TENTH REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

(THIRTEENTH LOK SABHA)

DEMANDS FOR GRANTS (2000-2001)

MINISTRY OF PETROLEUM & NATURAL GAS

[Action taken by Government on the recommendations contained in the 4th Report of Standing Committee on Petroleum & Chemicals (1999-2000) on Demands for Grants (2000-2001) of the Ministry of Petroleum & Natural Gas]

Presented to Lok Sabha on 18.12.2000

Laid in Rajya Sabha on 18.12.2000

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2000/Agrahayana, 1922 (Saka)

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Shri Mulayam Singh Yadav—*Chairman*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Ramchandra Bainda
4. Shri Ananda Mohan Biswas
5. Shri Ajay Singh Chautala
6. Dr. (Smt.) C. Suguna Kumari
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11. Shri Pawan Singh Ghatowar

*12. Shri B.K. Handique

13. Shri Shriprakash Jaiswal
14. Shrimati Nivedita Mane
15. Shri Punnulal Mohale
16. Shri P. Mohan
17. Shri Ashok Pradhan
18. Shri Mohan Rawale

**19. Dr. Bikram Sarkar

20. Shri Shyama Charan Shukla
21. Shrimati Kanti Singh
22. Shri Prabhunath Singh
23. Shri D.C. Srikantappa

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* Nominated in lieu of Shri Vilas Muttemwar, M.P., Lok Sabha *w.e.f.* 24th January, 2000.

** Nominated to serve as Member of the Committee *w.e.f.* 26th July, 2000.

24. Dr. Ramesh Chand Tomar
25. Shri Tarlochan Singh Tur
26. Shri Shankersinh Vaghela
27. Shri Ratilal Kalidas Varma
28. Shri B. Venkateshwarlu
29. Shri Rajesh Verma
30. Dr. Girija Vyas

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31. Shri Ram Nath Kovind
32. Shri Anil Kumar
***33. Shri Mool Chand Meena
34. Dr. (Smt.) Joyasree Goswami Mahanta
****35. Shri Dipankar Mukherjee
36. Shri Ahmed Patel
37. Shri Mukesh R. Patel
*****38. Shri Suresh Pachouri
**39. Shri Ravi Shankar Prasad
40. Shri K. Kalavenkata Rao
41. Shrimati Basanti Sarma
***42. Shri Rajiv Ranjan Singh
43. Shri Gaya Singh
44. Shri P. Soundararajan
45. Prof. Ram Gopal Yadav

SECRETARIAT

1. Dr. A.K. Pandey	*Additional Secretary*
2. Shri John Joseph	*Joint Secretary*
3. Shri Brahm Dutt	*Deputy Secretary*
4. Shri J.N. Oberoi	*Under Secretary*
5. Shri Ram Raj Rai	*Committee Officer*

** Nominated to serve as Member of the Committee *w.e.f.* 16th May, 2000.
*** Nominated to serve as Member of the Committee *w.e.f.* 5th May, 2000.
**** Nominated to serve as Member of the Committee *w.e.f.* 24th April, 2000.
***** Nominated to serve as Member of the Committee from Committee on Defence *w.e.f.* 5th May, 2000.

COMPOSITION OF THE SUB-COMMITTEE ON PETROLEUM,

A SUB-COMMITTEE OF STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

Shri Mulayam Singh Yadav—*Chairman*

2. Dr. Girija Vyas — *Convenor*
3. Shri Ashok Argal
4. Smt. Sheela Gautam
5. Shri Pawan Singh Ghatowar
6. Shri B.K. Handique
7. Shri Ahmed Patel
8. Shri Mohan Rawale
9. Shri Shyama Charan Shukla
10. Smt. Kanti Singh
11. Shri Prabhunath Singh
12. Shri Tarlochan Singh Tur
13. Shri Shankersinh Vaghela
14. Shri Ratilal Kalidas Varma
15. Prof. Ram Gopal Yadav

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Chemicals (1999-2000) having been authorised by the Committee to submit the Report on their behalf present this Tenth Report on Action Taken by Government on the recommendations contained in Fourth Report of the Standing Committee on Petroleum & Chemicals (1999-2000) (Thirteenth Lok Sabha) on Demands for Grants of the Ministry of Petroleum & Natural Gas for the year 2000-2001.

2. The Fourth Report of the Committee was presented to Lok Sabha on 25th April, 2000. Replies of Government to all the recommendations contained in the Fourth Report were received on 12th October, 2000. The Sub-Committee on Petroleum considered the Action Taken Replies received from the Government and considered and adopted the Report at their sitting held on 5th December, 2000.

3. The Standing Committee on Petroleum & Chemicals (1999-2000) considered and adopted this Report at their sitting held on 12th December, 2000. The Committee place on record their appreciation of the work done by the Sub-Committee on Petroleum.

4. The Committee would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the Officials of the Lok Sabha Secretariat attached to the Committee.

5. An analysis of the Action Taken by Government on the recommendations contained in the Fourth Report (Thirteenth Lok Sabha) of the Committee is given at Appendix III.

6. 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.

NEW DELHI;
12 *December*, 2000
21 *Agrahayana*, 1922 *(Saka)*

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on
Petroleum and Chemicals.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Fourth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum & Chemicals (1999-2000) on Demand for Grants (2000-2001) of the Ministry of Petroleum & Natural Gas which was presented to Lok Sabha on 25th April, 2000.

2. Action taken notes have been received from the Government in respect of all the recommendations contained in the Report. These have been categorised as follows:

(i) Recommendations/observations which have been accepted by the Government:

Sl. Nos. 1, 2, 8, 10, 11, 12, 14 and 15

(ii) Recommendations/observations which the Committee do not desire to pursue in view of the Government replies:

Sl. Nos. 3 and 7

(iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:

Sl. Nos. 4, 6 and 16

(iv) Recommendations/observations in respect of which final replies of the Government are still awaited:

Sl. Nos. 5, 9, 13 and 17

3. **The Committee desire that the final replies in respect of the Recommendations for which only interim replies have been given by the Government should be furnished expeditiously.**

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

A. Funding of Numaligarh Refinery Limited

Recommendation (Sl. No. 2, Para No. 2.2)

5. Numaligarh Refinery (NRL) was incorporated as a Public Sector Enterprise on 22nd April, 1993 and the Government approved the refinery project in July, 1992 with a capacity of 3 MMTPA at an estimated cost of Rs. 1830 crore. However, due to certain reasons, the cost escalated to Rs. 2724 crore. The Committee appreciated the decision of the Government converting loan of Rs. 100 crore into grant and offering 10% NRL equity shares to Oil Industry Development Board (OIDB). However, NRL has yet to mop up more funds, to the extent of 29% of equity capital. The Committee had, therefore, recommended that the Government should continue their financial support in future also.

6. In their reply, the Ministry have stated that the total fund requirement of Rs. 2724 crore, would be met through Rs. 908 crore equity and Rs. 1816 crore from debt at a debt equity ratio of 2:1. Out of total equity of Rs. 908 crore in the financing plan, 61% amounting to Rs. 554 crore is to be subscribed by the promoters and balance 39% amounting to Rs. 354 crore were earmarked for raising through public issue. The Ministry have further stated that in view of the depressed primary capital market conditions, during the last few years, NRL has not been able to retail the public issue and it has been decided to defer this to a later date. The Ministry have further informed that Oil Industry Development Board (OIDB) and Oil India Ltd. (OIL) were offered 10% of equity each out of 39% earmarked for public equity through private placement route. While OIDB has already paid their contribution of Rs. 90.80 crore, the proposal of OIL's participation for 10% equity (Rs. 90.80 crore) is under active consideration of the Government. After adjusting Government's loan of Rs. 100 crore as grant, the untied portion of amount earmarked for public issue gets reduced to Rs. 72 crore. The Ministry have also reported that the entire requirement of Rs. 1816 crore has been tied up. With the conversion of Government's loan of Rs. 100 crore as grant, an additional amount of Rs. 100 crore as debt was being raised from banks, keeping intact the debt equity ratio of 2:1.

7. The Committee appreciate the efforts being made by NRL to tie-up financial requirement but gather the impression that there is some laxity in achieving the total objectives promptly. To say that NRL has not been able to approach the capital market for retailing the public issue due to depressed primary capital market conditions is taking a simplistic view. Market conditions had not been depressing all along but been promising too in the past. However, the Committee would like to leave it to the judgement of NRL to decide the timing. The Committee do view with concern the delay in finally deciding OIL's participation of 10% equity and also mopping up additional amount of Rs. 100 crore as debt from banks. The Committee would like these issues to be closed quickly. The Committee have seen the recent press reports suggesting that the Government have decided to restructure NRL and BPCL would take it over by buying IBP's equity. The Committee reiterate their earlier Recommendations that they should be pre-consulted before resorting to restructuring of capital in any oil company/installation. Since the Committee do not have detailed report in this regard, they would merely recommend at this juncture that there should be an exact valuation of shares conducted by a credible financial Institution.

B. Utilisation of the 9th Five Year Plan Funds

Recommendations (Sl. Nos. 4, 5 and 6, Para Nos. 2.4, 2.5 and 2.6)

8. The Committee had noted that out of the 9th Five Year Plan (1997-2002) outlay of Rs. 78,401 crore, the likely expenditure by the end of fourth year would be about Rs. 47,709 crore only. The Committee, surprised over the casual approach shown by the Government, expressed their concern whether with such utilisation trend of Plan funds, the Government, would be able to achieve the targets set for the petroleum sector. The Committee, therefore, emphasised that during the current year and the remaining one year of the 9th Plan, the balance amount of about Rs. 30,700 crore should be utilised fully and directed that for this purpose a time bound programme should be prepared so that the major objectives set for 9th the Five Year Plan are achieved.

9. The Committee had also noted that the main reason for the less utilisation of funds during 1999-2000 was the delay in finalisation of joint-venture partner in Punjab Refinery Project, delay in environmental clearance for MRL expansion-Project and less expenditure by BPCL. The Committee had urged the Government to take all initiatives to decide the partner for the joint-venture and get environment clearance of the other pending projects so that these are completed during the 9th Plan period.

10. The Committee had specifically observed the continuous decrease in Plan outlay of PSUs for Petrochemicals and Engineering unit-related activities. The Committee were not satisfied with the explanation of the Ministry that the main cause for less expenditure in these sectors related to persistent recession in the petrochemicals market. The Committee had urged the Ministry of Petroleum & Natural Gas to pay special attention to petrochemicals related activities so that the oil sector undertakings having better financial strength and a control over raw material can play a leading role in protecting the collapsing PSUs of chemicals sector by providing them more work. In their view this approach could minimise the monopoly of private sector in chemicals industry.

11. In their reply regarding investment in different sectors during the current Five Year Plan, the Ministry have stated as under:

> "**Exploration:** The actual plan expenditure for the first three years of the Ninth Plan for the 2 upstream NOCs *viz.* ONGC and OIL is around 60% of the total plan outlay of Rs. 23,160 crore made at the start of the Ninth Plan. Based on the actual expenditure during the first 3 years of the Ninth Plan period and expected expenditure made on the basis of mid-term projections for the remaining 2 years, the total expenditure in the Ninth Plan period of these two NOCs is estimated to be about 12% higher than the total combined approved plan outlay of both the NOCs. This is mainly because of aggressive exploration strategy and planned allied production activities by these NOCs during the remaining part of the Ninth Plan period.
>
> **Refinery:** Though the Oil Companies prepare a time bound programme, yet on review some of the projects have been dropped and due to delay in clearance in some of the project like Central India Refinery Project of BPCL, Punjab Refinery Project of HPCL etc., the outlay could not be utilised. However, the oil companies would be requested to prepare a time bound programme for utilisation of plan amount to achieve the major objective set for the 9th Plan.
>
> **Natural Gas:** Against the revised 9th Plan outlay of Rs. 6,417.95 crore, GAIL had estimated to utilize an outlay of Rs. 5,149.39 crore, out of which it has already utilized Rs. 2,894.11 crore till the end of first three years of the Plan, excluding investment

made in cross holding of ONGCL's shares of Rs. 556.29 crore during 1998-99 and 1999-2000. The utilisation of outlay in balance two financial years is estimated to be around Rs. 2255 crore towards construction of HBJ Pipeline Expansion (to be synchronized with Petronet LNG Terminal at Dahej), LPG Pipeline in Southern India, equity participation in indigas (TATA-TOTAL-GAIL), NELP activities in two blocks awarded, Gas under Gas Hydrates, in situ Coal gasification in Rajasthan and Coal Bed Methane Project besides ongoing schemes in KG and Cauvery Basin and LEF Overhead Compressor at Vijaipur. The variation in the Revised Plan outlay of Rs. 6417.95 crore and utilized/ estimated outlay of Rs. 5,149.39 crore will be Rs. 1,268.56 crore. The shortfall is primarily on account of deferment of investments anticipated in Joint-Venture Schemes releated to LNG imports, Power Projects and resultant investment in other projects in the 9th Plan."

The sector-wise variation is given below:

(Rs. in crore)

Description	Approved/Revised Outlay	Actual/ Estimated Outlay	Variation
Ongoing Schemes			
Petroleum Sector	3,492.00	3,390.00	102.00
Petrochemicals Sector	678.00	857.00	(-)179.00
Total (A)	4,170.00	4,247.00	(-)77.00
New Schemes			
Petroleum Sector	2,223.00	877.44	,345.56
Petrochemicals Sector	24.95	24.95	
Total (B)	2,247.95	902.39	1,345.56
Grand Total (A+B)	6,417.95	5,149.39	1,268.56

12. In regard to the position of pending projects the Ministry have stated:

> "(i) **3.0 MMTPA Refinery Expansion-cum-modernisation project at Manali, Chennai:**
>
> Government has since approved the implementation of the project by CPCL at an estimated cost of Rs. 2360.38 crores, including a foreign exchange component of Rs. 33.82 crores and the project is to be completed within 36 months. The approval conveyed to CPCL on 27.7.2000.
>
> **(ii) 9 MMTPA Grass root Refinery Project at Bhatinda (Punjab):**
>
> Government has permitted Hindustan Petroleum Corporation Limited (HPCL) on 13.10.2000 to execute the 9 million metric tonnes per annum grass root Refinery Project along with associated facilities in Bhatinda (Punjab), through a 100% subsidiary company of HPCL, after tying up funding for the project. HPCL would induct a Joint Venture partner into the project, subsequently."

13. Shortfall in plan expenditure by BPCL during the year was mainly due to the following reasons:

"(i) The Central India Refinery (CIR) project at Bina (Madhya Pradesh) of Bharat Oman Refineries Limited (BORL), a Joint Venture Company between BPCL and Oman Oil Company Limited, could not be progressed during the year, as necessary approval from the Government of Gujrat under Wild Life Protection Act and from the Ministry of Environment & Forests under the Coastal Regulation Zone Notification were received by BORL only in February, 2000 and March, 2000 respectively. As a result the Plan allocation for this mega project remained unutilised.

(ii) The project for construction of a Product Terminal at Bina for evacuation of products from the Central India Refinery (CIR), could not be progressive during the year as this project is linked to the CIR projects. Besides, this work was held up due to agitation by land owners seeking compensation. As a result, the allocation largely remained unutilised.

(iii) Delay in land acquisition for some of the IX Plan LPG bottling plant & resulted in part of the allocation remaining unutilised.

(iv) Application money by BPCL to Joint Venture Companies awaited conversion into equity at end of the year 1999-2000. Hence this amount was not reflected as capital expenditure 1999-2000."

14. In connection with expenditure on petrochemical related activities, the Ministry have stated:

"Due to recession in the market, the supply and demand for Petrochemicals have remained uncertain and therefore the economic viability of the schemes are yet to be established. The position will be reviewed by the Oil Companies once the recession in the Petrochemicals Sectors is removed."

15. The Committee are not satisfied/convinced with the reply given by the Ministry regarding less investment in various activities of oil sector. The Committee observe that the Ministry have not shown the desired promptness particularly in implementation of new schemes. More than three years have gone during the current Five Year Plan and PSUs under the Ministry are reluctant in utilising the balance amount allocated for the 9th plan period. The Committee urge once again that the Ministry should show the required determination so that the whole or maximum amount allocated for the current Five Year Plan is utilised as per the objectives set for the Plan.

16. The Committee have noted that the Environment clearance for Chennai Petroleum Corporation Ltd.'s 3 MMTPA expansion project and linked projects of the Refinery Project at Bhatinda and the Central India Refinery Project at Bina (Madhya Pradesh) have been obtained. The Committee urge that the Ministry should prepare a time bound programme so that these projects are completed in the shortest possible time by utilising the amount already allocated for them during the 9th Plan period. In the Committee's view these important projects have already been delayed too much and any further undue delay is not justified and it would increase the time/cost overruns only. The Committee are happy to note that the Hindustan Petroleum Corporation Limited in consonance with the

Committee's view, have started exploring the possibility of implementing the project (at Bhatinda) on its own and the Government have also granted an amount of Rs. 300 crore to start the construction work on project without waiting for the decision on Joint-Venture Partner. Since HPCL has indicated that they can go for implementation of Punjab project on its own, they should proceed independently and quickly and complete the project in the shortest possible time so that the Plan allocation for the project is utilised properly. The Committee expect the same initiatives in regard to other projects at Central India Refinery (CIR) project at Bina and the attached product terminal and bottling Plant also.

17. The Committee are not convinced with the approach of the Ministry regarding investment by Oil companies in Petrochemicals and Engineering unit-related activities. The Committee once again urge the Ministry to play a positive role in the development of the Petrochemicals sector without waiting for recession to be over in this sector. The Committee have a strong view that the oil companies are in an advantageous position with their financial strength as well as control over raw material and they should take all the initiatives to help the collapsing PSUs in this sector. Only this approach can prevent the monopoly of private sector in this field.

C. Exploration and Production of Oil & Natural Gas.

Recommendations (Sl. Nos. 7, 8 and 9, Para Nos. 2.7, 2.8 and 2.9)

18. The Committee had expressed their serious concern over the stagnant indigenous production of crude oil and decline in accretion of reserves and felt the need for changes in exploration strategy. They had recommended that the Government should pay special attention to identify more blocks by spreading exploration efforts over all the basins including unexplored/less explored having favourable formations. The Committee also emphasized the need to concentrate in deep water blocks on priority basis particularly off-Kutch and Off-Krishna. Godavari basins in view of greater potential in these areas.

19. The Committee had put stress on accleration of exploration efforts in deep offshore areas and also in frontier areas in view of huge potential in these areas. The Committee had desired that PSU's having experience in exploration field and other financially strong oil PSU's should be supported so that they may obtain the desired level of drilling capability. Simultaneously, the private parties having proven capability should also be persuaded to participate by giving them some special incentives.

20. The Ministry have informed that ONGC and OIL propose to take following strategy initiatives in order to achieve the better in place hydrocarbon accretion:

Extending exploration to frontier basins/less explored sectors in producing basins where inspite of elusive commercial success, knowledge building through initial exploratory inputs need continuation.

More intellectual inputs over physical inputs in teaser basins like Bengal and Rajasthan.

- Intensifying exploration activities to logistically difficult and geologically complex areas.

Sustained efforts in technology induction for data acquisition tempered with the value added synergistic approach in data evaluation in the exporation of subtle traps.

Adopting state of the art technologies to enhance subsurface imaging in geologically complex areas like thrust fold belts, subtrappean sequences and deeper prospects.

Exploration of frontier areas like Deep waters.

21. The Ministry have also informed that of the 48 offered NELP blocks offered to private/Joint Venture parties in different basins, 25 blocks have been awarded, of which, 7 are deep water blocks, and production sharing contracts for 22 NELP including the 7 deep water blocks have already been signed on 12.4.2000. with particular reference to Kutch and Krishna-Godavari deep water area, the Ministry have informed that ONGC has carried out focussed exploration activities during 1999-2000. Recently Government has approved NELP fiscal terms for exploration in ONGC's six deep water area in off-shore east coast and west coast which also include deep water areas in Krishna-Godavari and Kutch basins. For these blocks ONGC propose to enter into Joint-Venture agreement with strategic partners. In addition to this the recently concluded NELP round has five deep water blocks in off-shore K.G. and Kutch basin.

22. About their future programme, the Ministry has informed that DGH is planning to conduct extensive geo-scientific surveys during the next few years in various unexplored/poorly explored areas and deep water areas like:— Deep water seismic surveys in East Coast, West Coast, Andaman offshore and Southern tip of India; onland seismic surveys in Vindhyan, Ganga valley, Punjab basins, Northern part of Rajasthan, Rann of Kutch and Cachar-Assam Arakan fold belt. Other geophysical surveys like Aero-magnetic, TEM/MT and ground gravity Magnetic surveys have also been planned to be carried out by DGH in selected areas during the next few years. Moreover, the process of finalising the blocks for offering next round of NELP has been initiated.

23. The Government in their reply regarding initiatives to support and help the PSU's for carrying out exploration activities have stated as under:

> "The Government has already taken a decision to award NELP terms to six deep water blocks held by ONGC. This is in addition to three deep water NELP blocks awarded to ONGC through the bidding process. Government is also encouraging the downstream public sector oil companies to participate in the upstream activities in order to accelerate the exploration process. It may be pertinent to mention here that in the just concluded NELP, 1999 round, besides ONGC and OIL, downstream public sector oil companies like Indian Oil Corporation and Gas Authority of India Ltd. have actively participated in the bidding process. In two of the awarded blocks under NELP, Indian Oil Corporation is a joint venture partner alongwith ONGC and in another two blocks, Gas authority of India Ltd. is a joint venture partner, one with ONGC and another with a private company, OA-Gazpoom, a Russian Company".

24. Regarding special incentives to private parties working deep water areas, the Ministry have informed:

> "Under New Exploration Licensing Policy, Government of India has provided for half the normal rate of royalty for deep water offshore areas beyond 400 m water depth for the first 7 years after the commencement of commercial production. Also, for deep water areas, additional one year period is provided for exploration in Phase-1. As a result of these measures, encouraging response have been received from the companies for exploration efforts in deep water areas and as already mentioned, out of the 12 deep water blocks offered under NELP, 1999, 7 blocks have been awarded to NOCs and private/Joint Venture Companies and production sharing contracts signed."

25. The Committee are happy to note that the Ministry have already initiated several exploration efforts in less explored and unexplored basins and they have also felt the importance of deep off-shore areas and frontier areas. The Committee reiterate that a time bound programme should be prepared for intensive geographical seismic surveys to identify more blocks. The Committee also desire that well planned steps should be taken to intensify the exploration activities in all the basins. In Committee's view our PSU's are far behind in regard to deep water drilling capability. All the efforts should be made to further enhance the capability of these companies to drill at deeper water depth.

D. Refining Capacity and Import of Crude Oil

Recommendations (Sl. Nos. 10 and 11, Para Nos. 2.10 and 2.11)

26. The Committee had observed that the domestic refining capacity is expected to be about 129 MMTPA by the end of 2001-2002 as against the projection of the 9th Plan of 113.95 MMTPA and it would be sufficient to take care of total demand of petroleum products of 104.80 million tonnes in the country. The Committee had also observed that the indigenous production of crude oil is almost stagnant and the growth rate of demand for petroleum production of crude oil is almost stagnant and the growth rate of demand for petroleum products is rising at a fast pace which has led to higher volumes of imports. The situation involves a huge amount of foreign exchange and would affect the economy adversely. The Committee had recommended that the Government should pay special attention to maintain the balance of foregin exchange by limiting the imports and increasing the exports in view of high levels of our refining capacity. For getting better results, the committee had also suggested to modify the duty structure on crude and petroleum products.

27. The Ministry have agreed to the observations made by the Committee and supplied the following details in regard to our crude oil requirement and import position as under:

(Qty. in MMT

	1996-97 (Actual)	1997-98 (Actual)	1998-99 (Actual)	1999-2000 (Actual Prov.)	2000-01 (Est.)
Crude Oil requirement*	62.87	65.18	68.54	85.71	112.82
Indigenous crude Production (excluding Condensate)	30.86	31.59	30.42	29.49	29.63

*Actual crude oil processed.

Year-wise details of crude oil imports during the last four years are as under:

Refineries	1996-97	1997-98	1998-99	1999-2000 (Prov.)	2000-01 (Est.)
PSU	33.904*	34.493*	35.734	39.287	46.957
MRPL-JVC	—	—	4.074	5.700	10.573
RPL-Pvt.		—	—	12.818	27.712
Total:	33.904*	34.493*	39.808	57.905	85.242

* Crude oil imports for 1996-97 and 1997-98 of PSU Refineries include imports for MRPL (JVC)

28. The present position in regard to the dismantling of the Administered Pricing Mechanism has been described by the Ministry as under:

> "In terms of the phased programme of dismantling of Administered Pricing Mechanism announced by the Government, with effect from 1.4.1998, the retention system of pricing for the refineries has been discontinued. Refinery gate prices of controlled products *viz.* Motor Sprit (MS), High Speed Diesel (HSD), Superior Kerosene Oil (SKO), Liquefied Petroleum Gas (LPG), Aviation Turbine Fuel (ATF) and Natural Gas Liquid (NGL) are being fixed based on adjusted import parity price for existing refineries and tariff adjusted import parity price for the new refineries during the transition period. The refineries are free to sell all other products based on market considerations."

29. In regard to modification of duty structure, the Ministry have given the following details:

> "The Government has also decided that duty structure for crude oil and petroleum products would be rationalised in a phased manner, keeping in mind the equilibrium to be maintained between the Government revenue needs and the necessity to keep consumer prices at reasonable level and at the same time providing adequate protection to domestic refineries. The Expert Technical Group had recommended a year by year rationalisation of the customs and excise duties on crude oil and petroleum products. The excise duties on petroleum products are, by and

large, at the levels recommended by the Expert Technical Group except of MS and ATF for which, the present duty levels are lower than recommended. The rationalisation scheme proposed by the Expert Technical Group for customs duties suggested a gradual reduction in customs duty in a manner so that the maximum rate of duty on petroleum products would be 15%. The financial year *i.e.*, 2000-01, represents 3rd year of the reform process.

The status on the recommended duties and actual duties is as follows:

	Customs duty Structure		Per cent	
	Approved by Cabinet 2001-02	Recommended by ETG for 3rd year of reforms	As per Budget 2000 Eff. 1.3.2000	Effective 30.9.2000
Crude	0-5	10	15	10
HSD/LDO	15	25	25	20
MS	15	25	25	20
ATF	15	25	25	20
LPG	10	10	10	10
FO/LSHS	10	15	25	20
Naphtha/NGL	5	5	5	5
Kerosene (PDS)	0	0	0	0
Bitumen	15	20	25	20
Others	15	20	25	20

It would be observed from the above that actions have already been taken to bring down the customs duties. However, customs duty on crude oil has to be brought down to, between 0% to 5% during 2001-02. Similarly, the customs duties on transportation fuels and some other petroleum products are to be brought down within the range of 0% to 15% by 2001-02."

30. The Committee are not satisfied with the present approach of the Government to tackle the issue of huge foreign exchange involvement in the import of crude oil. The Committee reiterate their observation that there is a stagnation in indigenous crude oil

production and the requirement of Petroleum products has gone up considerably during the last several years. To satisfy the demand of oil and gas, the refining capacity has also been increased to a great extent. By the end of the current Five Year Plan refining capacity would be more than indigenous requirements. Under these changed circumstances and due to recent rise in international prices of crude oil, our import bill has also increased several folds. Oil producing PSUs should continue their efforts to increase the indigenous oil production and simultaneously attention should also be paid to utilise the full capacity of the existing refineries. In case our refineries are able to produce more quantity of petroleum products than the requirement in the country, they should keep an option open to export the finished petroleum products so that the balance of foreign exchange can be maintained to some extent.

31. The Committee observe that the Government have not adhered to the major Recommendations of the Expert Technical Group and the decision taken by the Cabinet in 1997 on reduction of import duty on Oil and Petroleum products. The Expert Technical Group had specifically recommended a year by year rationalisation of the Customs and Excise Duties. The Customs Duty on crude oil has to be brought down to between 0% to 5% during 2001-02. Similarly, the Customs Duties on transporation fuels are to be brought down within the range of 0% to 15% by the same year. The Committee are of view that if the Recommendations of the Expert Technical Group were followed, the consumer would have been saved on an extra burden of price rise of oil. The Committee need hardly emphasize that the Government should strictly follow the recommendations of the Expert Technical Group in regard to Customs and Excise Duty reduction so that the desired results are achieved at the earliest.

E. Adulteration of Petroleum Products

Recommendation (Sl. No. 14, Para No. 2.14)

32. The Committee had treated the problem of adulteration in supply of petroleum products as serious and being indulged in large measure. They had felt it as a major challenge before the oil industry/Government in view of new ways being adopted by the miscreants for adulteration and other related malpractices. The Committee had felt a need of coordinated efforts by the State Governments/Central Government and oil sector PSU's with a view to take stronger steps to overcome the menace. The Committee had desired that R&D activity should be undertaken to develop a mechanism for direct detection of cases at petrol pumps itself other than the existing tests like filter paper test.

33. The Ministry have informed that following additional measures are being taken to effectively combat adulteration:

"(a) To facilitate faster testing of samples, it was decided to commission 27 new mobile labs and 18 labs with CFR engines to test octane rating. The Mobile labs are expected to be ready by Aug.-Sept. 2000. 15 CFR engines have been made operational and the balance three are expected by end Dec. 2000.

(b) Oil industry is carrying out, experimental trials on the following systems, to detect/prevent adulteration.

(i) **Marker system of M/s. Biocode**

In this system, the products namely MS and HSD are doped with a marker at a pre-determined levels. Adulteration, if any, can be found out by measuring the concetration of the marker present in the fuel dispensed at the Retail Outlets. Variation in the concentration of the marker between the levels at which it was doped by the Oil companies and the levels which were found at the Retail Outlet is measured. Any dilution in the concentration of marker will indicate adulteration and the percentage variation in the concentration of the marker would indicate the percentage of adulteration, which has taken place. Trials of this marker system by M/s. Biocode have been carried out at Sabarmati Terminal, Ahmedabad and at BPC sewree Terminal, Mumbai. Further trials/evaluation of this marker system is being carried out at BPC Sewree Terminal, Mumbai.

(ii) **Sampling Procedure**

In this system, Oil companies retain samples of products despatched from the Terminals and Retail Outlet dealers are required to take a joint sample along with the tank truck crew before unloading the product and retain the same. Samples drawn from the Retail Outlets during inspections by inspecting officers shall be sent to the laboratory for analysis. If the sample drawn from the Retail Outlet fails to meet the specificatioins, joint sample retained at the Retail Outlet before unloading and the sample retained at the despatch locations would be sent for laboratory analysis. The results are co-related and the point of adulteration and responsibility for adulteration are fixed.

(iii) **Security Locks**

A new system of sealing of tank trucks through a locking system of M/s. Assa Abloy, is under trial. In this system, the trucks, which supply product to Retail Outlet, will be locked with a unique/RO specific locks for which, keys will be available with the RO dealer only. A master key would be available at the despatch location. It is claimed that these locks are tamper-proof and duplicate keys can not be made easily. By introduction of this new locking system, en-route pilferage and en-route adulteration is expected to be eliminated."

34. The Committee are happy to note that the Ministry have initiated some additional measures to curb the adulteration of Petroleum products. They have already started the commissioning of mobile labs and labs with CFR engines to test octane rating. The Committee desire that this process should be completed by the target date of December, 2000. Simultaneously, experimental trials on Marker system, sampling procedure and security locks are in progress. The Committee understand that all these systems are already being followed in several countries of the world successfully and expect that the Government would not devote more time on experimentations. The Committee urge that all these systems to detect/prevent adulteration at various stages must be introduced in the shortest possible time all over the country.

F. Price rise and reform process in oil sector

Recommendation (Sl. No. 16, Para No. 2.16)

35. The Committee had treated the hefty increase in kerosene oil and LPG prices as uncalled for and expressed their anguish over the way in which it was done. They felt that such an important matter relating to poor and middle class people of the society should have been brought first before the Parliament or the Standing Committee and strongly recommended that no decision should be taken by the Government on such matters of public importance without knowing the view of the Parliament/Parliamentary Committees. In regrard to the ongoing reform process in oil sector the committee had observed that the Ministry of Petroleum and Natural Gas were in the process of examining a number of Reports and suggestion like Disinvestment Commission Report, Dr. Nitish Sen Gupta Report, Nirmal Singh Report, Hydrocarbon Vision 2025 etc. They had reiterated their earlier recommendations that before taking any major decision on such matters of restructuring, disinvestment, private sector participation in various activities of oil industry and other long term policies, the matter should be placed before them.

36. In their reply the Government have stated:—

"In the light of taken decisions in regard to the phased programme of dismantling of Administered Pricing Mechanism the subsidies on Domestic LPG and PDS Kerosene are required to be brought down to 15% and 33.33% of their import parity prices by the year 2000-01 and 2001-02 respectively. The prices of Domestic LPG and PDS Kerosene were raised in line with the above decision of the Government."

37. The Government in their reply have stated the following status of the various reports:—

"The various Reports like *Disinvestment Commission Report, Nirmal Singh Report, Hydrocarbon-vision-2025* etc. are at various stages of examination and implementation.

Implementation takes place only after the decisions get duly approved by the appropriate authorities in consonance with the laid down procedures.

This Ministry has, however, noted the suggestion of the Standing Committee in the regard".

38. The Committee are not at all convinced with the reply of the Government regarding revision of price rise of LPG and Kerosene because it shows only one face of the issue. The Committee have noted that since 1998 the Government hiked the price of Petroleum products five times in one form or the other. They are also aware of the fact that several decisions were taken in connection with the phased programme of dismantling of Administered Pricing Mechanism. However, the Committee regret to say that the Government have ignored some important decisions including reduction in Customs and Excise Duties on crude oil and Petroleum products. For this reason, the Government have failed to maintain the price equilibrium and the maximum burden of price rise of crude oil in international market has come at the consumer level. The Committee urge the Government to consider all the relevant Recommendations/decisions simultaneously to reach a justified conclusion. The Committee also regret to say that the Government have again revised the prices of Petroleum products in the month of September, 2000 and taken a decision to disinvest a major share of IBP Co. Ltd. without knowing the views of the Parliament/concerned Parliamentary Committee. The Committee reiterate their earlier recommendation that before taking any decision on the issues concerning public importance and long term policy, the views/ suggestions of the Parliament/concerned Parliamentary Committee must be considered in future.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 1, Para No. 2.1)

The Committee note that the Demands of the Ministry of Petroleum and Natural Gas have been placed at Rs. 574 lakh under the Revenue Section. No provision has been made in the Capital Section since the PSUs under the administrative control of the Ministry are self-sustained. They finance their projects and other activities from their internal and extra-Budgetary resources. Under the Revenue Section, provison has been made mainly for the salaries of the officials of the Ministry and other expenses, like wages, overtime allowance, travel expenses, office expenses, etc. of the Ministry. The increase under this Head from Rs. 602 lakh in Budget Estimates for 1999-2000 and Revised Estimates of Rs. 594 lakh for 1999-2000 is mainly attributed to increase in Dearness Allowance of Government employees, addition of 13 more persons due to induction of 2nd MOS in the Ministry and increase in air fares, etc. Although the Demands of the Ministry show a significant increase in 2000-2001 over the earlier year, the Committee accept the same in view of justification given by the Ministry in this regard.

The Committee, however, desire that the Ministry should follow all the instructions of the Ministry of Finance to effect economy in the expenditure of the Ministry like office expenditure, travel, telephones, petrol etc.

Reply of the Government

Instructions of the Ministry of Finance to effect economy in the expenditure like office expenditure, travel, telephones, petrol etc. are being followed by this Ministry. The recommendation of the Hon'ble Committee in this regard has also been noted for compliance.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin I dated 11.10.2000]

Recommendation (Sl. No. 2, Para No. 2.2)

Numaligarh Refinery Limited was incorporated as a public sector Enterprise on 22/4/1993. The Government of India approved the refinery project in July, 1992 with a capacity of 3 MMTPA at an estimated cost of Rs. 1830 crores. The commissioning of this grass-root refinery is being done in a phased manner and as per the estimate, entire commissioning process will be completed by April, 2000. The latest cost estimate of the completed project is Rs. 2720 crores against approved cost of Rs. 2724 crores (based on December, 1997 prices). The Committee are happy to note that this project has been completed successfully. The Committee trust that Government must have examined the reasons for revision of project from Rs. 1830 crores in 1992 to Rs. 2724 crores in December, 1997. The full credit for completing this project goes to the Management. The Committee also appreciate the decision of the Government of India for converting a loan of Rs. 100 crores into grant and offering 10% NRL equity shares to Oil Industry Development Board (OIDB), because in the absence of such help NRL could face financial problems. The Committee, however, find that NRL has yet to mop up more funds, to the extent of 29% of equity capital. The Committee recommend that the Government should continue their support in future also so that NRL can arrange the desired funds as early as possible and the commissioning schedule is not deferred any more.

Reply of the Government

Numaligarh Refinery Limited is a joint sector company, promoted by M/s. Bharat Petroleum Corporation Limited, M/s. IBP Co. Ltd. and Government of Assam with equity participation of 32%, 19% and 10% respectively.

2. Government of India initially approved the project in July, 1992 at an estimated cost of Rs. 1830 crores (Jan, 1992 prices) with construction schedule of 60 months and appointed IBP Co. Ltd. as the implementing agency. Numaligarh Refinery Ltd. was incorporated on 22nd April, 1993 as a subsidiary company of IBP Co. Ltd. Subsequently, BPCL was inducted as a third promoter in the Company in June 1995. Project implementation was delayed initially due to the delayed possession of land, poor response from reputed major contractors etc.

which necessitated revision of the project completion schedule and of the cost. After examining the detailed reasons for the delay in implementing the project, the cost estimate of the Refinery project was revised to Rs. 2489.12 crores along with the Marketing Terminal project (estimated cost of Rs. 235.52 crores), thereby totalling to Rs. 2724.64 crores (December, 97 prices) which was approved by the Government of India on 23rd July, 98.

3. Both the projects of the Company *viz*. Numaligarh Refinery with a capacity of 3 MMTPA and the Numaligarh Marketing Terminal have been completed and commissioned. The commissioning process of the refinery started in April, 1999. The Crude Distillation Unit (CDU)/ Vacuum Distillation Unit (VDU) and Delayed Coker Unit (DCU) were commissioned during April & Sept. '99 respectively. Hydrogen Unit (H2U) and Sulphur Recovery Block (SRB) were commissioned in February, 2000. The mechanical setting up of the highly complex and critical Hydrocracker Unit (HCU) was completed in January, 2000. Pre-commissioning and commissioning activities of HCU started in January, 2000 with a target to complete the commissioning of HCU by 2nd half of April, 2000. With commissioning of HCU, entire commissioning process of the refinery would have been completed by April, 2000. However, after successful completion of pre commissioning activities of HCU by the 1st fortnight of April, 2000, NRL met with an unfortunate and unexpected setback. When final inspection of 3 Reactors was made prior to catalyst loading it was observed that some internals (bubble caps) fitted inside the reactors had cracked and needed replacement. NRL took immediate action for replacement of these bubble caps. Due to this unforeseen setback, the total commissioning of the Refinery was delayed till mid June, 2000. Hydrocracker Unit has since been commissioned on 19.6.2000. The Marketing Terminal has already been commissioned and it started despatching products in April, 2000.

4. Approved project cost of the Refinery and Marketing Terminal are Rs. 2489 crores and Rs. 235 crores respectively, totalling to Rs. 2724 crores (at December, 1997 prices). The project is likely to be completed within the approved cost. Total fund requirement of Rs. 2724 crores for both the refinery and marketing terminal would be met through Rs. 908 crores from equity and Rs. 1816 crores from debt at a debt equity ratio of 2:1. Out of total equity of Rs. 908 crores, in the financing plan, 61% amounting to Rs. 554 crores is to be subscribed

by the promoters and balance 39% amounting to Rs. 354 crores was earmarked to be raised through public issue. So far the promoters have contributed Rs. 552 crores leaving a balance of only Rs. 2 crores which they have committed to release shortly. However, in view of the depressed primary capital market conditions during the last few years, NRL has not been ablé to approach the capital market for retailing the public issue. After due deliberations with Lead Managers, it has been decided to defer NRL's public issue to a later date.

5. Meanwhile, Oil Industry Development Board (OIDB) and Oil India Ltd. (OIL) were offered 10% of equity each out of 39% earmarked for public equity through private placement route. OIDB has already paid their contribution of Rs. 90.80 crores. The proposal of OIL's participation for 10% equity (Rs. 90.80 crores) in NRL has already been approved by OIL's Board and the same is under active consideration of the Government As per advice of Government., OIL has released an interest free advance of rs. 50.00 crores to NRL against their proposed 10% equity participation in NRL.

6. The loan of Rs. 100 crores received from Government of India during 1996-97 has been converted into a grant by Government and is being treated as a capital reserve. After taking into consideration all above, the united portion of amount earmarked for public issue gets reducéd to Rs. 72 crores. NRL is in constant touch with its Lead Manager so as to decide on an appropriate time frame for floating a suitable public issue. Until then, a bridge loan to make up the gap may be taken if required.

7. Regarding debt portion, the entire requirement of Rs. 1816 crores was tied up as given below:

	Rs. 1334 crores
GoI	Rs. 100 crores*
Banks	Rs. 319 crores
HUDCO	Rs. 63 crores
Total	Rs. 1816 crores

8. Government is committed to support the Numaligarh Refinery Project.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin I dated 11.10.2000]

Comments of the Committee

(Please *see* Para No. 7 of Chapter I of the Report)

Recommendation (Sl. No. 8, Para No. 2.8)

In the 9th Plan Document a thrust was given on acceleration of exploration efforts in deep offshore areas and also in frontier areas. In India deep water drilling is supposed to give better results. Reportedly we have the capability to go upto 800 metres or so whereas in other parts of the world this capability is upto 3000 to 4000 metres below the sea. In the present range of capability, probability of getting more gas than oil is there. Needless to say that for getting oil reserves either we have to enhance our drilling capability or to offer more blocks in deep sea area to the private parties having deep drilling capability. The Committee desire that first of all the Government should take all initiatives to support and help the Public Sector Undertakings having expertise in exploration process that they may reach the drilling to the desired level. In view of the huge potential in this field, other financial strong undertakings of oil sector can also be asked to participate so that there is no problem of money. Simultaneously participation of private parties having proven capability should also be ensured by giving them some special incentives. In the Committee's view, only this type of approach can give the desired results.

Reply of the Government

The deep water basinal area, measuring about 1,35,000 sq.km., covers extensions of eight sedimentary basins both in Eastern as well as Western offshore of India. The deep water exploration is a technology intensive domain where the drilling and production techniques required are much advanced as compared to the shallow water operations. As on date, very few wells have been drilled worldwide in water depth greater than 2000 m. ONGC has upgraded one of its drillship Sagar Vijay for undertaking the deep water drilling upto water depth of 900 m to start with. Four wells have so far been drilled in deep water ares by this rig, one of them at a water depth of 897m. Required actions are at hand to further enhance the capability of this rig to drill at deeper water depth.

2. Regarding taking initiative by the Government to support and help the public sector undertakings for carrying out exploratioin activities, Government has already taken a decision to award NELP terms to six deep water blocks held by ONGC. This is in addition to three deep water NELP blocks awarded to ONGC through the bidding process. Government is also encouraging the downstream public sector oil companies to participate in the upstream activities in order to accelerate the exploration process. It may be pertinent to mention here that in the just concluded NELP, 1999 round, besides ONGC and OIL, downstream public sector oil companies like Indian Oil Corporation and Gas Authority of India Ltd. have actively participated in the bidding process. In two of the awarded blocks under NELP, Indian Oil Corporation is a joint venture partner along with ONGC and in another two blocks, Gas Authority of India Ltd. is a joint venture partner, one with ONGC and another with a private company, OAO-Gazprom, a Russian company.

3. Regarding special inecentives, for deep water areas, it may be mentioned that under New Exploration Licensing Policy, Government of India has provided for half the normal rate of royalty for deep water offshore areas beyond 400m water depth for the first 7 years after the commencement of commercial production. Also, for deep water areas, additional one year period is provided for exploration in Phase-I. As a result of these measures, encouraging response have been received from the companies for exploration efforts in deep water areas and as already mentioned, out of the 12 deep water blocks offered under NELP, 1999, 7 blocks have been awarded to NOCs and Private/ Joint Venture Companies and production sharing contracts signed.

Comments of the Committee

(Please *see* Para No. 25 of Chapter I of the Report)

Recommendation (Sl. No. 10, Para No. 2.10)

In order to meet the growing demand for petroleum products in the country during the 9th Plan 69.2 MMTPA capacity addition was envisaged. At the beginning of the Ninth Plan, the refining capacity was 62,24 MMTPA. Upto February 2000, 42.9 MMTPA capacity had already been added. As per the current outlook the domestic refining capacity is expected to be about 129 MMTPA by the end of 2001-02 as against the projection of 9th Plan of 113.95 MMTPA. This projected refining capacity would be more than sufficient to take care of the total demand of petroleum products of 104.80 million tonnes in the country. In the Committee's view, the growth/addition of refining capacity in future must be seen in the context of increasing dependence on import and low international refining margins. The Committee would therefore like the Government/PSUs to proceed with caution in this area.

Reply of the Government

At the end of the 9th Five Year Plan, the refining capacity is expected to reach a level of about 129 MMTPA. However, Nagarjuna Refinery (6 MMTPA) and Essar Oil Refinery (10.5 MMTPA), both in private sector, are expected to materialise only towards the end of 2001-2002.

Accordingly, any significant availability of production of petroleum products from these two refineries is not expected in the 9th Five Year Plan. Supply/demand position would take into consideration this aspect.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin I dated 11.10.2000]

Comments of the Committee

(Please *see* Para No. 30 of Chapter I of the Report)

Recommendation (Sl. No. 11, Para No. 2.11)

The Committee observe that the indigenous production of crude oil is stagnant and has rather declined during the last several years, but on the contrary the growth rate of demand for petroleum products is rising at a fast pace. This has led to higher volumes of imports. Our import dependence in respect of crude oil to meet the demand for petroleum products has gone up from about 50% in 1992-93 to 60% in the terminal year of Eighth Plan and is supposed to be 70% by the end of 9th Five Year Plan. This import dependence involves a huge amount of foreign exchange and affects the economy directly. The only way to earn foreign exchange in petroleum sector can be through export of surplus petroleum products (*i.e.* refining more than the indigenous demand). The Committee recommend that the Government should pay special attention to maintain the balance of foreign exchange by limiting the imports and increasing the exports. Initiatives should also be taken to modify the Duty structure so that the profit margins of refineries may increase and after refining they may be able to export more products to earn foreign exchange for the country.

Reply of the Government

1. India is a petroleum deficit country and, therefore, the objective of the downstream petroleum sector is to meet the demand of petroleum products in the country with the minimum import bill. Export of petroleum products is undertaken only to the extent these are surplus to the domestic requirement.

2. To minimise import of finished products into the country and, therefore, the import bill, domestic refining capacity is being increased. The refining capacity, which was at the level of about 62.2 MMTPA in the beginning of IX Plan period has already reached a level of 112.4 MMTPA by the end of 1999-2000 and, is expected to reach a level of about 129 MMTPA by the year 2001-02. Thus, the capacity addition during IX Plan period is expected to be about 67 MMTPA, which is more than the capacity that was added during the last five decades. If all the refinery capacity additions, as per the present estimates, materialise by the terminal year of IX Plan, the demand for petroleum products would be by and large met from the domestic production and import/export of petroleum products would be only to the extent of imbalance in production and demand of individual products.

3. The actual crude oil requirement of the domestic refineries and indigenous production (excluding Condensate) for the last four years along with the budget estimate of crude oil requirement and indigenous crude oil production for the current year (2000-01) are as under:

(Qty. in MMT)

	1996-97 (Actual)	1997-98 (Actual)	1998-99 (Actual)	1999-2000 (Actual Prov.)	2000-01 (Estd.)
Crude Oil requirement*	62.87	65.18	68.54	85.71	112.82
Indigenous crude Production (excluding Condensate)	30.86	31.59	30.42	29.49	29.63

* Actual crude oil processed.

4. It would be observed from the above table that the indigenous crude oil production has almost stagnated whereas, the crude oil requirement during the same period have gone up. To meet the increasing demand of crude oil imports have been made during the above period. Year-wise detail of crude oil imports during the last four years are as under:

(Qty. in MMT)

Refineries	1996-97	1997-98	1998-99	1999-2000 (Prov.)	2000-01 (Estd.)
PSU	33.904*	34.493*	35.734	39.287	46.957
MRPL-JVC			4.074	5.700	10.573
RPL-Pvt.				12.818	27.712
Total:	33.904*	34.493*	39.808	57.905	85.242

*Crude oil imports for 1996-97 and 1997-98 of PSU Refineries include imports for MRPL (JVC).

5. In terms of the phased programme of dismantling of Administered Pricing Mechanism announced by the Government, with effect from 1.4.1998, the retention system of pricing for the refineries has been discontinued. Refinery gate prices of controlled products *viz.* Motor Sprit (MS), High Speed Diesel (HSD), Superior Kerosene Oil (SKO), Liquefied Petroleum Gas (LPG) Aviation Turbine Fuel (ATF) and Natural Gas Liquid (NGL) are being fixed based on adjusted import parity price for existing refineries and tarrifadjusted import parity price for the new refineries during the transition period. The refineries are free to sell all other products based on market considerations.

6. The Government has also decided that duty structure for crude oil and petroleum products would be rationalised in a phased manner, keeping in mind the equilibrium to be maintained between the Government revenue needs and the necessity to keep consumer prices at reasonable level and at the same time providing adequate protection to domestic refineries. The Expert Technical Group had recommended a year by year rationalisation of the customs and excise duties on crude oil and petroleum products. The excise duties on petroleum products are, by and large, at the levels recommended by the Expert

Technical Group except for MS and ATF for which, the present duty levels are lower than recommended. The rationalisation scheme proposed by the Expert Technical Group for customs duties suggested a gradual reduction in customs duty in a manner so that the maximum rate of duty on petroleum products would be 15%. The financial year *i.e.,* 2000-01, represents 3rd year of the reform process. The status on the recommended duties and actual duties is as follows:

	Customs Duty Structure			(Per cent)
	Approved by Cabinet 2001-02	Recommended by ETG for 3rd year of reforms	As per Budget 2000 Eff. 01-03-2000	Effective 30-9-2000
Crude	0-5	10	15	10
HSD/LDO	15	25	25	20
	15	25	25	20
ATF	15	25	25	20
	10	10	10	10
FO/LSHS	10	15	25	20
Naphtha/NGL	5	5	5	5
Kerosene (PDS)	0	0	0	0
Bitumen	15	20	25	20
Others	15	20	25	20

7. It would be observed from the above that actions have already been taken to bring down the customs duties. However, customs duty on crude oil has to be brought down to between 0% to 5% during 2001-02. Similarly, the customs duties on transportation fuels and some other petroleum products are to be brought down within the range of 0% to 15% by 2001-02.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin I dated 11.10.2000]

Comments of the Committee

(Please *see* Para No. 31 of Chapter I of the Report)

Recommendation (Sl. No. 12, Para No. 2.12)

The Committee observe that the infrastructure development require special attention to handle the distribution and marketing of petroleum products in view of the increased refining capacity as also the need to cater to the large demand for petroleum products. The planned capacity additions in port facility, laying of crude oil pipelines, product pipelines and other transportation facilities are in progress. The Committee recommend that the infrastructure development work should be expedited so that product availability in coming years is ensured all over the country. Any delay in setting up these facilities on time may create serious supply problems. Similarly, all steps should be initiated in coordination with the Railways to strengthen Railways related infrastructure with a view to handling the projected distribution of products.

Reply of the Government

Development of infrastructure is closely monitored. Details are given in Annexure.

ANNEXURE

Port handling facilities for crude oil and petroleum products:

In the light of growing demand of petroleum products and more than doubling of refining capacity during 9th Plan period and the indigenous production of crude oil not keeping pace with the same, incremental demand would have to be met primarily by importing crude oil. Petroleum products would be imported/exported to the extent of imbalance in production and demand of individual products. In this context, augmentation of port facilities assumes importance.

The Port capacity at the Major Ports as on 31.3.1997 was 97 MMT based on reassessed capacity by MOST and, the Port traffic handled in 1996-97 was 88.5 MMT (excluding LPG and transhipment) representing over 91% capacity utilisation, much higher than the desired level of 60-65%. On the basis of schemes identified and included by MOST, the additional Port capacity planned to be created in the major Ports during 9th Plan period is about 65 MMT. The planned capacity additions at each of the Major Ports and their present status is given in Annexure-I. It would be observed that actions have been taken to add the planned Port capacity.

Crude oil and product pipelines

Crude Oil Pipelines: With more than doubling of refining capacity during 9th Plan period, incremental demand of crude oil would have to be met primarily from imports. Accordingly, crude oil handling facilities including laying of crude oil pipelines to receive imported crude oil are planned. These are being progressed to synchronise with commissioning of grassroots refineries/expansion of existing refineries.

Product Pipelines: In view of the projected increase in consumption of petroleum products and pipeline being preferred mode of transportation, considering various advantages such as requirement of minimum energy for transportation, environment friendliness, enhanced safety, minimum transit losses, multi-product handling, possible expansion with minimum additional investment, Low maintenance cost etc., oil industry has drawn up an ambitious programme to set up 14 number of product pipelines during IX Plan period in addition to two carry over under construction pipelines from VIII Plan. Subsequently, one more pipeline *viz.* Chennai-Trichy-Madurai Pipeline was added to this list (Annexure-II). These pipelines would eventually help formation of a national pipeline network for economic and efficient transportation of petroleum products.

To construct and operate cross-country product pipelines expeditiously, in May, 1997, M/s. Petronet India Ltd., a non-Government JV holding company was set up. M/s. Petronet would put up cross country pipelines, on common carrier principle, through its subsidiaries/JV Companies with private participation. To start with, Petronet have taken up construction of 5 product pipelines *viz.* Vadinar-Kandla, Cochin-Karur, Mangalore-Bangalore, Bina-Jhansi-Kanpur & Chennai-Madurai pipelines, for which JVs/subsidiaries are being formed.

The capacity of the product pipelines at the beginning of the IX Plan was 20.22 MMTPA (4235 Kms) and, as per the current outlook, capacity addition of 32.45 MMTPA (1572 Kms) is expected during IX Plan (Annexure-III). With this, the product pipeline capacity by the terminal year of IX Plan is expected to be 52.67 MMTPA (5807 Kms).

Transportation of Petroleum Products in all parts of the country

Railways play a major role in transportation of petroleum products. As per 9th Plan Working Group Report on Railway Programmes, realistic estimate of rail traffic during 2001-02 in case of POL products is 38 million tonnes. Industry, in consultation with Railways had estimated additional requirement of 4600 BTPN tank wagons during 9th Plan period. Of this, 50% was agreed to be procured by the oil industry and the balance 50% by Railways. It was also agreed that Railways would procure tank wagons on account of accident/condemnation and MG/BG conversion.

Out of the oil industry share of 2300 BTPN wagons to be procured during 9th Plan, oil industry has so far placed order for 500 BTPN wagons. Railways have recently proposed to revise the OYW Scheme by linking it to prime lending rate, corporate tax and depreciation allowance. The revised scheme is open to oil industry as well as to others. The draft revised scheme has been discussed with oil industry by Railway Board during March, 2000. IOCL have informed Railway Board that the proposed OYW Scheme has since been reviewed by them and considering the prevailing and near future market conditions the said scheme has not been found attractive and, therefore, they are not interested to procure BTPN wagons under the proposed scheme. As far as other oil companies are concerned, they are in the process of reviewing the revised scheme.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin. I dated 11.10.2000]

ANNEXURE I

PORT CAPACITY ADDITIONS—IX PLAN

(Planned by MOST)

(Figs. in MMT pa)

Port	IX Plan (Addition Planned)	Present Status
	2	3
Kandla Vadinar	29.5 [1-4+SBMs]	14 MMTpa capacity (J4-2 MMT pa & 2nd SPM of IOC-12 MMT pa) have since been commissioned. One more SPM by Essar Refinery has been planned. Conversion of one virtual jetty to a permanent jetty by oil industry has since been mechanically completed.
Mumbai	7.0 [Submarine PL]	Out of 5 nos. submarine pipelines planned to be replaced, work on 3 pipelines has since been completed. For balance pipelines, work is in progress.
	3.0 [Second Pir Pau]	Planned during IX Plan.
JNPT		New jetty is being set up by oil industry.
Goa		
Mangalore	9.0 [1 POL+1 Crude]	Construction of one POL jetty and one multi purpose jetty is on.

1	2	3
Cochin	3.0 [Draft improvement]	Draft improvement is planned during IX Plan. Further, an SPM is planned by CRL as part of their refinery expansion project from 7.5 MMTpa to 13.5 MMTpa, for which approval is awaited.
Tuticorin	1.0 [1 Crude Oil]	Planned during IX Plan.
Chennai		
Vizag	2.0 [1 outer harbour for LPG]	The jetty has since been completed. Work on fire fighting facilities is on.
Paradip	4.0 [1 Oil jetty]	The jetty is under construction.
Haldia	7.5 [1 POL+1 LPG/Chem]	One POL jetty HOJ-3 has since been commissioned
Calcutta		
Total	65.0 [13+SBMs}	

Note: Figs. in bracket indicate No. of jetties

IX PLAN PRODUCT PIPELINES

A. Pipelines Under Construction

		Length	CAP
1.	Mumbai-Manmad	252	
2.	Visakh-Vijayawada	356	4.10
	Sub-Total (A)	608	8.43

Since been completed

B. New Pipelines Identified By IX Plan Sub Group

		Length* (KMS)	Cap.@ (MMTpa)
	2	3	4
I.	**Cross Country Pipelines$**		
1.	Cochin-Karur	308	
2.	Deogarh-Miraj	174	
3.	Mangalore-Bangalore	332	
4.	Bina-Jhansi-Kanpur	350	
5.	Paradip-Ranchi	550	
6.	Vadinar-Kandla	252	
7.	Koyali-Sidhpur	220	2.60
8.	Sultanpur-Allahabad	90	1.00
9.	Bhatinda-Jallandhar	150	1.00
10.	Jallandhar-Udhampur	250	2.00
11.	Mathura-Kanpur	275	

	2	3	4
II.	**Short Distance Feeder Pipelines****		
12.	Panipat-Meerut	103	
13.	Panipat-Saharanpur	120	
14.	Kanpur-Lucknow	80	
III.	**Identified Subsequent to Preparation of IX Plan Subgroup Report**		
15.	Chennai-Trichy-Madurai	500	1.40
	Sub-Total (B)	3754	33.90
IV.	**Capacity Expansion of Existing Pipelines Proposed**		
1.	Haldia-Mourigram		.10
2.	Kandla-Bhatinda		5.50
	Sub-Total (C)		6.60
	Grand Total	4362	48.93

* Length as per PFR/DFR.

@ Capacity as per IX Plan Sub-group Report.

$ At least a thruput of 1 MMT pa latest by the year 2006-07 has been considered as minimum thruput requirement.

** Basically to replace road movement. A minimum thruput of 0.5 MMT pa has been considered.

PRODUCT PIPELINES: CURRENT OUTLOOK FOR IX PLAN

A. Carryover from VIII Plan		Length (Kms)	Capacity (MMTPA)	Completion Schedule
1	2	3	4	5
1.	Mumbai-Manmad	252	4.33	Completed
2.	Vizag-Vijayawada	356	4.10	Completed
	Sub-Total-A	608	8.43	
B.	**Under Implementation**			
BI.	**By Petronet**			
1	Vadinar-Kandla	113	11.50	May, 2000
2.	Cochin-Karur	289	3.30	Dec, 2000
3.	Mangalore-Bangalore	364	4.20	July, 2001
4.	Bina-Jhansi-Kanpur	361	2.80	
5.	Chennai-Madurai	505	3.30	
	Sub-Total-B	1632	25.10	
BII.	**By Public Sector Oil Companies**			
1.	Budge Budge Tap-Off From Haldia-Mourigram P/L	8	0.70	Completed
	Mathura-Jalandhar Pipeline-Meerut	70	0.56	June, 2000
3.	Mathura-Jalandhar Pipeline-Saharanpur	60	0.36	June, 2000

* To dovetail with the commissioning of Bina Refinery

** In view of the proposed Cuddalore Refinery, the feasibility of this project is being reexamined with IOC.

1	2	3	4	5
4.	Mathura-Tundla (Vice Mathura-Kanpur)	60	0.60	Sept, 2001
5.	Kandla-Bhatinda from 6.0 to 7.5 MMTPA		1.50	Completed
6.	Kandla-Bhatinda from 7.5 to 8.8 MMTPA		1.30	Dec, 2000
	Sub-Total-BII	198	5.02	
	Current Outlook for IXth Plan (Excluding Bina-Jhansi-Kanpur and Chennai-Madurai Pipelines)	1572	32.45	

Note: Length/Capacity as per PFR/DFR

Recommendation (Sl. No. 14, Para No. 2.14)

The Committee feel that the problem of adulteration in supply of petroleum products has become the most common malpractice these days. Reportedly, from time to time, the Government and concerned PSUs have taken steps to prevent such malpractices. However, new ways have been found by the miscreants for adulteration and similar malpractices. In the Committee's view this is the major challenge before the oil industry/Government. This affects one and all including poor farmers whose water pumps/tractors/machines are damaged due to adulterated diesel/oil. Apart from system of outlets being checked, samples collected for clinical tests, State Governments are empowered to take action under their respective food and civil supplies Acts. Admittedly different States have different levels of success in controlling the menace of adulteration. Therefore, there is need for coordinated efforts by State Governments/Central government and oil sector PSUs with a view to taking stringent steps to overcome the menace of adulteration and other malpractices in the system. The owners of petrol pumps/LPG agencies should be given exemplary punishments, if found guilty. The Committee also want that the Ministry should undertake some, R&D activity to develop a mechanism for direct detection of cases at petrol pumps itself other than the mechanical tests like filter paper test.

Reply of the Government

1. Adulteration is indulged in primarily due to the significant price differential existing between Diesel and Kerosene and between Petrol and Naphtha and other Solvents. This is facilitated by the easy/ready availability of adulterants in the market. The high price differential existing between Petrol *vis a vis* Naphtha/Solvents and Diesel *vis a vis* Kerosene is mainly due to:

(a) Price of Petrol being fixed at a higher level to cross subsidise PDS Kerosene/domestic LPG.

(b) Differential in excise and custom duties.

(c) Differential in Sales taxes/other State levies

2. To curb adulteration of MS/HSD at the Retail Outlets. MOP&NG caused. PSU Oil Companies to take following measures:

2.1 **Furfural Doping of Kerosene**

Doping of Kerosene with furfural is being done at the depots/ terminals before supplying to the Kerosene dealers. The principle is to dope Kerosene with furfural to 20 ppm level. When this doped Kerosene is used for adulteration of MS/HSD, the formation of a pink colour in MS/HSD with aniline and glacial acetic acid mixture (1:9 ratio) is an indication of adulteration of Petrol/Diesel with Kerosene. While carrying out inspections, the officials check:

(a) the delivery of the dispensing pump (s) with the help of calibrated 5 litre measure;

(b) density of MS&HSD for detecting adulteration;

(c) for adulteration of MS/HSD with Furfural doped PDS Kerosene. The formation of pink colour in MS/HSD with Aniline and Glacial Acetic acid mixture (1:9 ratio) is an indication of adulteration of MS/HSD with Kerosene.

(d) the stock variation by reconciliation of stocks/sales.

Marketing Discipline Guidelines were revised during 1998 to make them more effective and stringet, by including imposition of monetary fines on erring retail outlet dealers.

As per Marketing Discipline Guidelines, 1998, for established cases of adulteration:

> Sales and supplies of all product from the retail outlet are suspended for a period of 45 days along with a fine of Rs. 1,00,000/- in the first instance.
>
> Punitive action for second offence is termination of dealership under Marketing Discipline Guidelines.

The Marketing Discipline Guidelines were challenged in various High Courts.

2.2 Mobile Laboratories

With a view to facilitate 'on the spot' test and quicken the pace of action taken, oil companies have introduced mobile laboratories which are conducting surprise inspections at retail outlets. All Retail Outlets are to be inspected once in a year by mobile laboratories for on the spot assessment of quality and action for failure of samples is taken.

2.3 Density Check

MS and HSD Control Order 1998 envisages density test as one of the tests for checking quality of product by the dealers at the time of its receipt and at the time of inspection of retail outlets by the inspecting personnel to detect adulteration of MS/HSD.

2.4 Regular/Surprise Inspections

To check malpractices and irregularities at retail outlets, inspections are carried out by oil company officials in line with Marketing Discipline Guidelines as per the following schedule of inspection:

Sales Officers	once in 3 months
Grade 'C' & above	once in 6 months
Joint inspection	20% of ROs to be covered in a year

In addition, 10% of the Retail Outlets will be covered once a year under random inspections by officers of Grade 'C' and above.

2.5 Special Vigilance Drive

A special vigilance drive was launched by Oil Companies under the auspices of State Level Coordinators from 29.11.99 to 3.12.99 to check malpractices and irregularities at Retail Outlets, oil company terminals/depots. As part of the drive, checks were also conducted at unauthorised dumps and enroute checks were carried out on tank trucks.

2.6 Steps taken to prevent diversion of PDS Kerosene:

In order to prevent diversion of Kerosene meant for distribution under PDS for adulteration at retail outlets and to ensure that the product reaches the targeted people, MOP&NG has taken the following steps:

- Directed the oil companies to ensure upliftment by their wholesalers as under:

  60% by 10th of the month.

  25% during the next week, and

  balance 15% during the following week

  Advised State/UT Governments from time to time:

  (a) To identify and plug loopholes in the distribution system.

  (b) To implement the scheme of delivered supply of Kerosene.

  (c) To review the scale of distribution of Kerosene to various card holders both in urban and rural areas having regard to factors such as availability of alternative fuels.

  (d) To discontinue allocation of Kerosene to the card holders having double LPG cylinder connection and allocate a marginal quantity to card holders with single cylinder connection.

  (e) To discontinue allocation of Kerosene for uses other than cooking and illumination. Requirement of Kerosene for other purposes to be met from private marketers.

(f) The State Government authorities are also empowered under the MS/HSD Control Order, 1998 to conduct inspections at retail outlets and take appropriate action against the erring dealers in case of any malpractices/ irregularities detected.

2.7 Statutory Measures to curb adulteration

To combat adulteration in petroleum products, authority for entry/ search/seizure has been given to Central/State Government officials and Oil Company officials under Control Orders promulgated under section 3 of the Essential Commodities Act, 1955:

2.7.1 Motor Spirit & High Speed Diesel (Prevention of Malpractices in Supply & Distribution) Order, 1998

Empowers any Gazetted Officer of the Central/State Government or any Police Officer not below the rank of Deputy Superintendent of Police (DSP) duly authorised, or any officer of the oil company not below the rank of Sales Officer to:

Enter and search any place or premises made use of or suspected to be made use by a dealer, transporter, consumer or any other person who is an employee or agent of such dealer/transporter/consumer or any other person, with respect to which there is reason to believe that the provisions of this order have been/are being or are about to be contravened.

Stop and search any person or vehicle or receptacle used or intended to be used for the movement of the product.

Inspect any book of accounts or other documents or any stock of the product used or suspected to be used in the business of the dealer, transporter, consumer or any other person suspected to be an employee or agent of the dealer, transporter or consumer.

Take samples of the product and/or seize any of the stocks of the product which the officer has reason to believe has been or is being or is about to be used in contravention of this order and send it for analysis.

2.7.2 The Naphtha (Acquisition, Sale, Storage and Prevention of use in Automobile) Order, 2000 (notified On June 5, 2000) & Solvent, Raffinate and Slop (Acquisition, Sale, Storage and Prevention of use in Automobiles) Order, 2000 (notified on June 5, 2000)

Earlier there was no Control Order restricting sale or storage or end-use of Naphtha, Solvents, Raffinates and Slops etc. Taking advantage of this, inspite of taking various measures, the unscrupulous elements were/are using these products for adulterating MS/HSD at Retail Outlets. Therefore, with a view to curbing unauthorised usage of these products for adulteration of MS and HSD at Retail Outlets, MOP&NG has notified (i) Naphtha (Acquisition, Sale, Storage and Prevention of use in Automobiles) Order, 2000 & (ii) Solvent, Raffinate and Slop (Acquisition, Sale, Storage and Prevention of use in Automobiles) Order, 2000 on June 5, 2000.

The following are the salient provisions of the Naphtha (Acquisition, Sale, Storage and Prevention of use in Automobiles) Order, 2000:

Obtaining licence from the State Governments by the persons dealing in Naphtha.

Preventing either use or promoting use of Naphtha in automobiles.

Preventing involvement of any person either in adulteration or in helping adulteration of MS and HSD with Naphtha.

Furnishing of the end-use certificate, customer-wise sales by persons dealing in Naphtha on a quarterly basis to the State Government.

The salient features of the Solvent, Raffinate and Slop (Acquisition, Sale, Storage and Prevention of use in Automobiles) Order, 2000 are:

Obtaining licence from the State Governments by the persons dealing in Solvents, Raffinates and Slops.

Preventing either use or promoting use of these products in automobiles.

Preventing involvement of any person either in adulteration or in helping adulteration of MS and HSD with Solvents, Raffinates and Slops.

Furnishing of end-use certificate, customer-wise sales by persons dealing in Solvents, Raffinates and Slops on a quarterly basis to the State Government.

MOP&NG had issued a notice on June 28, 2000 stating that since notification of application forms and processing thereof may take some time, the State Governments and Union Territory administrations are being advised to permit the persons carrying on business in these materials carry out the same till their applications are disposed by the competent authority. It was also stated in the notice that the competent authorities are being advised to dispose off the applications by August 15, 2000. MOP&NG has notified the application form in which the persons dealing in Naphtha, Solvents, Raffinates and Slops shall apply for licence and the format in which the licence shall be issued by the State Government Agencies on June 30, 2000.

Penal action against those contravening the provisions of these Control Orders would be taken in line with the punishments provided for in the Essential Commodities Act, 1955.

3. Steps in Progress

3.1 To effectively combat adulteration the following additional measures are being taken:

(a) To facilitate faster testing of samples, it was decided to commission 27 new mobile labs and 18 labs with CFR engines to test Octane rating. The Mobile labs are expected to be ready by Aug.-Sept., 2000. 15 CFR engines have been made operational and the balance three are expected by end Dec., 2000.

(b) Oil Industry is carrying out, experimental trials on the following systems to detect/prevent adulteration.

3.2 Marker system of M/s. Biocode

In this system, the products namely MS and HSD are doped with a marker at a pre determined levels. Adulteration, if any, can be found out by measuring the concentration of the marker present in the fuel dispensed at the Retail Outlets. Variation in the concentration of the marker between the levels at which it was doped by the Oil companies and the levels which were found at the Retail Outlet is measured.

Any dilution in the concentration of marker will indicate adulteration and the percentage variation in the concentration of the marker would indicate the percentage of adulteration, which has taken place. Trials of this marker system by M/s. Biocode have been carried out at Sabarmati Terminal, Ahmedabad and at BPC Sewree Terminal, Mumbai. Further trials/evaluation of this marker system is being carried out at BPC Sewree Terminal, Mumbai.

3.3 Sampling Procedure

In this system, Oil companies retain samples of products despatched from the Terminals and Retail Outlet dealers are required to take a joint sample along with the tank truck crew before unloading the product and retain the same. Samples drawn from the Retail Outlets during inspections by inspecting officers shall be sent to the laboratory for analysis. If the sample drawn from the Retail Outlet fails to meet the specifications, joint sample retained at the Retail Outlet before unloading and the sample retained at the despatch locations would be sent for laboratory analysis. The results are co-related and the point of adulteration and responsibility for adulteration are fixed.

3.4 Security Locks

A new system of sealing of tank trucks through a locking system of M/s. Assa Abloy, is under trial. In this system, the trucks, which supply product to the Retail Outlet, will be locked with a unique/RO specific locks for which, keys will be available with the RO dealer only. A master key would be available at the despatch location. It is claimed that these locks are tamper-proof and duplicate keys could not be made easily. By introduction of this new locking system, en-route pilferage and en-route adulteration is expected to be eliminated.

[Ministry of Petroleum and Natural Gas OM No. G-25015/2/2000 Fin. I, dated 11.10.2000]

Comments of the Committee

(Please *see* Para No. 34 of Chapter I of the Report)

Recommendation (Sl. No. 15, Para No. 2.15)

The problem of under weighment of petroleum products is very common. In this present age of computers the detection of under-weighment and control measurement/weight should not be a difficult task. The Committee desire that the Government should involve all the oil companies connected with marketing of petroleum products by asking them to undertake R&D activities jointly to develop a method which will make under weighment difficult. This is the common problem in retail outlets of all oil companies and require joint efforts to develop such a mechanism. Since the State Governments are also involved in controlling such activities, they may also be involved in evolving such a mechanism. The Ministry of Petroleum and Natural Gas should work as a coordinator to get an effective solution to this problem.

Reply of the Government

Proper weighment is regulated under the State Weight and Measures Laws. However, the oil marketing PSUs have now started installing latest Electronic Dispensing Units and also the latest Multi Pump Dispensers (MPD) at their Retail Outlets in order to ensure delivery of correct quantities of petroleum products especially Motor Spirit and High Speed Diesel. The installation of Dispensing Units of latest technology will ensure delivery of correct quantity of Petroleum Products to the consumers.

[Ministry of Petroleum and Natural Gas, OM No. G-25015/2/2000 Fin. I, dated 11.10.2000]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT REPLIES

Recommendation (Sl. No. 3, Para No. 2.3)

The Committee are happy to note that in pursuance of the recommendations made by the Committee and instructions issued by the Ministry, the PSUs have started sending the savings details for both half-yearly periods every year. Results received for the savings during the half-year ended at 31.3.99 and 30.9.99 are encouraging. However, the Committee are not satisfied with the quantum of savings done by several giant oil sector undertakings in the context of their high volume of production turnover/sales, etc. The Committee recommended that the Government should take all necessary initiatives to ensure more savings in non-plan expenditure of the oil sector PSUs, particularly the Navratnas. In the Committee's view only a significant saving in non-Plan expenditure can help the oil sector PSUs in facing the stiff competition from the private sector in future.

Reply of the Government

The Public Sector Undertakings have indicated that the controllable cost in the oil sector is as meagre as 4.5 per cent of the total cost. It has also been assessed that the oil PSUs have been able to achieve a savings of around 7.275 of the controllable cost during the last one year. Further, as the industry has been liberalised, the PSUs is gearing themselves to face more and more competition. As a consequence, more facilities and infrastructure to maintain and gain market share are being created. All these are pushing up the cost for the time being.

However, in deference to the wishes of the Committee, the Ministry of Petroleum and Natural Gas has instructed all the PSUs, including the Navratnas, under the administrative control of the Ministry, to take concrete measures to ensure more savings so as to be cost competitive. PSUs have indicated that cost reduction has remained in focus and a continuous thrust area of concern for them and the PSUs are taking all possible measures to contain and reduce cost. PSUs have already taken major steps which, *inter alia*, include technology upgradation, conservation of energy, inventory management, rightsizing of manpower, reduction in overtime, bench marking of expenditure, setting up of norms etc. to further reduce the cost. These measures are reviewed periodically by the PSUs. It is expected that implementation of the above measures would help the PSUs, especially, the Navratnas to remain globally competitive in the coming years.

[Ministry of Petroleum and Natural Gas, OM No. G-25015/2/2000 Fin. I, dated 11.10.2000]

Recommendation (Sl. No. 7, Para No. 2.7)

In the mid-term appraisal of Petroleum and Natural Gas sector for the 9th Plan the stagnant indigenous production of crude oil and decline in accretion of reserves are found to be matters of serious concern. India has about 0.04 per cent of the world's proven reserves of hydrocarbons. The prognosticated geological resources of hydrocarbon in the country are estimated at 21.31 billion tonnes, of which 61 percent are offshore and 59 percent on land. Out of this, the geological reserves establishes are, however, only of the order of 5.32 billion tonnes. It is assured that half of the prognosticated resources represents natural gas of which only 12 per cent has till now been established. In such situation of exploration strategy needs changes. The Committee recommend that the Government should pay special attention to identify more blocks by spreading exploration efforts over all the basins, including unexplored/less explored ones having favourable formations. The Committee emphasise the need to concentrate in deep water blocks on priority basis particularly off-Kutch and off-Krishna Godavari basins in view of greater potential in those areas as informed by the Secretary, Petroleum. For this purpose seismic surveys with proven technology of all the basins should be done expeditiously.

Reply of the Government

1. India's proven (balance recoverable) reserves of Oil + Oil equivalent of gas (OEG) as on 1.4.99, have been estimated at about 1.413 billion tonnes, which is about 0.5% of the total world's proven reserves. The prognosticated hydrocarbon resources in the country are estimated to be more than 30 billion tonnes which includes 21 billion tonnes of resources in onland & offshore areas upto 200 m of water depth and about 10-11 billion tonnes areas beyond 200 metres of water depth. Of the 21 billion tonnes of prognosticated resources (onland and up to 200 m isobath), about 56% account for offshore area and remaining 44% account for onland area. Out of these total resources, about 6.7 billion tonnes have been established as inplace geological reserves.

2. In order to accrete reserves at a faster pace, a number of steps have been taken for intensive & extensive exploration by both ONGC and OIL. The following strategy initiatives by these NOCs have been envisaged during the remaining years of the IX Plan for input planning in order to achieve the better in place hydrocarbon accretion. These are:

Sustained efforts in technology induction for data acquisition tempered with the value added synergistic approach in data evaluation in the exploration of subtle traps.

Adopting state of the art technologies to enhance subsurface imaging in geologically complex areas like thrust fold belt, subtrappean sequences and deeper prospects.

Exploration of frontier areas like Deepwaters.

Extending exploration to frontier basins/less explored sectors in producing basins where inspite of elusive commercial success, knowledge building through initial exploratory inputs need continuation.

- More intellectual inputs over physical inputs in teaser basins like Bengal and Rajasthan.

Intensifying exploration activities to logistically difficult and geologically complex areas.

3. In addition, blocks have also been awarded by the Government in several bidding rounds for exploration by private/joint venture parties in different basins including unexplored/less explored ones. During the first NELP exploration bidding round concluded recently, Government offered 48 blocks for exploration with better terms over the previous rounds for exploration. Out of these, 10 were onland blocks, which were spread over 4 different basins, of which, 3 were in poorly/less explored Category II and III basins. Similarly, 38 blocks were offered in offshore areas including 12 blocks in deep water offshore. These blocks were spread in various basins like Bengal, Cauvery, Gujarat-Kutch, Krishna-Godavari, Kerala-Konkan, Mumbai, Mahanadi, Palar, Saurashtra and North East Coast. In the frontier area

like deep water, blocks were offered for the first time in the country. These blocks were spread in deep water areas of Cauvery, Palar, Krishna-Godavari, Mahanadi and North East Coast. Thus, a major step was taken forward to explore the yet unexplored/less explored areas. It could be mentioned here that of the 48 offered NELP blocks, 25 blocks have been awarded, of which, 7 are deep water blocks. Production sharing contracts for 22 NELP including all the 7 deep water blocks have already been signed on 12.4.2000.

4. With particular reference to Kutch and Krishna-Godavari deep water areas, ONGC has carried out focussed exploration activities during 1999-2000. Considering the technology and cost intensive nature of the deep water venture, recently Government has approved NELP fiscal terms for exploration in ONGC's six deep water areas in offshore east coast and west coast which also include deep water areas in Krishna-Godavari and Kutch basins. For these blocks ONGC propose to enter into joint venture agreements with strategic partners, who would be bringing in technology and equipment as well as investment. In addition to the above, the recently concluded NELP round has five deep water blocks in offshore K.G. and Kutch basin.

5. In order to spread out exploration activities, DGH is planning to conduct extensive geoscientific surveys during the next few years in various unexplored/poorly explored areas and deep water areas like: Deep water seismic surveys in East Coast, West Coast, Andaman offshore and Southern Tip of India; onland seismic surveys in Vindhyan, Ganga Valley, Punjab Basin, Northern part of Rajasthan, Rann of Kutch & Cachar-Assam Arakar fold belt. Other geophysical surveys like Aero magnetic, TEM/MT and ground gravity magnetic (GM) surveys have also been planned to be carried out by DGH in selected areas during the next few years. Concurrently, the process of finalizing the blocks for offering in next round of NELP has been initiated.

[Ministry of Petroleum and Natural Gas, OM No. G-25015/2/2000 Fin. I, dated 11.10.2000]

Comments of the Committee

(Please *see* Para No. 25 of Chapter-I of the Report.)

CHAPTER IV

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

Recommendation (Sl. No. 4, Para No. 2.4)

The Committee regret to note that out of 9th Five Year Plan (1997-2002) outlay of Rs. 78401 crore the likely expenditure by the end of fourth year will be about Rs. 47709 crore only. During 1997-98, the actual expenditure was Rs. 10141 crore. During the second year as against the Budget Estimates of Rs. 15389 crore and Revised Estimates of Rs. 12381 crore, the actual expenditure was Rs. 11637 crore only. Similarly, for the year 1999-2000 the Revised Estimates has been kept at 12469 crore a little higher than the Budget Estimates of Rs. 12123 crore. The Budget Estimates for the year 2000-2001 has been kept almost in the same range of Rs. 13461 crore. The Committee wonder whether with such utilisation trend of Plan funds, the Government would be able to achieve the targets set for the petroleum sector. The Committee are surprised to see the casual approach of the Government even after seeing the results of the mid-term appraisal of the 9th Plan. The Committee emphasise that during the current year and the remaining one year of the 9th Plan the balance amount of about Rs. 30700 crore should be utilised fully. For this purpose, a time bound programme should be prepared to achieve the major objectives set for the 9th Five Year Plan.

Reply of the Government

Exploration

The actual plan expenditure for the first three years of the Ninth Plan for the 2 upstream NOCs *viz.* ONGC & OIL is around 60% of the total plan outlay of Rs. 23160 crore made at the start of the Ninth Plan. Based on the actual expenditure during the first 3 years of the Ninth Plan period and expected expenditure made on the basis of mid-term projections for the remaining 2 years, the total expenditure in the Ninth Plan period of these two NOCs is estimated to be about 12% higher than the total combined approved plan outlay of both the NOCs. This is mainly because of aggressive exploration strategy and planned allied production activities by these NOCs during the remaining part of the Ninth Plan period.

Refinery

Though the Oil Companies prepare a time bound programme on review some of the projects have been dropped and due to delay in clearance in some of the projects like Central India Refinery project of BPCL, Punjab Refinery project of HPCL etc., the outlay could not be utilised. However, the oil companies would be requested to prepare the time bound programme for utilisation of plan amount to achieve the major objective set for 9th Plan.

Natural Gas

The Plan Outlay approved for the Ninth Plan in respect of Gas Authority of India Limited (GAIL) is Rs. 6417.95 crore. Out of this Rs. 5,715 crore were provided for schemes pertaining to Petroleum Sector and Rs. 702.95 crore for schemes under Petrochemical Sector. Out of approved Ninth Plan Outlay of Rs. 6,417.95 crore, company has earmarked approximately 1/3rd of outlay amounting to Rs. 2,207 crore on new schemes aimed at growth in the gas and related sectors in joint ventures. Subsequent developments in these areas like delay in pipeline for dedicated consumer *viz.*, Bawana Power Plant (RIL), which is still in abeyance and staggering the pipeline expenditure due to delay in formalising LNG terminals etc., have resulted in reduction in the estimated outlay on these schemes envisaged at the time of formulation of 9th Plan. The major schemes, which could not be taken up during the 9th Plan, are as under:

(Rs. in crore)

Schemes	9th Plan Outlay	Now Anticipated	Shortfall	Reasons
Dadri Bawana pipeline	82	5	77	Scheme is yet to be approved as Gas Contract is yet to be signed.
Power Plants in Joint Venture	400	100	300	Taking time in materializing JV's investment.
LNG East Coast	200	10	190	Setting up of terminal is to be finalized.
GREP Expansion	985	250	735	Expenditure linked with Petronet LNG Ltd. terminal commissioning at Dahej.

The sector-wise variation is given below:

(Rs. in crore)

Description	Approved Revised Outlay	Actual/ Estimated Outlay	Variation
Ongoing Schemes			
Petroleum Sector	3,492.00	3,390.00	102.00
Petrochemical Sector	678.00	857.00	(—) 179.00
Total (A)	4,170.00	4,247.00	(—) 77.00
New Schemes			
Petroleum Sector	2,223.00	877.44	1,345.56
Petrochemical Sector	24.95	24.95	
Total (B)	2,247.95	902.39	1,345.56
Grand Total (A+B)	6,417.95	5,149.39*	1,268.56

*Excluding investments made of Rs. 556 crore for cross holding of 2.5% of Government Equity in ONGCL during 1998-99 and 1999-2000.

The above estimated outlays are based on the commitments for ongoing schemes and envisaged expenditure on new schemes, as also brought out during the Mid Term Appraisal of 9th Plan in July 1999. The year-wise outlay and expenditure are as under:

(Rs. in crore)

Year	BE	RE	Actual	Reasons for variation
	2	3	4	5
1997-98	1686.35	1474.14	1417.48	Delay in approval of Kandla-Loni LPG Pipeline and LPG Complex, Auraiya

1	2	3	4	5
1998-99	922.04	745.00	691.13	Delay in ordering of ADB funded packages due to delay in settling the pipeline tariff, the condition precedent to loan being effective.
1999-2000	98514	886.34	785.50	CCEA approved the proposal of LPG plant at Gandhar in May, 1999 and delay in approval of ADB Loan being made effective for Kandla-Loni LPG Pipeline resulting in deferment of expenditure.
2000-01	986.45			
2001-02 (Estimated)	1268.83			

Against the revised 9th Plan outlay of Rs. 6,417.95 crore, GAIL had estimated to utilize an outlay of Rs. 5,149.39 crore, out of which it has already utilized Rs. 2,894.11 crore till the end of first three years of the 9th Plan, excluding investment made in cross holding of ONGCL's shares of Rs. 556.29 crore during 1998-99 and 1999-2000. The utilisation of outlay in balance two financial years is estimated to be around Rs. 2255 crore towards construction of HBJ Pipeline Expansion (to be synchronized with Petronet LNG Terminal at Dahej), LPG Pipeline in Southern India, equity participation in Indigas (TATA-TOTAL-GAIL), NELP activities in two blocks awarded, Gas under Gas Hydrates, In Situ Coal gasification in Rajasthan and Coal Bed Methane Project besides ongoing schemes in KG and Cauvery Basin and LEF Overhead Compressor at Vijaipur. The variation in the Revised Plan outlay of rs. 6417.95 crore and utilized/estimated outlay of Rs. 5,149.39 crore will be Rs. 1,268.56. crore. The shortfall is primarily on account of deferment of investments anticipated in Joint Venture Schemes related to LNG imports, Power Projects and resultant investment in other projects in 9th Plan.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin. I, dated 11.10.2000]

Comments of the Committee

(Please *see* Para No. 15 of Chapter–I of the Report)

Recommendation (Sl. No. 6, Para No. 2.6)

The Committee note that there is a continuous decrease in Plan outlay of PSUs for Petrochemicals and Engineering unit related activities. Out of the total allocation of Rs. 4054.37 crore for Petrochemicals sector only Rs. 1238.85 crore have been spent. During 1997-98 Rs. 414.84 crore, in 1998-99 Rs. 38.06 crore were spent. In the Revised Estimates for 1999-2000 an amount of Rs. 174.59 crore is proposed to be spent against the Budget Estimates of Rs. 223.19 crore. Similarly, for the Engineering unit the Revised Estimates is Rs. 76.55 crore as against the Budget Estimates of Rs. 116.05 crore for 1999-2000. For the current year (2000-2001) this has further been reduced to Rs. 44 crore. The Ministry has explained that the main cause for less expenditure in these sectors relates to persistent recession in the Petrochemicals market. The Committee find this an unsatisfactory explanation since in this tough period for Petrochemicals industry, the oil sector PSUs having some role in Petrochemicals industry can take the lead role. Most of the Petrochemicals undertakings are sick and are on the verge of collapse due to obsolete technology and poor financial position. In this situation only those oil sector undertakings having better financial strength and control over raw-material can face the competition from private industries in the petrochemicals sector by using advanced technology in their productions. The Committee urge the Ministry to pay special attention to Petrochemicals related activities so that the monopoly of private sector may not create more tough situations for PSUs of chemicals sector in future. The Committee feel that by adopting this path they can help the collapsing PSUs of the chemicals sector by providing them more work.

Reply of the Government

Due to recession in the market, the supply and demand for Petrochemicals have remained uncertain and therefore the economic viability of the schemes are yet to be established. The position will be reviewed by the Oil Companies once the recession in the Petrochemicals Sector is removed.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin. I, dated 11.10.2000]

Comments of the Committee

(Please *See* Para No. 17 of Chapter I of the Report)

Recommendation (Sl. No. 16, Para No. 2.16)

The Committee regret to note that the Government have resorted to hefty increase in kerosene oil and LPG prices. While kerosene oil is poor man's fuel for his daily needs of cooking and lighting, the abnormal increase is bound to hit him very hard. Increase in LPG prices is also unbearable for middle class society. Committee regard the increase uncalled for and recommend its withdrawal immediately. The Committee also express their anguish over the way in which the prices of kerosene and LPG have been revised recently. This was done immediately after the recess period of the Budget Session of the Parliament started. The Government also did not consider it necessary to take the Standing Committee on Petroleum and Chemicals into confidence in this matter, particularly when the Demands for Grants of the Petroleum Ministry were being considered by them. Whatever may be the cause of revision of prices of these items used by common/ poor man, the matter should have been brought first before the Parliament or the Standing Committee. The Committee strongly recommend that no decision should be taken by the Government on such matters of public importance without knowing the views of the Parliament/Parliamentary Committees.

Reply of the Government

In the light of taken decisions in regard to the phased programme of dismantling of administered pricing mechanism the subsidies on Domestic LPG and PDS Kerosene are required to be brought down to 15% and 33.33% of their import parity prices by the year 2000-01 and 2001-02 respectively. The prices of Domestic LPG and PDS Kerosene were raised in line with the above decision of the Government.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin. I, dated 11.10.2000]

Comments of the Committee

(Please *See* Para No. 38 of Chapter I of the Report)

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation (Sl. No. 5, Para No. 2.5)

The Ministry has informed the Committee that the main reasons for less utilisation of funds during 1999-2000 are the delay in finalisation of a Joint Venture Partner in Punjab Refinery Project, delay in environmental clearance for MRL expansion project and less expenditure by BPCL. The Committee desire that oil sector PSUs should take a lesson from private sector companies like Reliance which has set up a Mega Refinery in Gujarat during the current plan period. They once again urge the Government to take all desired initiatives either to decide upon the joint venture partners or to proceed independently and in the matter of approval of pending projects so that these are completed in the shortest possible for this purpose allocated for the 9th Plan period. For the projects pending for long for want of environment clearance the Ministry should take up the matter with the Ministry of Environment & Forests directly at the highest level to sort out all problems.

Reply of the Government

(i) 3.0 MMTPA Refinery Expansion-cum-modernisation project at Manali, Chennai:

Government has since approved the implementation of the project by CPCL at an estimated cost of Rs. 2360.38 crores, including a foreign exchange component of Rs. 333.82 crores and the project is to be completed within 36 months. The approval conveyed to CPCL on 27.7.2000.

(ii) 9 MMTPA Grass root Refinery Project at Bhatinda (Punjab):

Government has permitted Hindustan Petroleum Corporation Limited (HPCL) on 13.10.2000 to execute the 9 million metric tonnes per annum grass root Refinery Project along with associated facilities in Bhatinda (Punjab), through a 100% subsidiary company of HPCL, after tying up funding for the project. HPCL would induct a Joint Venture partner into the project, subsequently.

2. Shortfall in plan expenditure by BPCL during the year was mainly due to the following reasons:

(i) The Central India Refinery (CIR) project at Bina (Madhya Pradesh) of Bharat Oman Refineries Limited (BORL), a Joint Venture Company between BPCL and Oman Oil Company Limited, could not be progress during the year, as necessary approval from the Government of Gujarat under Wild Life Protection Act and from the Ministry of Environment & Forests under the Coastal Regulation Zone Notification were received by BORL only in February, 2000 and March, 2000 respectively. As a result the Plan allocation for this mega project remained unutilised.

(ii) The project for construction of a Product Terminal at Bina for evacuation of products from the Central India Refinery (CIR), could not be progressed during the year as this project is linked to the CIR projects. Besides, to work was held up due to agitation by land owners seeking compensation. As a result, the allocation largely remained unutilised.

(iii) Delay in land acquisition for some of the IX Plan LPG bottling plan resulted in part of the allocation remaining unutilised.

(iv) Application money by BPCL to Joint Venture Companies awaited conversion into equity at end of the year 1999-2000. Hence this amount was not reflected as capital expenditure 1999-2000.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin. I, dated 11.10.2000]

Comments of the Committee

(Please *See* Para No. 16 of Chapter I of the Report)

Recommendation (Sl. No. 9, Para No. 2.9)

The Committee are not satisfied with progress made in regard to harnessing Coal Bed Methane. The policy for exploration and exploitation was approved by Government in July, 1997 and after that no significant development has been made in the direction of commercial production of CBM. As per the information received from the Ministry, a total of 9 blocks have been identified in the States of Bihar, West Bengal and Madhya Pradesh and reportedly packages for 7 blocks are ready. In this matter, concerned State Governments are being consulted individually. The Committee desire that the Central Government should expedite the process by calling all the concerned State Governments together to take a decision acceptable to all State Governments regarding payment of royalty and other related matters. Since considerable time has already rolled by, concrete action/results are required. The Ministry should prepare a time frame to start commercial production in consultation with concerned agencies including State Governments and concerted efforts should be made to ahdere to the agreed schedules. ONGC should also expedite R&D activities so that the actual work may start without any more delay.

Reply of the Government

Pursuant to Government's approval for policy for exploration and exploitation of Coal Bed Methane (CBM), various steps have been taken to implement the policy. Various bid documents *viz.* Notice Inviting Offer, (NIO), Bid Evaluation criteria (BEC), Bid Format (BF) have been finalised. The Model contract has also been prepared and is under vetting of Ministry of Law. Blocks have been identified and data packages for seven blocks are ready.

As per requirement under P&NG Rules, in order to implement the CBM policy, Government has initiated consultation with the State Governments of West Bengal, Bihar and Madhya Pradesh where blocks have initially been identified. Consultation with Government of Gujarat and Rajasthan have also been initiated. These States Governments were informed of the blocks to be offered and terms of CBM and were requested to convey their approval to the policy and appoint a nodal officer to implement the policy in the State. **The State Government of West Bengal has concurred to the policy, whereas the Government of Bihar has responded that it will communicate its decision shortly.** The Governments of Gujarat and Madhya Pradesh have raised certain issues. Response from Rajasthan Government is awaited. The matters are being pursued with State Governments in order to complete State Consultations.

Issues raised by Government of Gujarat: The Government of Gujarat has issued two notifications bringing Coal Bed Methane within state purview.

The matter with regard to legal validity of the notifications issued by Government of Gujarat was referred to Ministry of Law. Ministry of Law has opined that the notifications issued by Government of Gujarat does not appear to be legally sound. Based on the legal opinion given by Ministry of Law, the issue was taken up with Gujarat Government and they were requested to withdraw the notifications issued by them. Subsequently, the matter was taken up by Minister (P&NG) with Chief Minister, Gujarat, bringing out legal position and they were requested to withdraw the notifications. Gujarat Government has communicated that it was getting the matter legally scrutinised. Recently, the Minister (P&NG) had held a meeting with CM, Gujarat on 15.3.2000 wherein the Minister (P&NG) requested an early concurrence of the State Government on CBM Policy in view of the legal position explained to them. CM, Gujarat has assured to consider the matter. Again, on 1st May, 2000 Minister (P&NG) has written to Chief Minister, Gujarat to expedite the clearance of Government of Gujarat to the CBM policy. The matter is being pursued to resolve the issues with Gujarat Government.

Issues raised by Government of Madhya Pradesh: The Government of Madhya Pradesh has objected to the policy contending that the State Government being the real owner of all the oil and natural gas situated within the state should be allowed to invite the bids. They have also demanded that the rate of royalty should be at least 20% instead of 10%.

The above matter has been examined in this Ministry. Under entry no. 53 of list-I in schedule 7 of the Constitution of India and the Oil Fields (Regulation & Development) Act (53 of 1948), the CMB being hydrocarbon gas is a central subject. Further, the merits of Central Government inviting the bids have been conveyed to the State Government. It has also been conveyed that the rate of 10% of royalty which is fixed irrespective of any profitability from the project unlike other CBM producing countries in the world, is highest in the world. The above position had also been clarified to the Secretary (Mines), Madhya Pradesh with the reqeust to expedite the clearance of State Government to the policy. In response to that the Government of Madhya Pradesh through its letter in March, 2000 has maintained its earlier position and wanted that they should be permitted to invite bids for CBM. On receipt of the reply of Government of Madhya Pradesh, the Minister (P&NG) through his letter dated 1st May, 2000 has taken up the matter with CM, Madhya Pradesh bringing out the position of Central Government on the issues raised by State Government and has requested to expedite the clearance of the State Government to the policy.

As far as ONGC's activities are concerned, they had entered into Coal Bed Methane exploration in 1994, and started its R&D project in eastern most extension of Raniganj coal field in Durgapur depression and apart from acquiring 80 Line Kms of 2D seismic data have drilled two R&D wells. Further, in Jharia area in Damodar basin apart from acquiring 122 Line Kms. of 2D seismic data, 4 wells have been drilled. The first well at Parbatpur established the CBM flow for the first time in the country. Other 3 wells are under prolonged testing to evaluate sustained producibility. Recently, ONGC has also been awarded a PEL in Raniganj area in West Bengal on nomination basis for CBM exploration. Geological mapping of the area and analysis of coal quality have already been completed which will now be followed up by drilling of slim hole, development of a prospect map and appraisal drilling.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin. I, dated 11.10.2000]

Comments of the Committee

(Please *See* Para No. 25 of Chapter I of the Report)

Recommendation (Sl. No. 13, Para No. 2.13)

In the Ninth Plan document a need of increase in strategic tankage for crude oil and petroleum products to avoid disruption of supply in case of war or natural calamities have been felt. The Committee recommend that the Government should take all steps to evolve ways and means to raise funds for this purpose so that work in this regard may be expedited without any further delay.

Reply of the Government

Government are considering to provide strategic tankage for imported crude oil gradually in phases to achieve a total fo 45 days' cover. Initially, 15 days of strategic reserve, necessitating gross tankage of 5.00 MMT, is being considered.

MOP&NG has set up a Committee for preparation of Detailed Feasibility Report (DFR). DFR preparation by EIL is under advanced stage of completion. One of the terms of reference of the said Committee is to examine various options of financing of the proposal for setting up additional tankages for Imported crude oil. Therefore, once the DFR is available, a view would be taken to evolve ways and means to raise funds for this purpose.

The development of tankage for operational requirement and strategic cover for supply of petroleum products was felt necessary in States of J&K, Himachal Pradesh and NE States, which are most sensitive from the point of view of supply of petroleum products. Various issues relating to their development have yet to be finalised.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin. I, dated 11.10.2000]

Recommendation (Sl. No. 17, Para No. 2.17)

The Committee feel that ongoing reform process in the oil sector is an important factor in Indian economy. The Ministry of Petroleum and Natural Gas is in possession of a number of Reports and suggestions, like Disinvestment Commission Report, Dr. Nitish Sengupta Report, Nirmal Singh Report, Hydrocarbon-vision 2025, etc. These all relate to matters like restructuring, Disinvestment, private sector participation in various activities of oil industry and other long term policies. In their previous report, the Committee have already recommended that before taking any major decision, the matter should be placed before them for consideration. The Committee reiterate their recommendations.

Reply of the Government

The various Reports like *Disinvestment Commission Report, Nirmal Singh Report, Hydrocarbon-vision-2025 etc.* are at various stages of examination and implementation.

Implementation takes place only after the decisions get duly approved by the appropriate authorities in consonance with the laid down procedures.

This Ministry has, however, noted the suggestion of the Standing Committee in this regard.

As far as Dr. Nitish Sengupta Report is concerned, this Ministry constituted a Committee chaired by Dr. Nitish Sengupta, Director, International Management Institute in October, 1998 with the following terms of reference:

(i) To study and analyse the emerging scenario in the Petroleum Sector after the year 2001, with specific reference to development and creation of market competitiveness and the viability of stand-alone refineries and marketing company IBP Company Limited under the conditions of de-regulation/liberalization and globalization.

(ii) To examine the option available and suggest strategic alliance/merger/integration of such oil companies between themselves or otherwise so that we may develop new player(s) on an integrated basis of upstream and downstream activities in the domestic oil sector of marketing and refining, who can stand up to the future competitive conditions and market forces and also operate as viable units with potential for growth.

(iii) To recommend an action plan having regard to strengths/weakness of these units and the various oil companies and their Vision Plans to meet the objective indicated in para (ii) above.

The above committee submitted its report to this Ministry and same was examined by the Ministry. After the examination of the report and taking into consideration its recommendation and other factors for the sustainable growth of oil sector after the dismantling of APM Government have taken following decisions.

(i) Bharat Petroleum Corporation Limited (BPCL) would buy the entire share holding of Government of India of 55.04% in Kochi Refinery Limited (KRL) and make KRL its subsidiary.

(ii) Indian Oil Corporation Limited (IOCL) would buy the entire share holding of Government of India 52.5% in Chennai Petroleum Corporation Limited (CPCL) and make CPCL its subsidiary.

(iii) IOCL would buy the entire share holding of Government of India of 74.46% Bongaigaon Refinery Petrochemicals Limited (BRPL) and make BRPL its subsidiary.

(iv) BPCL would buy 19% of Numaligarh Refinery Limited (NRL) equity held by Indo-Burma Petroleum (IBP) and make NRL its subsidiary, and Oil India Limited (OIL) would buy 10% of NRL's equity from the un-subscribed equity portion of NRL.

(v) The valuation of shares for the above restructuring and disinvestment of Government equity therein shall be done by the Ministry of Petroleum and Natural Gas in consultation with the Ministry of Finance.

[Ministry of Petroleum and Natural Gas, OM No. G 25015/2/2000 Fin. I, dated 11.10.2000]

NEW DELHI;
12 *December*, 2000
21 *Agrahayana*, 1922 *(Saka)*

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on
Petroleum & Chemicals.

APPENDIX I

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

Fourth Sitting

05.12.2000

The Sub-committee sat from 15.00 hrs. to 16.30 hrs.

PRESENT

Dr. Girija Vyas — *Convenor*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Pawan Singh Ghatowar
4. Shri B.K. Handique
5. Shri Mohan Rawale
6. Shri Shyama Charan Shukla
7. Smt. Kanti Singh
8. Shri Ratilal Kalidas Varma

SECRETARIAT

1. Shri Brahm Dutt	*Deputy Secretary*
2. Shri J.N. Oberoi	*Under Secretary*

At the outset Hon'ble Convenor welcomed the Members of the Sub-Committee to the sitting and stated that the sitting has been convened to consider and adopt the Draft Action Taken report on the action taken by the Government on the recommendations contained in the Fourth Report (13th Lok Sabha) of the Standing Committee on Petroleum & Chemicals (1999-2000) on demands for grants of Ministry of Petroleum & Natural Gas for 2000-2001. Then she invited the Members to give suggestions, if any. Some Members made suggestions regarding the issue of funding of Numaligarh Refinery Limited. The Sub-Committee desired that the Government should continue their financial support to NRL so that the proper functioning of the Refinery is not affected adversely due to scarcity of funds in future. The Sub-Committee authorised the Convenor to discuss the issue of NRL funding with the MD of the Refinery and finalise the recommendation of the Committee in this regard. Some Members referred to the exploration and exploitation of oil and gas and need to update the technology in this regard, the system of purchase of crude oil from international market, exploring ways to purchase the same from Iraq. To these issues, Hon'ble Convenor responded that these would be taken up for detailed discussion later at the time of examination of relevant subject and also scrutiny of *Demands for Grants for 2001-02*. She requested the Members to give their suggestions on Action Taken Report in writing, if they so desire positively by 7th December, 2000.

2. Thereafter, the Sub-Committee considered and adopted the Draft Action Taken Report.

3. The Sub-Committee authorised the Convenor to finalise the Draft Report and submit the same to Hon'ble Chairman for consideration by the Standing Committee on Petroleum and Chemicals after the incorporation of suggestions, if any to be given by the Members of the Sub-Committee.

The Sub-Committee then adjourned.

APPENDIX II

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS
1999-2000

Sixteenth Sitting

12.12.2000

The Committee sat from 15.00 hrs. to 16.00 hrs.

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Ramchander Bainda
4. Shri T.T.V. Dhinakaran
5. Shri Dilipkumar Mansukhalal Gandhi
6. Shri Pawan Singh Ghatowar
7. Smt. Nivedita Mane
8. Shri P. Mohan
9. Shri B.K. Handique
10. Shri Mohan Rawale
11. Shri Shyama Charan Shukla
12. Smt. Kanti Singh
13. Shri Prabhunath Singh
14. Shri B. Venkateshwarlu
15. Dr. Girija Vyas

Rajya Sabha

16. Dr. (Smt.) Joyasree Goswami Mahanta
17. Shri Dipankar Mukherjee
18. Shri Ravi Shankar Prasad
19. Shri K. Kalavenkata Rao
20. Shri P. Soundararajan
21. Prof. Ram Gopal Yadav

SECRETARIAT

1. Shri John Joseph	*Joint Secretary*
2. Shri Brahm Dutt	*Deputy Secretary*
3. Shri J.N. Oberoi	*Under Secretary*

At the outset Hon'ble Chairman welcomed the Members to the sitting of the Committee and stated that the sitting has been convened to consider and adopt the Draft Action Taken Report on action taken by the Government on the recommendations contained in the Fourth Report (13th Lok Sabha) of the Committee on Demands for Grants of the Ministry of Petroleum & Natural Gas for 2000-2001. He observed that the Sub-Committee on Petroleum has already considered this Report and approved the same. He appreciated the contribution made by the Sub-committee on Petroleum. He also praised the work done by the Secretariat staff for rendering valuable service in preparing the report. Thereafter, he invited the Members to give their suggestions on the Report. After some discussion the Committee adopted the Draft Report unanimously. On suggestion from some Members, the Chairman stated that the Members could give their suggestions, if any, in writing by 15th December, 2000. The Committee also authorised Chairman to finalise the Report after incorporating suitably, the suggestions received from Members if appropriate and after factual verification from the Ministry and present it to the Parliament during the current session.

The Committee then adjourned.

APPENDIX III

[*Vide* Para 5 of the Introduction]

Analysis of the Action Taken by Government on the Recommendations contained in the Fourth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum & Chemicals (1999-2000) on Demands for Grants—2000-2001 relating to Ministry of Petroleum & Natural Gas

	Total No. of Recommendations	17
II.	Recommendations which have been accepted by the Government (*vide* recommendations at Sl. Nos. 1, 2, 8, 10, 11, 12, 14 and 15)	8
	Percentage to total	
III.	Recommendations which the Committee do not desire to pursue in view of Government's reply (*vide* recommendations at Sl. Nos. 3 & 7)	2
	Percentage of total	11.76
IV.	Recommendations in respect of which replies of the Government have not been accepted by the Committee (*vide* recommendations at Sl. Nos. 4, 6 & 16)	3
	Percentage of total	17.65
V.	Recommendations in respect of which final replies of the Government are still awaited (*vide* recommendations at Sl. Nos. 5, 9, 13 & 17)	4
	Percentage of total	