stabilizing oil prices since they can be utilized, whenever there is increase in prices due to any supply disruption caused by disruptive events like force majeure, political unrest in crude oil supply region or shipping route. Potentiality of SPR could be enlarged in collaboration with other large importers of the region.

c. India, in collaboration with other major crude oil importing countries of the region, may acquire more and more crude oil producing assets overseas to secure crude oil supplies, thereby reducing dependence on oil exporting nations.

d. To ensure security of demand for crude oil exporting countries and security of supplies for crude oil consuming countries, the exporting and the consuming countries could work together through criss-cross investment. India could, therefore, look for long term crude oil supply contracts with crude oil exporting countries with tie-up of crude oil volumes along-with investment by such countries in Indian refineries and other areas of the downstream sector. There could also be collaboration in projects like construction of transnational pipelines for bringing in the crude oil from land locked and isolated oil rich countries to the nearby sea ports.

As regards the concern of the Standing Committee that the oil PSUs enter into contracts for supply of crude oil with NOCs of oil exporting countries, wherein the terms of sale are predominantly in favor of the supplier NOCs, these NOCs sell their crude oil at Official Selling Price (OSP), which is uniformly applicable to all the buyers of a particular region, irrespective of the quantities procured by them. These crude oil supply contracts are guided by the General Terms & Conditions of the seller, which are not only as per the standard international practices but are also uniformly applicable to all buyers".

13. The Committee in their report had invited attention towards the absence of any international forum to maneuver on the fluctuations in the international price of crude oil and accordingly address the concerns of oil importing countries.They had further desired MoPNG to take up the issue of fair prices for crude oil through international institutions. In its reply, the MoP&NG has stated that there are agencies like International Energy Forum (IEF) working in this arena by providing a common platform to establish cooperation among producing oil as well as consuming nations and services of this institution could be utilized to take up the issues like crude oil price, volatility and fair prices etc. with oil exporting countries. The Ministry in their reply have however not specified whether the forum of any such international institutions have been utilized to highlight and discuss the issues. The Committee would urge Government/Ministry to make use of the services being provided by IEF and also other multilateral institutions to ensure better negotiation terms and fair crude oil prices for themselves and in this regard must also start coordinating with other oil importing countries to collectively take up the matter at international level to espouse the cause of developing nations.

Recommendation SL.No /Para No.5 & 6

REVIEW OF GUIDELINES

14. The Committee note that the guidelines laid down by the Ministry of Petroleum & Natural Gas to be followed by PSU OMC's with regard to import of crude oil had been last revised in 2001 and no changes have been made in the past 12 years.

The Committee note that these guidelines lays down the procedure to be followed by OMCs to enter into Term Contracts with NOCs and also provides a list of MNCs which can be approached for sourcing the crude oil requirements. The guidelines also specify the powers of Empowered Standing Committee of OMCs and that of Ministry in approval of these contracts.

The Committee are of view that these guidelines should enable the OMC's to follow a transparent and efficient procedure to import crude oil and should not place any hurdle in availing any opportunity to buy required type of crude oil at lower prices. The Committee feel that the guidelines has to reflect the present structure of the international oil market which has undergone lot of changes since 2001 and therefore recommend MoP&NG to review the guidelines in consultation with OMC's to widen their purchase opportunities by simultaneously providing for necessary safeguards and monitoring mechanisms to bring about transparency and accountability .

REVISION OF LIST OF MNCs IN THE GUIDELINES

15. The Committee observe that Public Sector Oil Companies enter into contract with National Oil Companies (NOC's) of oil exporting nations having surplus quantities of crude oil, which may or may not have Official Selling Price (OSP). This is in accordance with the guidelines issued by MoPNG in 2001. Besides, MNCs mentioned in the list as part of guidelines, may also be approached by OMCs for sourcing the crude oil requirements. The Committee note that this list which forms the basis of crude oil agreements entered between National OMCs and Multinational Oil Companies remained static since 2001.

In the changing market scenario and due to mergers and acquisitions, the Committee feel this list should be amended and regularly updated, thereby providing an authentic base for locating appropriate seller. The Committee would therefore, recommend Ministry of Petroleum and Natural Gas to revise this list immediately and also regularly review the MNC list in future in accordance with developments in the international oil market.

16. In response to recommendations No.5 and 6, the Ministry of Petroleum and Natural Gas has submitted the following reply:

> "The extant policy guidelines to be followed by the oil PSUs with regard to import of crude oil were issued by MOP&NG on 21.05.2001. According to the policy, all possible efforts should be made to first maximize term volumes with NOCs on OSP as pricing basis. Thereafter, attempts should be made to finalize term contracts with NOCs not having OSP and then with the short listed crude exporting MNCs.
>
> A proposal for amending the said policy guidelines was submitted by BPC to MoP&NG on 27.02.2013, which in turn was circulated by MoP&NG on 11.03.2013 to all the other oil PSUs seeking comments. Upon receiving the comments, MoP&NG has on 11.06.2013 directed IndianOil to constitute an Industry Working Group (IWG) comprising IndianOil, HPCL, BPCL and MRPL to deliberate on the issue of amendments to crude oil import policy. Appropriate action would be taken on receipt of the IWG report".

17. The Committee had recommended for reviewing the more than a decade old extant policy guidelines pertaining to import of crude oil issued by MoP&NG in May, 2001. With the advent of time and fastly changing oil industry, the Committee had noted that the policy guidelines needed an updation to maintain the requisite pace and in their recommendations no. 5 and 6 respectively had touched upon various aspects of the policy requiring an urgent make over. The ATR of MoP&NG have however informed that MoP&NG has already initiated the process and in this regard has constituted an Industry Working Group (IWG) and is awaiting report to deliberate upon the issue. The Committee desire that the terms of reference and time frame by which the IWG to complete their work may be informed to the Committee. They further desire for a prompt action on the recommendations of the IWG for obviating further delays. The Committee may also be informed about the recommendations of IWG and action taken by MoP&NG.

Recommendation SL.No /Para No. 7

PURCHASE OF DISTRESS CARGOES

18. The Committee note that OMCs normally source their crude oil requirements through Term Contracts and Spot purchases to suit their refinery configuration. The Committee have been informed that there are opportunities that exist in the international

oil market when sale of distress cargoes takes place at lower than market prices. However, the MoPNG guidelines does not permit OMCs to buy crude oil from distress cargoes.

The Committee are of the view, that in these days of high oil prices, any opportunity to procure crude oil at lesser prices should be made use of as it will reduce the cost of purchase and benefit OMCs to improve gross refining margins. The Committee therefore, recommend that MoPNG should allow OMCs to procure certain percentage of their annual crude requirement through distress sale route and review the experience after reasonable period.

Also the Committee have been given to understand that if an NOC is not able to supply adequate quantity of a crude at OSP, oil companies can buy such crude from NOCs or specified MNCs other than OSP. However, it is necessary that such crude is seller's own equity crude or swapped with their own equity crude. The Committee have come to know that oil companies are losing the opportunity of procuring cheaper crudes because they are not swapped. The Committee feel that the guidelines should permit the OMCs to procure the required type of crude at cheaper cost with transparent procedure. Hence the Ministry should look at the present procedure and modify it so that different types of crude may be brought from different players in case the required quantity is not supplied by NOCs.

19. In response, the Ministry of Petroleum and Natural Gas has submitted the following:

> "A cargo becomes 'distressed' when the seller is close to the delivery date and due to some reason the cargo is not getting sold. If prospective buyers become aware that a seller has a 'distressed cargo', the buyers will try to procure it at a cheap price. As distressed cargoes are generally available only on very prompt basis, chartering a tanker at short notice for lifting distressed cargoes on FOB basis would be difficult as well as costly on account of higher freight, and hence may not be viable. Moreover, it is very likely that on most of the occasions, distress cargoes may have already been loaded on vessels, and hence can be procured only on CFR basis. In order to derive the maximum advantage while procuring distress cargoes, it is necessary that the oil PSUs are permitted to procure distress cargoes on FOB as well as CFR basis. However, the present guidelines of the Ministry of Shipping do not permit the oil PSUs to source cargo on CFR basis. Therefore, in order to consider procurement of distressed cargoes, it is essential that oil PSUs are permitted to import crude oil on FOB as

well as CFR basis. MoP&NG has been taking up this matter with Ministry of Shipping from time-to-time.

As regards the modification in the present procedure to procure the crude oil, as has been mentioned earlier, MoP&NG has directed Indian Oil to constitute an Industry Working Group (IWG) comprising IndianOil, HPCL, BPCL and MRPL to deliberate on the issue of amendment to crude oil import policy. Appropriate action would be taken after IWG recommendations are received".

20. The Committee in their report had recommended that OMCs should be allowed to procure the crude available in international market as distress cargoes as per their requirements at sufficiently cheaper price. It had wanted MoP&NG to look at the present procedure and modify it accordingly to enable OMCs to procure different types of crude from different players and also through purchase of distress cargoes. The MoPNG in their Action Taken Reply have intimated that OMCs are not able to purchase distress cargoes due to Ministry of Shipping directions permitting import only on FoB basis, whereas Distress cargoes are available only on CFR basis. It has been stated that the MoP&NG has been regularly taking up this matter with Ministry of Shipping and impress the benefits that can occur to OMCs to buy distress cargoes of crude at CFR basis. An Industry Working Group has also been constituted to deliberate on related issues. The Committee would like to be apprised of the progress made by the IWG in finding out a solution to this problem .

Recommendation SL.No /Para No. 9

CRUDE OIL IMPORT ON CFR/FOB BASIS

21. The Committee note that crude oil purchased from various countries are transported on cargo ships. The Committee further note that there are different models of booking the cargo like FOB basis where the buyer arranges the ship and insurance to cover loss or damage to the goods, whereas in CIF the seller bears costs, freight and insurance and CFR includes Cost and Freight. The Committee further note that the guidelines issued by Ministry of Shipping provides that OMCs can source their crude oil on FOB basis only, which the OMC's have informed would increase transportation costs to them. This policy, however, also adversely affects the opportunities of OMCs to purchase those grades of crude oil which are available solely on CIF/CFR basis and many a times at considerably cheaper rates. The Committee have also been informed

that these shipping guidelines are relaxable and crude oil allowed to be purchased on CIF/CFR on case to case basis after approval by Ministry of Shipping. The Committee have been informed that international oil companies also prefer to supply crude oil on CFR basis only.

The Committee, therefore, recommend that the Ministry of Petroleum and Natural Gas may seek the power to approve import of crude oil on CFR/CIF basis by OMCs to itself from Ministry of Shipping. The Committee also desire Ministry to take up the matter with the Ministry of Shipping for relaxing the guidelines to enable OMCs to purchase on CIF/CFR basis so as to benefit from the opportunities in the market and for doing away with the need of approval of Ministry of Shipping in every case.

22. In their Action Taken Reply, the Ministry of Petroleum and Natural Gas has submitted as below:-

> "MoP&NG has been taking up the matter with Ministry of Shipping (MoS) for permitting Oil PSUs to import crude oil on FOB as well as CFR basis. In response, MoS had in January 2013 conveyed that the oil PSUs may approach MoS for grant of No Objection Certificate for CFR imports on a case-to-case basis.
>
> The MoS stand of allowing CFR imports on case-to-case basis does not, however, address the issue because obtaining permission on a case-to-case basis will be cumbersome and time consuming, and in all probability by the time such permission is received from the MoS, the opportunity would also have been lost. The stand of MoS, therefore, continues to be an impediment in the crude oil procurement process of the oil PSUs.
> Therefore, MoP&NG has again requested MoS to allow oil PSUs to import crude oil on both CFR as well as FOB basis".

23. The Committee had recommended to MoP&NG to take up with Ministry of Shipping the matter of allowing import of crude oil on FoB as well CFR basis. The reply of the Ministry states that the Ministry of Shipping have reiterated their earlier stand of granting NoCs to OMCs for CFR imports only on case to case basis. The Committee however desire MoPNG to be persistent in their efforts and must not rest their case of seeking relaxation in the crude oil purchase guidelines from Ministry of Shipping. In Committee's view the MoPNG must seek a reasoned reply from MoS for granting it only on case to case basis. Nonetheless, the prices of Crude oil directly impact the financials of OMCs and thus the relaxation in guidelines may prove to be beneficial for company's financial health by cashing

in on the valuable opportunities of purchasing crude oil and transporting it at cheaper rates, arising in international market.

Recommendation SL.No /Para No. 11

INFRASTRUCTURAL CONSTRAINTS

24. The Committee have learnt that OMCs are incurring huge expenditure on account of demurrage costs on domestic ports due to lack of requisite infrastructure. The Committee have been informed that IOCL had incurred huge demurrage cost of Rs.328.58 cr, Rs.120.55 cr, Rs.98.02 crore for the years 2009-10, 2010-11 and 2011-12, BPCL had incurred Rs.32, 24, 21 crore and HPCL had spent Rs.8.41, 20.59, 16.30 crore respectively during the same period. The Committee have been informed that IOCL is facing multiple constraints at Chennai port major being the lack of berthing facility for Very Large Crude Carriers (VLCC). Similarly, Jawahar Dweep Port at Mumbai receiving crude oil supplies for BPCL and HPCL is also ridden with constraints due to draft limitations, as the port has only Jetty no. IV which is very old and only capable Jetty for receiving larger parcel sizes. This Jetty IV also needs urgent repairs for continuous safe operations. Due to these draft limitations, HPCL and BPCL are incurring additional freight of 35% for each unloading tanker due to which OMCs incur huge demurrage costs. However, the Committee have been informed that the matter had been taken up with Mumbai Port Trust by HPCL and BPCL for construction of an additional jetty V which unfortunately got shelved earlier.

The Committee strongly feel that the huge demurrage cost amounting to about Rs.665 crores during the three year period incurred by OMCs are totally avoidable and not due to uncontrollable factors. The Committee also deplore the slackness on the part of concerned officials of OMCs/MoPNG over the years for not pursuing the matter with due seriousness. The Committee are also unhappy that Port Trust authorities have not been responsive to the infrastructure requirements for import of crude oil which is an indispensable activity for the development of the Country. The Committee therefore, recommend MoPNG/OMCs to intensify their efforts in pursuing the matter with concerned authorities for getting required infrastructure at various Ports handling crude oil imports.

25. In their Action Taken Reply, the Ministry of Petroleum and Natural Gas has submitted as below:-

"Indian Oil is not facing any significant infrastructural constraints at its main crude oil discharge ports at Vadinar and Mundra on the West Coast and Paradip on the East Coast, as all these ports have installed Single Point Mooring (SPM) systems and are able to berth and receive crude oil through VLCCs (160,000 – 320,000 DWT). However, IndianOil does face some constraints at Chennai, Karaikal and Chidambarnar ports due to limited draft availability. While the draft at Chennai port is limited to Suezmax (80,000 – 160,000 DWT) berthing, Karaikal can only handle vessels up to LR-1 (45,000 – 80,000 DWT) and Chidambarnar only up to MR tanker (25,000 – 45,000 DWT). In-principle approval from Indian Oil Board for construction of a SPM system at Ennore port (near Chennai) along with the associated facilities, has been obtained in September 2008. The pre-project activities have since been completed and DFR has been prepared. Form-1 has been submitted to Coastal Regulatory Zone Authority for obtaining clearance for the project after which environmental clearance shall be obtained. With the commissioning of the SPM, the existing constraint at Chennai port will be mitigated.

As regards infrastructural constraints at the Mumbai Port, OMC Members are continuously following up with Mumbai Port Trust Authorities (MPT) regarding the demurrage/dead freight cost besides delay in crude receipt (at refineries) being incurred by the Oil Industry due to these constraints. On 14th May 2013, during the interactive meeting between Oil Industry Members and Chairman, Mumbai Port Trust, it was decided to review urgently the proposal for construction of additional Jetty/SBM at Mumbai, and accordingly a committee of oil Companies & MPT has been formed to look into all the issues.

BPC and HPC have also approached Engineers India Limited, New Delhi to carry out a DFR Study for the construction of a New Jetty or SBM at Mumbai Port, for independent crude oil loading/unloading operations thru:

- Fully loaded Suez Max Tankers of 140 TMT capacity
- Fully loaded VLCCs at an SBM outside Mumbai Port limit or Partly loaded VLCC within harbor limits.

HPCL have also approached ONGC to explore possibility to utilize their spare capacity of SBMs at Mumbai High for the purpose of Crude Oil Unloading to HPC/BPC Refineries for which feedback from ONGC is awaited".

26. In view of the high demurrage costs being incurred by OMCs due to infrastructure constraints at various ports, the Committee had recommended MoPNG/OMCs to intensify their efforts in pursuing the matter with concerned authorities for getting required infrastructure at various Ports handling crude oil imports. As per information furnished in reply of MOPNG, the efforts are underway to establish required infrastructure to mitigate the draft limitations at

Chennai and Mumbai port. Meanwhile as an intermediate measure, BPCL and HPCL have approached ONGC to permit them to use ONGC's spare SBM capacity at Mumbai High for unloading crude oil supplies and in this regard awaiting ONGC's response. While the Committee are satisfied with the efforts of HPCL and BPCL, desires that they should diligently pursue the matter for creating required infrastructure at Mumbai port. The Committee wish to be informed regularly about the progress made in this regard.

Recommendation SL.No /Para No.14

FUNDS FOR CRUDE OIL FILLING IN STRATEGIC CAVERNS

27. The Committee are given to understand that in line with the increase in the average price of Indian basket of crude oil, the cost of filling of crude oil in three caverns has also shot up to Rs.23,477 crore from Rs.8870 crore, registering an increase of 165 percent since 2005. The Committee are constrained to point out that the huge funding needed for filling the caverns with crude oil is yet to be arranged as till now no funds have been allocated for the purpose. With an almost completed cavern at Vizag and other two at Mangalore and Padur nearing completion, the delay in arranging finances for crude oil filling is a matter of serious concern for the Committee pointing towards lack of adequate seriousness of authorities towards the project. The Committee, strongly recommend for an immediate action by MoPNG/ISPRL regarding the matter of allocation of adequate funds to fill the storage cavern with crude oil and desire to be apprised soon of the progress made.

28. The Ministry of Petroleum and Natural Gas submitted the following reply in this regard:

> "As regards the filling of crude oil in the strategic caverns, Rs.4948.00 crore has been allocated by the Planning Commission as Gross Budgetary Support (GBS) for 12th Five Year Plan. Various options are being examined to assess whether part of the crude cost can be financed on PPP basis".

29. The Committee noted that there had been 165% cost escalation in the expenditure of filling crude oil in the strategic cavern since the year 2005, therefore, had raised concern on the delay at part of MoP&NG/ISPRL in arranging the wherewithal for the purpose. On perusal of the Action Taken Reply of

MoP&NG, it has been observed that out of the total sum of Rs. 23477 crore needed for filling the crude oil, only Rs. 4948 crores i.e. 21% of required amount has been allocated by Planning Commission as gross budgetary support towards this purpose. Though the Ministry is striving hard to arrange funds on PPP basis along with other options, the Committee are concerned to note that there is still considerable shortfall and this calls for an urgent action and multi-pronged efforts on the part of Government, for raising funds for the project and must not therefore leave any stone unturned to arrange finances at the earliest. The Committee wish to be kept informed of the development in the matter.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation No.4

DIVERSIFICATION OF SOURCES OF OIL SUPPLYING COUNTRIES

The Committee note that crude oil refining capacity of the country of both public sector and private sector is 213 MMTPA. The Companies procure bulk of their crude oil requirements from oil exporting countries depending upon the specification of their Refineries. The Committee further note that during 2011-12, out of 171.73 MMT of crude oil, 69% was imported from Middle East, imports from Africa accounted for 18% while South America accounted for 8%. The Committee note that OMCs are working towards diversifying their crude oil sources to effectively tackle any possible supply disruption.

But surprisingly, the planned crude oil purchase of OMCs for the year 2012-13 from the middle east countries has again been scaled up to 79% against the smaller quantities of 5% from the West Africa and 7%, proposed to be purchased from other countries. The Committee have been informed that this is due to geographical proximity as well as due to type of crude required for the refineries. The Committee while appreciating the economic compulsions of importing from a neighboring region would caution the MoPNG/PSUs from excessive dependence on any one region for their procurement. The Committee therefore recommend that the concerted efforts should be made by MoPNG and PSUs to minimize the dependence on any single country or region to ensure that the country's crude oil supplies do not get adversely affected in case of geopolitical problems in any region and should plan accordingly for diversifying geographical sources.

REPLY OF THE GOVERNMENT

India (specifically PSU OMCs) is heavily dependent on supplies of crude oil from Middle East Gulf considering its proximity. However, Oil companies are constantly trying to diversify their supply sources based on suitability and economics. Besides, Oil PSU’s continuously evaluate the technical feasibility of processing crude oils from various geographical regions. Once a crude is found technically/financially acceptable in the refinery system, quantities under the term contracts are suitably adjusted with a view to diversify the sources of supply to the extent possible in order to ensure security of supply.

Procurement of crude from spot market is against tenders floated for a type of crude namely, Low Sulphur or High Sulphur irrespective of any particular geographical region. In order to diversify the sources, attempts are also made to purchase opportunity crudes in smaller parcels sizes for processing along with other regular crude oils.

IndianOil's new grassroot refinery of 15.0 MMTPA capacity being put up at Paradip will have the capability to process up to 6 MMTPA of heavy sour crude oil besides processing regular HS crude from Middle East region. IndianOil is planning to source heavy crude oil for this refinery from Latin American countries, which would help in increasing the sourcing from this region, which has been very limited so far. Efforts are also being made on a continuous basis to enlarge the crude oil import basket. During 2012-13, 33 new crude oil grades were included in IOC's crude oil import basket, based on requirement and technical acceptability.

BPCL has taken up projects for bottoms up-gradation and related processes at Kochi as a part of its Refinery expansion plans that would enable processing of heavier crudes available from various geographical regions.

HPCL has also plans to put up bottoms up-gradation and new plants to enable processing of heavier crudes available from Latin America, Russia etc.

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Recommendation No.12

STRATEGIC CAVERNS

The Committee note that work towards establishing the three strategic caverns at Vizag, Mangalore and Padur having cumulative capacity of 5 MMT i.e. 1.33 MMT, 1.5 MMT and 2.5 MMT respectively is progressing. The Integrated Energy Policy recommends for creation of reserve equivalent to 90 days of crude oil import latest by 2012-13. The current tapable storage capacity for holding commercial stock is around 22.20 MMT and it is estimated that by 2014 an additional capacity of 8.62 MMT would also be established cumulatively creating a capacity of 30.82 MMT, sufficient to provide cover for 70 days. However, for the remaining coverage of 20 days, phase II strategic storage projects have been approved by MoPNG for generating an additional capacity of 12.5 MMT by establishing four caverns at Bikaner, Rajkot, Padur and Chandikhol. The preparation of Detailed Feasibility Report (DFRs) for these projects are also underway by Indian Strategic Petroleum Reserves Limited (ISPRL) through their consultant, EIL. However, the Committee have come to know that certain issues have impeded the progress of phase II project at Padur due to involvement of large number of Project Displaced Families (PDF) and therefore, the capacity of Padur Cavern has been reduced from 5 to 2.5 MMT to minimize its impact on local population.

Given the large requirement of funds needed for construction of caverns and to buy oil to store in these caverns and also taking into account the issues relating to project displaced families, the Committee would advise the Ministry to revisit the strategy of underground storage caverns and study various other options like floating barges, identifying proven and extractable oil wells and declaring them as strategic reserve, etc.

REPLY OF THE GOVERNMENT

The cost of constructing rock caverns is lower than other options like floating barges. ISPRL caverns are being constructed at only $ 19 per barrel (even if the revised costs are considered) which is very low by international standards. Also floating barges are more susceptible to external threats like war, and sabotage.

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Recommendation No.13

FUNDING FOR CONSTRUCTION OF CAVERNS

The Committee note that Oil Industry Development Board (OIDB) is financing the construction of caverns which are built by ISPRL, a wholly owned subsidiary and special purpose vehicle launched by MoP&NG for establishing strategic storage caverns in the country. The Committee have been informed that the construction cost of these caverns was estimated to be Rs.11267 crore in the year 2005 as per then market prices, comprising therein of Rs.2397 crore as the construction cost and Rs.8870 crore for filling the crude oil in these strategic caverns. The Committee have been further informed that the costs for these projects have now been revised and the capital costs stand at Rs.3958 crore for three storage caverns and the crude filling cost at Rs.23477 crore assuming an average crude oil price US$115 per barrel at the rate of Rs.55.40 per dollar.

The Committee desire that OIDB rendering financial assistance to these caverns and concurrently serving many other commitments, must not suffer fund crunch in order to ensure unhindered and timely completion of the projects. The Committee, therefore, recommend to MoPNG that it should highlight the need for adequate funds for its strategic storage activities and impress upon Ministry of Finance to increase the fund availability to OIDB.

REPLY OF THE GOVERNMENT

With respect to the time and cost overrun, a Standing Committee was constituted to consider the time and cost overrun of Mangalore and Padur projects, etc. under the Chairmanship of Additional Secretary, MoP&NG. The committee inter-alia approved Revised Cost Estimate (RCE) of Rs.1227 crore for the Mangalore project compared to the original cost estimate of Rs.732 crore and RCE of Rs.1693 crore for the Padur Project compared to the original cost estimate of Rs.993 crore. Now, the matter will be placed before the Department Expenditure Finance Committee (EFC) after funds are tied up. In view of fund constraint with OIDB, Ministry of Finance has been requested to provide additional funds to cover the RCE.

As regards the filling of crude oil in the strategic caverns, Rs.4948.00 crore has been allocated by the Planning Commission as Gross Budgetary Support (GBS) for 12th Five Year Plan. Various options are being examined to assess whether part of the crude cost can be financed on PPP basis.

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Recommendation No.15

SAFETY OF CAVERNS

The Committee note that ISPRL is constructing underground strategic caverns in the country for the first time. The Caverns are of different types namely concrete caverns, salt caverns and rock caverns. This implies different technology for each type of the cavern. However, the Committee note that all the three caverns that are under construction are of rock type cavern. The Committee have been informed that a rockslide accident occurred at construction site of Vizag cavern in one of its galleries after completion of 98 percent of excavation work causing delay in the project by 24 months. The Committee have also been informed that underground excavation works are filled with geographical surprises at every step and ISPRL is taking requisite remedial measures to avoid recurrence of such accident. The Committee therefore, desire ISPRL to take utmost care while executing their operations and must take necessary precautions for their forthcoming projects to ensure safe construction and operations of the project.

The Committee note that some of these strategic caverns are located near sea and hence there is a need to protect aquatic life from any harm due to leakages from the caverns. The Committee, have however, been informed that adequate studies have been done and measures taken to protect the aquatic life and also prevent any leakages from cavern.

Keeping this in view, the Committee recommend that ISPRL should factor all possible risks and damages in the neighborhood due to any untoward incidents like leakages, fire etc. to the environment and take all necessary preventive steps.

REPLY OF THE GOVERNMENT

The design of the caverns is such that the crude oil is contained in the cavern compartments because of the hydro geological containment principle. Water curtain galleries have been provided above the caverns and these galleries ensure that the rock is always saturated with water. The depth of the caverns are such that the pressure of water in the surrounding rock is always higher than the pressure of the crude oil in the caverns. As a result of this, although rock is a permeable media, it will not be possible for crude oil to seep out of the caverns. The water level in the galleries is also monitored continuously. As the caverns are located near the sea, the water table in the area is stable. This will ensure that there is no risk of leakage from the caverns and there is no risk to the aquatic life in the region.

ISPRL is adopting the best safety practices for its facilities. The facilities will be audited by the Oil Industry Safety Directorate (OISD), before they are commissioned. ISPRL is also complying with the conditions imposed by Ministry of Environment and Forest and the State Pollution Control Boards.

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CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE

Recommendation No.8

PURCHASE OF CRUDE THROUGH LONG TERM CONTRACTS

The Committee find that oil PSUs purchase about 80% of their requirements by term contracts with NOCs and 20% through spot purchase. The Committee have been informed that heavy crude (high sulphur) are purchased through Term Contracts. Even though 34% of global oil production is sweet crude (low sulphur), they are mostly consumed by the countries themselves and hence it is difficult to procure through term contract. Hence the OMCs buy low sulphur grade variety through Spot Tenders to suit their refinery configuration and also to improve the yield in the refinery.

The Committee have been informed that OMCs are trying to enter into Term Contract for purchase of low sulphur grades for its refineries which have not yielded results. The Committee are of the view that such issues should not be rest at PSUs level and need intervention and backing of the Ministry. The Committee desire that the Ministry of Petroleum and Natural Gas should take up the matter at the highest political level and matters should be pursued regularly at diplomatic level also.

The Committee have been informed that OVL has been acquiring overseas assets and production from these assets amounts to 8.75 MMTOE during 2011-12 some of which are sweet crude. The Committee note that OVL has regularly sold significant quantities to MRPL, an ONGC group company. Since the other OMCs are also in need of sweet crude for their refineries they may also be supplied by OVL. The Committee desire that OVL and other PSUs having overseas assets should give first priority to Indian refiners to meet their crude oil requirements before they sells their crude in the international market.

REPLY OF THE GOVERNMENT

The extant policy guidelines to be followed by the oil PSUs with regard to import of crude oil were issued by MOP&NG on 21.05.2001. According to the policy, all possible efforts should be made to first maximize term volumes with NOCs on OSP as pricing basis. As and when any problem arises, MoP&NG is always willing to pursue the matter at the highest level with their counterpart in the concerned country.

Also, ONGC Videsh Limited (OVL) has equity sweet crude in Sakhalin-1 and Imperial, Russia, Sudan (North and South), Brazil, Syria, and Azerbaijan. Besides these, OVL has equity sour and heavy crude from Colombia and Venezuela, and small quantities of condensate from Vietnam. OVL at present offers spot cargoes to Indian OMCs and subsequently tenders to International buyers when no interest is shown by Indian OMCs. OVL would be willing to offer these cargoes to Indian OMCs, through long term contracts.

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Recommendation No.10

ALTERNATIVE PLAN FOR TRANSPORTATION OF CRUDE OIL

The Committee note that the country imports its crude oil requirements from different countries and regions like Middle East, Africa, Asia, South and North America, Eurasia, Europe etc. and that the crude oil is transported by cargo ships from these countries by using many important sea routes. The Committee are concerned with political turmoil and unrest in many regions of the world which may cause supply disruptions to the country.

Therefore, the Committee recommend that the MoPNG/OMCs should keep a watch on the geo political situation along the sea routes used by ships which transport crude oil to the country and keep alternative plans ready in case such need arises so that the country does not suffer the supply crunch.

REPLY OF THE GOVERNMENT

The Committee's recommendation is noted. In the event of any unforeseen event affecting the situation along the critical sea routes, efforts would be made to obtain crude oil from alternative sources in Latin America, West Africa and South East Asia.

2. A Memorandum of Understanding has been signed in October 2011 between MoP&NG and International Energy Agency (IEA), Paris for co-operation on oil & gas security, in pursuance of the which, a joint India/ IEA Emergency Response Exercise (ERE) was conducted in May'12 at New Delhi. The major objectives of the ERE are:
   i. Assist in identifying and improving understanding of near term oil & gas security risks for Indian Govt. and the industry in a global context.
   ii. Test & review national oil & gas supply disruption response procedures in India.
   iii. Assist the Indian administration in the development of contingency plans for supply disruption response.
   iv. Strengthen bilateral cooperation between MoP&NG and IEA in oil & gas security and emergency preparedness.

   A follow-up meeting for detailed discussions on certain major issues between the key stakeholders viz. MoP&NG, the Indian oil industry and the IEA, was held in New Delhi in June 2013.

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CHAPTER IV

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

Recommendation No.1

MINIMIZING DEPENDENCE OVER CRUDE OIL

The Committee note that the Indian crude oil imports have been steadily increasing and the country imported 159 MMT in 2009, 163.6 MMT in 2010 and 171.7 MMT in 2011. In the global scenario, the country is 6^{th} largest importer of crude oil and it constituted 9.1 percent of total crude oil imports in 2011 increasing from 8.4 percent in 2009. The Committee find that though India is deficient in crude oil and importing 80 percent of its requirements, the energy mix of the country is predominantly skewed towards crude oil for its energy requirements.

Since natural gas has emerged as an important fuel worldwide because of inherent advantages over other fuels by being more fuel efficient and environment friendly, the Committee would like the Government to shift decisively to gas based consumption in preference to oil by increasing the percentage of gas imports in the overall import basket. Since, the discovery of huge deposits of shale gas worldwide has spawned off new hope in meeting future energy requirements, the Committee recommend that India should also take advantage of this development and promote use of gas in meeting its energy requirements so that dependency on crude oil could be brought down. The Committee therefore desire that MoPNG should prepare a strategic plan in this regard to consciously shift the energy consumption pattern.

REPLY OF THE GOVERNMENT

1. As per the XII Plan document of Planning Commission, the share of oil in total commercial energy consumption in India is expected to decline from 31.5 per cent in 2011–12 to 23.3 per cent in 2021–22 and the share of natural gas and liquefied natural gas (LNG) is projected to rise from 10.3 per cent to 13 per cent in the same period.

2. The natural gas production in the country during the last three years (2010-11 to 2012-13) is as under:

(In MMSCMD)

Company/Regime	2010-11	2011-12	2012-13
ONGC	63.3	63.9	64.52
OIL	6.4	7.2	7.2
PSC	73.4	59.2	39.70
Total	**143.1**	**130.3**	**111.4**

(**MMSCMD** – Million Standard Cubic Meters per Day)

It may be seen that the gas production by ONGC and OIL over the last three years has remained almost constant or has marginally increased. However, during the same period, the gas production under the Production Sharing Contract (PSC) regime has decreased drastically, mainly due to fall in gas production from KG-DWN-98/3 (KG-D6) block.

3. The Government has taken several steps to increase the natural gas production in the country to encourage use of this clean and green fuel. Apart from exploration and production of conventional gas, various unconventional sources of gas are being pursued. The details are as under:

i. In order to accelerate exploration and production of oil/gas, so far 254 exploration blocks have been awarded under nine rounds of New Exploration Licensing Policy (NELP). A total of 124 discoveries have been made under NELP till date in 41 blocks of which 78 are gas discoveries, including major gas discoveries in East Coast. Under NELP In-place gas volume of about 704 Billion Cubic Meters (BCM) has been established as on 01.04.2013. Current gas production from NELP blocks is about 14 MMSCMD.

ii. As far as unconventional energy source of natural gas is concerned, so far 33 Coal Bed Methane (CBM) blocks have been awarded through nomination as well as four bidding rounds. In-Place CBM volume to the tune of 9.9 Trillion Cubic Feet (TCF) has been established so far in 8 blocks. Commercial CBM production had commenced from one block in West Bengal in 2007. Development activities are currently in progress in another 6 CBM blocks. It is estimated that the current CBM production of 0.38 MMSCMD is likely to increase to about 4 MMSCMD by 2016-17.

iii. The presence of gas hydrates have been established in Krishna Godavari, Mahanadi and Andaman offshore areas during “Expedition-01” carried out in 2006. It is planned to undertake “Expedition-02” in future to carry out drilling and coring activities in identified locations in offshore, subject to the approval of the Steering Committee of National Gas Hydrate Programme(NGHP). Currently, there is no technology available for commercial production of gas from gas hydrates, which are mostly under R & D stage.

iv. Resource estimation for shale gas /shale oil have been taken up by several agencies in selected basins/sub-basins in India, such as Cambay, Cauvery onland, KG onland, Ganga, Gondwana and Assam-Arakan etc. GoI has formulated a draft Shale gas/Shale oil Policy which is currently under final approval process. Further, MoP&NG has entered into MoU with Department of State, USA for co-operation in various areas related to Shale Oil/Shale Gas.

4. The projected natural gas production in the country during the current year and next three years (2013-14 to 2016-17) is as under:

(In MMSCMD)

Company/Regime	2013-14	2014-15	2015-16	2016-17
ONGC	64.2	73.0	77.3	105.9
OIL	7.5	10.9	11.2	11.5
PSC	33.6	34.6	38.4	45.2
Total	**105.3**	**118.5**	**126.9**	**162.6**

(The above projections are based on estimates of domestic gas production in XII Plan Document and data submitted by ONGC & OIL to DGH subsequently)

5. National Oil Companies have been employing the best in class technologies for pursuing the objective of improving production from their oil fields/wells. These measures include application of state-of-art and fit for purpose technologies suited for western offshore reservoirs. ONGC has adopted the latest technologies in the area of Drilling operations, Well completion, Stimulation, Work over Operations, Artificial Lift, Water Injection, Offshore Production facilities and remote monitoring/control of operations and production optimization.

6. The Government has appointed a Committee on "Roadmap for Enhancing Domestic Oil & Gas Production and Sustainable Reduction in Import Dependency by 2030", Chaired by Dr. Vijay Kelkar with various Terms of Reference (ToRs) including " Steps to be taken for enhancing domestic Oil and Gas production from the Unconventional as well as Conventional Energy Sources". The Committee is to submit the report within six months.

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Comments of the Committee
(Please see Para No.7 of Chapter-I)

<u>Recommendation No.2</u>

NEED FOR A JOINT VENTURE COMPANY

The Committee note that the total crude oil import for 2012-13 by PSU oil companies is estimated at 120 MMT. Among these PSUs, import by IOC is placed at 66.3 MMT, BPCL at 22.80 MMT, HPCL at 17 MMT and MRPL at 14.40 MMT.

The Committee note that till July 1998, the entire requirement of crude oil imports was canalized through Indian Oil Corporation (IOC), the sole canalizing agency. Thereafter the crude oil import was decanalized and private and joint sector refineries were allowed to procure their own requirement of crude oil. Import of crude oil was further decanalized from April 2002, with all PSU oil companies being permitted to import crude oil independently to meet their refinery configuration through term contracts and spot tenders in accordance with the guidelines issued by MoPNG. The Committee, however, note that purchase of crude oil is a complex process which involves negotiations of contract with NOCs or floating of tenders, shipping arrangements, unloading at ports, transporting to refineries etc. are to be made by the OMCs. The Committee also note that private refiners are able to procure crude oil at lower prices.

The Committee are of the view that lot of resources of OMCs are spent on this activity. Instead of all oil PSU's carrying out purchase of crude oil, the Committee recommend for the formation of a joint venture company promoted by all interested PSUs and entrusted with the work of importing of crude oil required for them in line with their refining specifications. The Committee desire that this company may be given enough flexibility as enjoyed by private sector refineries to carry out their operations including price negotiation, hiring of ships and negotiate better terms on freight etc. which will help PSUs save lot of work relating to imports.

REPLY OF THE GOVERNMENT

4. In August 1979, based on a Cabinet decision, the Empowered Standing Committee (ESC) comprising Chairman, IndianOil, Joint Secretary, MoP&NG, Joint Secretary & Financial Advisor, MoP&NG and Joint Secretary, Department of Economic Affairs was formed as a response to the second crude oil shock, in order to enhance flexibility and quick decision making. The ESC, as per the formation directive, was required to deal with organizing adequate import of crude oil & petroleum products through bilateral negotiations with National Oil Companies (NOCs) as well as purchase the same from the spot market.

5. Till July 1998, the entire requirement of crude oil import was canalized through IndianOil. With deregulation of the Indian refining sector, effective from 01.04.1998, there was a need to decanalize crude oil import for the private and joint sector refineries and accordingly crude oil imports were decanalized w.e.f. July 1998. Subsequently, the Cabinet, in its meeting held on 13.03.2001, allowed the other oil PSUs to import their own crude oil requirement in a phased manner. The Cabinet also decided that the procurement of crude oil through the tender route be continued through company specific ESCs constituted on the lines of the ESC of IndianOil. Accordingly, effective April 2002, separate ESCs were constituted for HPCL and BPCL, and in July 2003 for MRPL.

6. Setting up a JV for procurement of crude oil may not be appropriate for the following reasons:

3(i) Individual PSUs have distinct and unique requirements which would be difficult to aggregate through a JV, as indicated below:

- Varying configuration of refineries govern the crude diet of the particular refinery.
- Continuously changing refinery economics due to changing market fundamentals.
- Varying levels of requirement of each refinery based on economics, market demand, environmental norms, etc.
- Technical factors specific to a particular refinery, infrastructural constraints, shutdowns – planned & unplanned, etc.

3(ii) Crude oil procurement process, within an individual company involves, very close coordination between its various refineries, procurement group, commercial/ shipping and operations groups. It would not be feasible for the JV company to undertake this coordination on behalf of individual CPSUs, given the size and scale of operations. Separating the procurement function from the associated functions, which are refinery specific, may lead to complications and become counter-productive.

3(iii) Creation of a separate JV Company exclusively for procurement of crude oil may result in the creation of an additional establishment with associated costs, which may or may not deliver commensurate benefits and may curtail the flexibility currently available to the refiners.

3(iv) Procurement of crude oil through a JV Company could possibly result in tax implications to the partner oil PSUs, as given below:

c. Procurement of crude oil through another entity like the JV Company will have sales tax implication. In order to avoid sales tax implications, the JV Company could act as a canalizing agency whereby the contract for purchase of crude oil could be entered into between the overseas supplier and the respective oil PSU and the bill(s) of lading could be prepared in the name of the oil PSU. Even in this case, the commission charged by the JV Company for its services would attract service tax. Therefore, importing crude oil through a JV Company will increase to some extent the cost of procurement due to tax implications. Besides, it is very likely that some of the suppliers may not agree for these kinds of arrangements.

d. The other option is for the JV Company to not act as an agent but to import crude oil in its own name and then transfer the title of the goods as high sea sales i.e. transfer of goods before entering the Indian customs area to the respective oil PSU. While in such transaction there would be no service tax implication, however, there have been in the past issues with tax authorities due to lack of clarity relating to sales tax implications, which have not yet been resolved.

4. Since OMCs are different entities competing in the market for selling their products, hence centralization of crude oil procurement may affect the competitiveness in market and may result in conflict of interest.

5. In view of above, creation of a separate joint venture company exclusively for the procurement of crude oil may lead to creation of an additional establishment with associated costs but with no commensurate benefits and is also likely to curtail the flexibility currently available to refiners to process certain mix of crude as per their processing plan.

M/o Petroleum & Natural Gas
O.M. No.P-24012/3/2012-Sup.(Vol.-IV) dated 06.9.2013

Comments of the Committee
(Please see Para No. 10 of Chapter-I)

<u>Recommendation No.3</u>

COOPERATION AMONG OIL IMPORTING COUNTRIES

The Committee note that high volatility in crude oil prices which has fluctuated from $ 25 per barrel to $110 per barrel during the past decade has greatly impacted finances of developing countries like India which is required to import 80% of crude oil to meet its energy requirements. The Committee have been informed that if the price of crude oil increases by one dollar the country has to bear an extra burden of Rs 4000 cr. Though hardening in crude oil prices is largely due to increase in its demand, the

Committee feel that extraneous factors including speculation, strategic cut down in production by oil exporting countries, geo-political factors like instability in oil producing regions etc. could also be reasons for higher prices of crude oil rather than supply-demand mismatch.

The Committee feel such high crude oil prices would be a burden on the finances of any country especially developing countries like India as it will restrict the allocation of funds for other social programmes like education, health and irrigation etc. While the Committee understand the need for price discovery in the market place in a free market scenario, it could not ignore the fact that this has led to huge volatility and one sided increase in prices has drained away precious resources from many developing countries like India.

The Committee learn that more than 90% of crude oil is imported by six countries/regions which also includes three Asian countries namely, China, India and Japan. Needless to say that demand in these countries have a bearing on the crude oil prices. The Committee however, note that though there are bodies like International Energy Agency (IEA) for enhancing the cooperation amongst various players in the global energy market, there is no forum for oil importing countries to strategize on the fluctuations in the international price of crude oil.

The Committee further note that the OMCs enter into contracts for supply of crude oil with National Oil Companies of oil exporting countries. As per the standard international practices, these contracts are guided by the General terms and conditions which are common to all buyers. The Committee have however, been informed that the terms of sale are predominantly in favour of NOCs.

In view of the above, the Committee would like to emphasize that fair price for crude oil is an imperative for equity and justice to global human community and therefore, recommend that MoPNG/Government should coordinate with other importing countries and take up the issue of fair prices for crude oil through international institutions.

REPLY OF THE GOVERNMENT

Crude oil resources are not uniformly spread in the world and only limited number of countries are significant producers of crude oil. This clearly divides the world into oil exporting and oil importing nations. India is the fourth largest oil consumer in the world after the United States, China, and Japan. India depends heavily on imported crude oil, mostly from the Middle East. The majority of Organization for Economic Co-operation and Development (OECD) countries are also net importers of crude oil and their economics would also struggle without global security in the oil export market.

Following points are worthy of mention where appropriate action is being taken or could be taken in line with the recommendations of the Standing Committee:-

e. International Energy Forum (IEF), Riyadh is a body which provides a common platform for both crude oil consumers as well as producers for fair energy trade, and international cooperation. India, along with other major crude oil importing countries, can use this body to take up the matter regarding crude oil price volatility and fair price through dialogues with major oil exporting countries.

f. India is developing its Strategic Petroleum Reserves (SPR). These strategic oil reserves could help in stabilizing oil prices since they can be utilized, whenever there is increase in prices due to any supply disruption caused by disruptive events like force majeure, political unrest in crude oil supply region or shipping route. Potentiality of SPR could be enlarged in collaboration with other large importers of the region.

g. India, in collaboration with other major crude oil importing countries of the region, may acquire more and more crude oil producing assets overseas to secure crude oil supplies, thereby reducing dependence on oil exporting nations.

h. To ensure security of demand for crude oil exporting countries and security of supplies for crude oil consuming countries, the exporting and the consuming countries could work together through criss-cross investment. India could, therefore, look for long term crude oil supply contracts with crude oil exporting countries with tie-up of crude oil volumes along-with investment by such countries in Indian refineries and other areas of the downstream sector. There could also be collaboration in projects like construction of transnational pipelines for bringing in the crude oil from land locked and isolated oil rich countries to the nearby sea ports.

As regards the concern of the Standing Committee that the oil PSUs enter into contracts for supply of crude oil with NOCs of oil exporting countries, wherein the terms of sale are predominantly in favor of the supplier NOCs, these NOCs sell their crude oil at Official Selling Price (OSP), which is uniformly applicable to all the buyers of a particular region, irrespective of the quantities procured by them. These crude oil supply contracts are guided by the General Terms & Conditions of the seller, which are not only as per the standard international practices but are also uniformly applicable to all buyers.

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Comments of the Committee
(Please see Para No. 13 of Chapter-I)

Recommendation No.9

CRUDE OIL IMPORT ON CFR/FOB BASIS

The Committee note that crude oil purchased from various countries are transported on cargo ships. The Committee further note that there are different models of booking the cargo like FOB basis where the buyer arranges the ship and insurance to cover loss or damage to the goods, whereas in CIF the seller bears costs, freight and insurance and CFR includes Cost and Freight. The Committee further note that the guidelines issued by Ministry of Shipping provides that OMCs can source their crude oil on FOB basis only, which the OMC's have informed would increase transportation costs to them. This policy, however, also adversely affects the opportunities of OMCs to purchase those grades of crude oil which are available solely on CIF/CFR basis and many a times at considerably cheaper rates. The Committee have also been informed that these shipping guidelines are relaxable and crude oil allowed to be purchased on CIF/CFR on case to case basis after approval by Ministry of Shipping. The Committee have been informed that international oil companies also prefer to supply crude oil on CFR basis only.

The Committee, therefore, recommend that the Ministry of Petroleum and Natural Gas may seek the power to approve import of crude oil on CFR/CIF basis by OMCs to itself from Ministry of Shipping. The Committee also desire Ministry to take up the matter with the Ministry of Shipping for relaxing the guidelines to enable OMCs to purchase on CIF/CFR basis so as to benefit from the opportunities in the market and for doing away with the need of approval of Ministry of Shipping in every case.

REPLY OF THE GOVERNMENT

MoP&NG has been taking up the matter with Ministry of Shipping (MoS) for permitting Oil PSUs to import crude oil on FOB as well as CFR basis. In response, MoS had in January 2013 conveyed that the oil PSUs may approach MoS for grant of No Objection Certificate for CFR imports on a case-to-case basis.

The MoS stand of allowing CFR imports on case-to-case basis does not, however, address the issue because obtaining permission on a case-to-case basis will be cumbersome and time consuming, and in all probability by the time such permission is received from the MoS, the opportunity would also have been lost. The stand of MoS, therefore, continues to be an impediment in the crude oil procurement process of the oil PSUs.

Therefore, MoP&NG has again requested MoS to allow oil PSUs to import crude oil on both CFR as well as FOB basis.

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Comments of the Committee
(Please see Para No. 23 of Chapter-I)

Recommendation No.14

FUNDS FOR CRUDE OIL FILLING IN STRATEGIC CAVERNS

The Committee are given to understand that in line with the increase in the average price of Indian basket of crude oil, the cost of filling of crude oil in three caverns has also shot up to Rs.23,477 crore from Rs.8870 crore, registering an increase of 165 percent since 2005. The Committee are constrained to point out that the huge funding needed for filling the caverns with crude oil is yet to be arranged as till now no funds have been allocated for the purpose. With an almost completed cavern at Vizag and other two at Mangalore and Padur nearing completion, the delay in arranging finances for crude oil filling is a matter of serious concern for the Committee pointing towards lack of adequate seriousness of authorities towards the project. The Committee, strongly recommend for an immediate action by MoPNG/ISPRL regarding the matter of allocation of adequate funds to fill the storage cavern with crude oil and desire to be apprised soon of the progress made.

REPLY OF THE GOVERNMENT

As regards the filling of crude oil in the strategic caverns, Rs.4948.00 crore has been allocated by the Planning Commission as Gross Budgetary Support (GBS) for 12th Five Year Plan. Various options are being examined to assess whether part of the crude cost can be financed on PPP basis.

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Comments of the Committee
(Please see Para No. 29 of Chapter-I)

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINALREPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation NO.5

REVIEW OF GUIDELINES

The Committee note that the guidelines laid down by the Ministry of Petroleum & Natural Gas to be followed by PSU OMC's with regard to import of crude oil had been last revised in 2001 and no changes have been made in the past 12 years.

The Committee note that these guidelines lays down the procedure to be followed by OMCs to enter into Term Contracts with NOCs and also provides a list of MNCs which can be approached for sourcing the crude oil requirements. The guidelines also specify the powers of Empowered Standing Committee of OMCs and that of Ministry in approval of these contracts.

The Committee are of view that these guidelines should enable the OMC's to follow a transparent and efficient procedure to import crude oil and should not place any hurdle in availing any opportunity to buy required type of crude oil at lower prices. The Committee feel that the guidelines has to reflect the present structure of the international oil market which has undergone lot of changes since 2001 and therefore recommend MoP&NG to review the guidelines in consultation with OMC's to widen their purchase opportunities by simultaneously providing for necessary safeguards and monitoring mechanisms to bring about transparency and accountability .

REPLY OF THE GOVERNMENT

The extant policy guidelines to be followed by the oil PSUs with regard to import of crude oil were issued by MOP&NG on 21.05.2001. According to the policy, all possible efforts should be made to first maximize term volumes with NOCs on OSP as pricing basis. Thereafter, attempts should be made to finalize term contracts with NOCs not having OSP and then with the short listed crude exporting MNCs.

A proposal for amending the said policy guidelines was submitted by BPC to MoP&NG on 27.02.2013, which in turn was circulated by MoP&NG on 11.03.2013 to all the other oil PSUs seeking comments. Upon receiving the comments, MoP&NG has on 11.06.2013 directed IndianOil to constitute an Industry Working Group (IWG) comprising IndianOil, HPCL, BPCL and MRPL to deliberate on the issue of amendments to crude oil import policy. Appropriate action would be taken after receipt of IWG recommendations.

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O.M. No.P-24012/3/2012-Sup.(Vol.-IV) dated 06.9.2013

Comments of the Committee

(Please see Para No. 17 of Chapter-I)

Recommendation NO.6

REVISION OF LIST OF MNCs IN THE GUIDELINES

The Committee observe that Public Sector Oil Companies enter into contract with National Oil Companies (NOC's) of oil exporting nations having surplus quantities of crude oil, which may or may not have Official Selling Price (OSP). This is in accordance with the guidelines issued by MoPNG in 2001. Besides, MNCs mentioned in the list as part of guidelines, may also be approached by OMCs for sourcing the crude oil requirements. The Committee note that this list which forms the basis of crude oil agreements entered between National OMCs and Multinational Oil Companies remained static since 2001.

In the changing market scenario and due to mergers and acquisitions, the Committee feel this list should be amended and regularly updated, thereby providing an authentic base for locating appropriate seller. The Committee would therefore, recommend Ministry of Petroleum and Natural Gas to revise this list immediately and also regularly review the MNC list in future in accordance with developments in the international oil market.

REPLY OF THE GOVERNMENT

The extant policy guidelines to be followed by the oil PSUs with regard to import of crude oil were issued by MOP&NG on 21.05.2001. According to the policy, all possible efforts should be made to first maximize term volumes with NOCs on OSP as pricing basis. Thereafter, attempts should be made to finalize term contracts with NOCs not having OSP and then with the short listed crude exporting MNCs.

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Comments of the Committee
(Please see Para No. 17 of Chapter-I)

Recommendation NO.7

PURCHASE OF DISTRESS CARGOES

The Committee note that OMCs normally source their crude oil requirements through Term Contracts and Spot purchases to suit their refinery configuration. The Committee have been informed that there are opportunities that exist in the international oil market when sale of distress cargoes takes place at lower than market prices. However, the MoPNG guidelines does not permit OMCs to buy crude oil from distress cargoes.

The Committee are of the view, that in these days of high oil prices, any opportunity to procure crude oil at lesser prices should be made use of as it will reduce the cost of purchase and benefit OMCs to improve gross refining margins. The Committee therefore, recommend that MoPNG should allow OMCs to procure certain percentage of their annual crude requirement through distress sale route and review the experience after reasonable period.

Also the Committee have been given to understand that if an NOC is not able to supply adequate quantity of a crude at OSP, oil companies can buy such crude from NOCs or specified MNCs at other than OSP. However, it is necessary that such crude is seller's own equity crude or swapped with their own equity crude. The Committee have come to know that oil companies are losing the opportunity of procuring cheaper crudes because they are not swapped. The Committee feel that the guidelines should permit the OMCs to procure the required type of crude at cheaper cost with transparent procedure. Hence the Ministry should look at the present procedure and modify it so that different types of crude may be brought from different players in case the required quantity is not supplied by NOCs.

REPLY OF THE GOVERNMENT

A cargo becomes ‘distressed’ when the seller is close to the delivery date and due to some reason the cargo is not getting sold. If prospective buyers become aware that a seller has a 'distressed cargo', the buyers will try to procure it at a cheap price. As distressed cargoes are generally available only on very prompt basis, chartering a tanker at short notice for lifting distressed cargoes on FOB basis would be difficult as well as costly on account of higher freight, and hence may not be viable. Moreover, it is very likely that on most of the occasions, distress cargoes may have already been loaded on vessels, and hence can be procured only on CFR basis. In order to derive the maximum advantage while procuring distress cargoes, it is necessary that the oil PSUs are permitted to procure distress cargoes on FOB as well as CFR basis. However, the present guidelines of the Ministry of Shipping do not permit the oil PSUs to source cargo on CFR basis. Therefore, in order to consider procurement of distressed cargoes, it is essential that oil PSUs are permitted to import crude oil on FOB as well as CFR basis. MoP&NG has been taking up this matter with Ministry of Shipping from time-to-time.

As regards the modification in the present procedure to procure the crude oil, as has been mentioned earlier, MoP&NG has directed Indian Oil to constitute an Industry Working Group (IWG) comprising IndianOil, HPCL, BPCL and MRPL to deliberate on the issue of amendment to crude oil import policy. Appropriate action would be taken after IWG recommendations are received.

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Comments of the Committee
(Please see Para No. 20 of Chapter-I)

Recommendation NO.11

INFRASTRUCTURAL CONSTRAINTS

The Committee have learnt that OMCs are incurring huge expenditure on account of demurrage costs on domestic ports due to lack of requisite infrastructure. The Committee have been informed that IOCL had incurred huge demurrage cost of Rs.328.58 cr, Rs.120.55 cr, Rs.98.02 crore for the years 2009-10, 2010-11 and 2011-12, BPCL had incurred Rs.32, 24, 21 crore and HPCL had spent Rs.8.41, 20.59, 16.30 crore respectively during the same period. The Committee have been informed that IOCL is facing multiple constraints at Chennai port major being the lack of berthing facility for Very Large Crude Carriers (VLCC). Similarly, Jawahar Dweep Port at Mumbai receiving crude oil supplies for BPCL and HPCL is also ridden with constraints due to draft limitations, as the port has only Jetty no. IV which is very old and only capable Jetty for receiving larger parcel sizes. This Jetty IV also needs urgent repairs for continuous safe operations. Due to these draft limitations, HPCL and BPCL are incurring additional freight of 35% for each unloading tanker due to which OMCs incur huge demurrage costs. However, the Committee have been informed that the matter had been taken up with Mumbai Port Trust by HPCL and BPCL for construction of an additional jetty V which unfortunately got shelved earlier.

The Committee strongly feel that the huge demurrage cost amounting to about Rs.665 crores during the three year period incurred by OMCs are totally avoidable and not due to uncontrollable factors. The Committee also deplore the slackness on the part of concerned officials of OMCs/MoPNG over the years for not pursuing the matter with due seriousness. The Committee are also unhappy that Port Trust authorities have not been responsive to the infrastructure requirements for import of crude oil which is an indispensable activity for the development of the Country. The Committee therefore, recommend MoPNG/OMCs to intensify their efforts in pursuing the matter with concerned authorities for getting required infrastructure at various Ports handling crude oil imports.

REPLY OF THE GOVERNMENT

Indian Oil is not facing any significant infrastructural constraints at its main crude oil discharge ports at Vadinar and Mundra on the West Coast and Paradip on the East Coast, as all these ports have installed Single Point Mooring (SPM) systems and are able to berth and receive crude oil through VLCCs (160,000 – 320,000 DWT). However, IndianOil does face some constraints at Chennai, Karaikal and Chidambarnar ports due to limited draft availability. While the draft at Chennai port is limited to Suezmax (80,000 – 160,000 DWT) berthing, Karaikal can only handle vessels up to LR-1 (45,000 – 80,000 DWT) and Chidambarnar only up to MR tanker (25,000 – 45,000 DWT). In-principle approval from IndianOil Board for construction of a SPM system at Ennore port (near Chennai) along with the associated facilities, has been obtained in September 2008. The pre-project activities have since been completed and DFR has been prepared. Form-1 has been submitted to Coastal Regulatory Zone Authority for obtaining clearance for the project after which environmental clearance shall be obtained. With the commissioning of the SPM, the existing constraint at Chennai port will be mitigated.

As regards infrastructural constraints at the Mumbai Port, OMC Members are continuously following up with Mumbai Port Trust Authorities (MPT) regarding the demurrage/dead freight cost besides delay in crude receipt (at refineries) being incurred by the Oil Industry due to these constraints. On 14th May 2013, during the interactive meeting between Oil Industry Members and Chairman, Mumbai Port Trust, it was decided to review urgently the proposal for construction of additional Jetty/SBM at Mumbai, and accordingly a committee of oil Companies & MPT has been formed to look into all the issues.

BPC and HPC have also approached Engineers India Limited, New Delhi to carry out a DFR Study for the construction of a New Jetty or SBM at Mumbai Port, for independent crude oil loading/unloading operations thru:

- Fully loaded Suez Max Tankers of 140 TMT capacity
- Fully loaded VLCCs at an SBM outside Mumbai Port limit or Partly loaded VLCC within harbor limits.

HPCL have also approached ONGC to explore possibility to utilize their spare capacity of SBMs at Mumbai High for the purpose of Crude Oil Unloading to HPC/BPC Refineries for which feedback from ONGC is awaited.

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Comments of the Committee
(Please see Para No. 26 of Chapter-I)

New Delhi;

***12 February*, 2014**
23 *Magha* ,1935 (Saka)

ARUNA KUMAR VUNDAVALLI,
Chairman,
Standing Committee on
Petroleum & Natural Gas.

Annexure-I

MINUTES
STANDING COMMITTEE ON PETROLEUM & NATURAL GAS
(2013-14)

EIGHTH SITTING
(12.02.2014)

The Committee sat on Wednesday the 12th February, 2014 from 1500 hrs. to 1530 hrs. in Room No. '113', First Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Aruna Kumar Vundavalli - Chairman

MEMBERS

LOK SABHA

2 Shri Ramesh Bais
3 Dr. Mehboob Beg
4 Shri Sudarshan Bhagat
5 Shri Harish Chaudhary
6 Shri Ram Sundar Das
7 Shri Kalikesh N. Singh Deo
8 Shri Baliram Jadhav
9 Dr. Manda Jagannath
10 Shri Vikrambhai Arjanbhai Maadam
11 Shri Somabhai Gandalal Koli Patel
12 Shri Rao Saheb Danve Patil
13 Shri P.L.Punia
14 Shri Brijbhushan Sharan Singh

RAJYA SABHA

15 Shri Mansukh L. Mandaviya
16 Smt. Kusum Rai
17 Shri Tapan Kumar Sen
18 Smt. Gundu Sudharani
19 Dr. Prabha Thakur
20 Prof. Ram Gopal Yadav

SECRETARIAT

1.	Shri A.K.Singh	-	Joint Secretary
2.	Smt. Anita Jain	-	Director
3.	Shri H. Ram Prakash	-	Deputy Secretary

2. At the outset, Hon'ble Chairman welcomed the Members. The Committee then considered the following draft Reports:

(i) Action Taken Report on the subject 'Long Term Purchase Policy and Strategic Storage of Crude Oil'

(ii) ***** ***** ***** ***** ***** ***** ***** ***** *****

3. The Committee adopted the above Reports and authorized the Chairman to finalise the Reports and present/lay the above Reports in both the Houses of Parliament.

The Committee then adjourned.

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*Matter not related to the subject

Annexure II

(Vide Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE EIGHTEENTH REPORT (FIFTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON PETROLEUM AND NATURAL GAS (2013-14) ON 'LONG TERM PURCHASE POLICY AND STRATEGIC STORAGE OF CRUDE OIL'.

I	Total No. of Recommendations	15
II	Recommendations/Observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 4,12,13 and 15)	4
	Percentage to Total	27%
III	Recommendations/Observations which the Committee do not desire to pursue in view of Government's Reply (Vide Recommendations at Sl. Nos. 8 and 10)	2
	Percentage of Total	13%
IV	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. Nos. 1,2,3,9 and 14)	5
	Percentage of Total	33%
V	Recommendations/Observations in respect of which final replies of the Government are still awaited (Vide Recommendations at Sl. Nos. 5,6,7and 11)	4
	Percentage of Total	27%