TWENTY-EIGHTH REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(2002)

(THIRTEENTH LOK SABHA)

DISINVESTMENT IN PETROLEUM AND PETROCHEMICALS SECTOR

MINISTRY OF PETROLEUM & NATURAL GAS

AND

MINISTRY OF CHEMICALS & FERTILISERS

(DEPARTMENT OF CHEMICALS & PETROCHEMICALS)

Presented to Lok Sabha on 17.05.2002

Laid on Rajya Sabha on 17.05.2002

LOK SABHA SECRETARIAT
NEW DELHI

May, 2002/Vaisakha, 1924 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(2002)

SHRI MULAYAM SINGH YADAV- Chairman

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Lok Sabha

2 Shri Ashok Argal
3 Dr. Chellamella Suguna Kumari
4 Shri Ram Chander Bainda
5 Shri Ananda Mohan Biswas
6 Shri Padam Sen Choudhry
7 Prof. Kailasho Devi
8 Shri P.D. Elangovan
9 Shri Dilipkumar Mansukhlal Gandhi
10 Smt. Sheela Gautam
11 Shri Paban Singh Ghatowar
12 Shri Bijoy Handique
13 Shri Shriprakash Jaiswal
14 Shri C. Kuppusami
15 Shri Jagannath Mallick
16 Shri Punnulal Mohale
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24 Dr. Chhatrapal Singh
25 Shri Prabhunath Singh
26 Shri Ramjiwan Singh
27 Dr. Ram Lakhan Singh
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29 Shri Ratilal Kalidas Varma
30 Dr. Girija Vyas

Rajya Sabha

31 Shri Balkavi Bairagi
32 Shri Anil Kumar
33 Shri Shyam Lal
34 Shri Rajiv Ranjan Singh `Lalan'
* 35 Vacant
36 Shri Mool Chand Meena
37 Shri Deepankar Mukherjee

38	Shri Ahmed Patel
** 39	Vacant
40	Shri Yadlapati Venkat Rao
41	Ms. Mabel Rebello
42	Shri Gaya Singh
****43	Vacant
***44	Shri Thanga Tamilselvan
45	Prof. Ram Gopal Yadav

SECRETARIAT

1.	*Shri P.D.T. Achary*	-	*Additional Secretary*
2.	*Shri K.V. Rao*	-	*Joint Secretary*
3.	*Shri P.K. Grover*	-	*Director*
4.	*Shri J.N. Oberoi*	-	*Under Secretary*
5.	*Smt. Madhu Bhutani*	-	*Sr. Executive Assitant*

****** Vacancy caused consequent upon the retirement of Shri Bangaru Laxman, MP (RS) from the membership of Rajya Sabha w.e.f. 9th April, 2002.***

******* Vacancy caused consequent upon retirement of Shri Mukesh R. Patel, MP (RS) from the membership of Rajya Sabha w.e.f. 2nd April, 2002.***

******** Nominated w.e.f. 8th April, 2002 vice Shri P. Soundararajan, M.P. (RS) retired from the membership of Rajya Sabha w.e.f. 2nd April, 2002.***

********* Vacancy caused consequent upon nomination of Shri Rajnath Singh 'Surya', MP(RS) to Standing Committee on Defence w.e.f. 22nd April, 2002.***

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Chemicals (2002) having been authorised by the Committee to submit the Report on their behalf, present this Twenty-Eighth Report on 'Disinvestment in Petroleum and Petrochemicals Sector' of the Ministry of Petroleum & Natural Gas and Ministry of Chemicals & Fertilisers (Department of Chemicals & Petrochemicals).

2. The Committee took evidence of the representatives of the Ministries of Petroleum & Natural Gas, Disinvestment and Department of Chemicals & Petrochemicals at their sitting held on 9th May, 2002.

3. The Committee considered and adopted the Report at their sitting held on 15th May, 2002.

4. The Committee wish to express their thanks to the Officers of the Ministries of Petroleum & Natural Gas, Disinvestment and Department of Chemicals & Petrochemicals for furnishing the material and information which they desired in connection with the examination of the above mentioned subject and for giving evidence before the Committee.

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

NEW DELHI
May 16, 2002
Vaisakha 26, 1924 (Saka)

MULAYAM SINGH YADAV
Chairman
Standing Committee on Petroleum & Chemicals

PART-I

CHAPTER-I

DISINVESTMENT IN PETROLEUM SECTOR

After attaining political independence, our planners preferred to adopt socialistic pattern of the Society to attain economic self-reliance. The Second Five Year Plan stated that "the adoption of socialistic pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries, which are essential and require investment on a scale, which only the State in the present circumstances, could provide, have also to be in the public sector. The State has, therefore, to assume direct responsibility for the future development of industries over a wider area.'

1.2 However, this perception started changing when it was considered that the Public Sector seemed to perform well only when protected through Government created monopolies, entry reservations, high tariffs and quotas etc. Major deviation from this policy started in 1991 when the Government started to deregulate the areas of its operation and subsequently the disinvestment in Public Sector Enterprises was announced. The Industrial Policy of 1991 started the process of de-licensing. The Industrial Policy Statement of 24th July, 1991 stated that the Government would disinvest part of its holdings in selected PSEs but did not place any cap on the extent of disinvestment. Nor did it restrict disinvestment in favour of any particular class of investors.

1.3 However, over the period of time successive Governments modified this policy from time to time to the extent that at present Government's policy seems to retain part of its holding instead of divesting part of its holdings.

1.4 Presently, the primary objectives for privatizing the PSEs are stated to be as follows:-

- Releasing the large amount of public resources locked up in non-strategic PSEs, for redeployment in areas that are much higher on the social priority, such as, basic health, family welfare, primary education and social and essential infrastructure;

- Stemming further outflow of these scarce public resources for sustaining the unviable non-strategic PSEs;

- Reducing the public debt that is threatening to assume unmanageable proportions;

- Transferring the commercial risk, to which the taxpayers' money locked up in the public sector is exposed, to the private sector wherever the private sector is willing and able to step in. The money that is deployed in the PSEs is really public money and is exposed to an entirely avoidable and needless risk, in most cases;

- Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing the PSEs, and their time and energy, for redeployment in high priority social sector that are short of such resources.

1.5 In reply to Unstarred Question No. 4085 dated 18th April, 2002 in Lok Sabha (Annexure-I) it was stated that the Government have decided 'in principle' to disinvest a part of its holding in BPCL and HPCL through strategic sale. Presently the equity structure in these companies is as under:-

Category of Share Holders	Percent	
	HPCL	BPCL
President of India	51.01	66.20
Financial Institutions Banks, mutual funds etc.	27.7	15.09
Foreign Institutional Investors	13.05	14.37
Explovees	0.49	1.42
Public/Others	8.18	2.92

1.6 Bharat Petroleum Corporation Limited, a Government of India Undertaking, came into existence on the 24th January, 1976 as a result of the Government of India acquiring Burmah-Shell Oil Storage and Distribution Company of India and Burmah-Shell Refineries Limited.

BPCL's refinery at Mumbai set up in 1955 by Burmah-Shell Refineries Limited was originally designed with a capacity to process 2.2 Million Metric Tonnes per annum (MMTPA) of crude oil. The refinery has been processing over 8.5 MMTPA of crude for the last three years consistently.

The Corporation has an all-India presence through its existing marketing net work. The Corporation's employees presently number over 12,000.

1.7 Hindustan Petroleum Corporation Limited came into being on 15th July, 1974 when ESSO Standard Refining Company was changed to this name. Subsequently, Caltex was taken over by the Government in 1976 and later merged with HPCL effective from 9th July, 1978. Another Company known as Kosan Gas Company was taken over and merged with HPCL on 26th May, 1979. HPCL thus came into being after merger of 4 different organisations at different points of time. Based on consistent overall growth supplemented by physical and financial performances, status of the Corporation was upgraded by Government of India to Schedule 'A' on 5th June, 1987.

Both these companies have raised their assets and created infrastructure out of their own resources without budgetary support.

1.8 The Government apprised the Committee that they have yet to finalise the percentage of equity in HPCL and BPCL which would be disinvested. Explaining this further, Secretary in the Ministry of Petroleum & Natural Gas stated during his evidence:-

> "Sir, Government of India decided on 27th February, 2002 to disinvest HPCL and BPCL. How much disinvestment is to be made, this has been left to the Ministries of Finance, Disinvestment and Petroleum & Natural Gas has to decide. To proceed with implementation of principal decision action has been initiated to appoint advisors. The rationale beyond this decision is that it has been felt that after dismantling there would be competition in the market. Many indigenous companies have already applied for authorisation to market. Many MNCs from Thailand, Phillipines have shown interest. Reason is that there should not be monopoly in this sector and consumer should get benefit."

1.9 Both these companies are employment oriented companies. Referring to an objective of disinvestment which aims at releasing tangible and intangible resources such as large manpower and their deployment in other priority social sectors that are short of such resources, the Committee sought to know as to how the Ministry proposed to achieve this objective in case of disinvestment in BPCL and HPCL, the Ministry of Disinvestment stated:-

> "Currently, the Shareholder Agreement/Share Purchase Agreement typically provide for no retrenchment for a period of one year and in case of rationalization of manpower thereafter payment of VRS would be made to the retrenched employees. The manpower in all likelihood would continue in the disinvested PSUs, as has been our experience so far. However, even in case of rationalization, the manpower so released, mostly possessing skills of some nature, is expected to be suitably absorbed by the economy."

1.10 An implied objective of disinvestment is to utilize Government's money locked in PSEs for social welfare activities. The Committee observed that BPCL and HPCL both spend a part of their profit for social welfare activities and have contributed a lot in case of national emergency. The Committee wanted to know that in case of disinvestment and privatization, how the Government could get this objective fulfilled from private companies. The Ministry of Disinvestment replied to this observation as under:-

> "The amount that would be unlocked by Government by divesting HPCL/BPCL is expected to be substantial and the Government, as per its policy, would deploy the amount so unlocked in the social sector. However, as compared to

the amount to be realized through disinvestment of HPCL/BPCL, the amount contributed by these companies for social welfare activities and for national emergency is paltry and insignificant."

1.11 Another objective of disinvestment is releasing the large amount of public resources locked up in non-strategic sector. The Committee suggested that this objective can be achieved if the Government off load their share in favour of employees/general public and financial institutions. The Ministry of Disinvestment reacted to this suggestion as under:-

"Strategic sale has following advantages over off-loading of Government equity in favour of employees and financial institutions:

(a) Strategic sale maximises realisation as it brings control premium.
(b) It brings technical, marketing, financial and managerial expertise of the buyer to the company.
(c) It increases the value for Government's residual holding in the company.
(d) It costs less as compared to off-loading in favour of financial institutions/employees."

1.12 Explaining the meaning of strategic sale, the Ministry stated that strategic sale of a PSU meant sale of substantial stake in the equity of a PSU to an interested party along with management control.

1.13 The Government recently disinvested their equity in IBP Co. Ltd. which was bought by IOCL. The Committee enquired whether this sale could be categorized as strategic sale and the buyer as strategic buyer. The Ministry explained the position as under:-

"The sale of Government's stake in the equity of IBP to IOCL can be categorized as strategic sale as the above transaction involved sale of substantial equity to the strategic partner along with management control even though the ownership of IBP did not change from public sector to private sector."

1.14 The Committee observed that on the one hand Government have decided to retain IOC and ONGC as flagship companies, on the other hand, Government talk about privatisation. The Committee sought clarity on the matter as to which Ministry take composite decision. The Secretary, in the Ministry of Disinvestment clarified during evidence:-

"All these decisions were taken in consultation with the other Ministry. When this decision was taken it was taken in consultation with that Ministry. You are well aware that disinvestment in any core sector is a very difficult process. Whichever country has not done disinvestment properly has later on suffered. All of us are aware that the oil sector is a sensitive sector. Therefore, if we privatize or strategically disinvest the stakes, we may have a problem. Therefore, when this issue was discussed, it was decided that IOC, ONGC and GAIL would not be privatized for the time being so that we would be able to have a public sector presence in this area."

1.15 The Committee took special note of the fact that Government's decision not to privatize IOCL was for the time being. Therefore, the Committee wanted to know whether this decision has not created uncertainty and hampered the company to draw up perspective plan of 15-20 years. Secretary, in the Ministry of Petroleum responded to this observation as under:-

"The Cabinet decision taken way back in May, 2000; was that ONGC, GAIL and IOC would continue to be flagship companies. That was the decision taken way back in 2000, nearly two years ago."

1.16 The Committee found contradiction between the Statements of Secretaries of Ministries of Petroleum & Natural Gas and Disinvestment. Secretary, in the Ministry of Disinvestment clarified his position like this:-

"These companies would not be privatized. That was the decision taken in the year 2000. Why I said that for the time being they would not be privatized is that if you look at the overall policy, the policy says that non-strategic sector will be disinvested. This is my interpretation."

1.17 However, the Government have now decided to debar IOCL from bidding for HPCL and BPCL. Explaining the rationale behind this decision, the Ministry of Disinvestment stated:-

"The rationale lies in the fact that the manufacturing sector and retail marketing of petroleum product have different characteristics. Government can mitigate the adverse effect of monopolistic situation in a manufacturing sector by suitably adjusting the customs duty payable on the products. Moreover, since most of the products are under OGL, the trader/consumer has choice to import the product. Contrary to this, in the services sector like retail marketing of petroleum products, the consumer has no such choice and as such has to put up with the ill effects of a monopolistic situation. The same approach was followed when Government invited expression of interest for acquiring Government's stake in

Indian Airlines. The other domestic air service operators were not allowed to bid for the Government's equity in Indian Airlines."

1.18 The Ministry further stated that the benefits of disinvestment in HPCL and BPCL cannot be achieved by retaining these companies under the present set up. Further, the benefits of dismantling of the administered price mechanism/deregulation of the hydrocarbon sector cannot be reaped unless the disinvestment in these companies takes place.

1.19 The Committee wanted to know the steps taken by the Government in the wake of Dismantling of APM and the number of companies which have shown interest in marketing. The Ministry of Petroleum & Natural Gas replied in a written note as under:-

"Government of India have issued the detailed guidelines for granting authorization to market transportation fuels, namely, MS, HSD and ATF to the new entrants including the private sector, vide its Resolution dated 8th March, 2002. The broad features of the guidelines, *inter-alia*, include:

(i) the companies investing or proposing to invest Rs. 2,000 crore in exploration and production, refining, pipelines or terminals may be granted authorization to market transportation fuels;

(ii) the investment should result in the additionality to the existing assets and/or creation of new assets in the eligible activities;

(iii) in case of companies proposing to invest, a bank guarantee or Rs. 500 crore will be obtained. Further, the time frame for making investment would be 10 years including 5 years earmarked for financial closure;

(iv) every eligible company would get only one authorization and it will not be transferable without permission of the Government. The applicant will be required to submit a scheme for marketing to the Government or the Regulatory Board for approval.

So far, Government have received the applications from two public sector oil companies, namely, ONGC and NRL and from two private companies, namely, M/s Reliance Petroleum Limited and M/s Essar Oil Limited."

1.20 Regarding MNCs interested in marketing in India, HPCL in some other context had listed the following companies:-

Total - Fina-Elf

BP	-	Amoco
Exon	-	Mobil

1.21 As per policy decision, the Government accord purchase preference to PSUs products and on the same analogy, the Committee desired that the Government should accord preference to PSUs and indigenous companies to buy equity in such companies which are under disinvestment. The Ministry of Disinvestment did not agree with this and responded as under:-

> "One of the main reasons for the Government to extend the Purchase Preference Policy to PSUs is that the PSUs suffer from inherent disadvantages due to large scale take over of sick companies, incurring huge expenditure on social overheads as compared to private sector, etc. and as such require a level playing field to PSUs vis-à-vis private sector. Further, the policy of purchase preference has improved the order book position of the PSUs. However, this issue is not relevant for the disinvestment of Government equity in a PSU. In the era of Global competition and the need for inviting Foreign Direct Investment, it is felt that any preference extended to the PSUs or indigenous companies for the privatization programme would tantamount to going back on the economic/public sector reforms initiated by the Government since 1991."

1.22 The Committee noted that Sengupta Committee had recommended reorganization/restructure of some oil sector PSUs and Government have completed strategic alliance among Indian Oil Corporation Ltd. (IOCL), Oil and Natural Gas Corporation Ltd. (ONGC) and Gas Authority of India Ltd. (GAIL) through acquisition of equity share of each other. The Government have already allowed sale of the entire Government shareholding in Chennai Petroleum Corporation Ltd. (CPCL) and Bongaigaon Refinery and Petrochemicals Ltd. (BRPL) to IOCL and Kochi Refineries Ltd. (KRL) to Bharat Petroleum Corporation Ltd. (BPCL) in 2000-01. The ostensible objective of sale of stand alone refineries to IOCL and BPCL was to ensure that these refineries do not face difficulty in selling their products in the post APM era. The Committee wanted to know the present refining capacity, future demand vis-à-vis consumption of petroleum products. Ministry of Petroleum & Natural Gas furnished the following information:-

> "The present refining capacity in the country is 116.07 MMTPA. The capacity is expected to increase by 56.40 MMTPA over the next five years. The consumption of petroleum products during 2001-02 is estimated to be 98.10 MMTPA. During the year 2001-02, the net exports from the country were 3.60 MMTPA."

1.23 The Committee also pointed out that BPCL and HPCL both are in the process of establishing grass root refineries at Bina, Allahabad and Bhatinda and have invested huge amount in pre-project activities. BPCL is even executing a project for expansion/modernisation of its Mumbai refinery. The Committee wanted to know the fate of these refineries in the event of disinvestment in these companies. The Ministry of Petroleum & Natural Gas replied as under:-

> "The Government would consider at appropriate stage all relevant issues relating to the feasibility for completion of ongoing projects while finalising the Transaction Agreements that would be entered into with the Strategic Partner/s."

1.24 The Committee enquired that in the event of some MNCs, importing refined product from their refineries abroad, how would we utilise our already surplus refining capacity. The Committee got an academic and technical reply as under:-

> "It is envisaged that in the free market regime, refineries in the country will adjust their crude processing level depending on domestic demand and export possibilities."

1.25 The Committee noted that there are about 18 refineries in the country, 16 being in the Public Sector, 1 in Joint Sector and 1 in Joint Venture. Out of these Public Sector refineries, 6 are located in East and North-Eastern region of the country. These regions are economically under developed and demand Government's Special attention to plan their economic development. Refineries in the North-East are of very small capacity. The Committee apprehended that a situation might arise when these refineries are closed down by a company/companies who acquire these but are not interested in their working but are interested only in marketing.

1.26 Ministry of Petroleum & Natural Gas shared this concern of the Committee and submitted in a written reply as under:-

> "Refineries in the North-East have the disadvantage of sub-economic size and costs involved in evacuating the surplus products out of the North-East region. With a view to compensate these refineries in the Post APM regime, 50% excise duty concession has been extended to these refineries with effect from 1st March, 2002."

1.27 During evidence also, this issue was discussed when the Committee sought specific information about Government's plan to protect indigenous refineries from the onslaught uneven competition of big refineries. Secretary in the Ministry of Petroleum & Natural Gas deposed as under:-

> "Cabinet decision was based on the inter-ministerial discussion that we would keep 51 per cent equity on the long term basis. We do not know as to

whether the Ministry of Disinvestment would come forward with further proposal. When they come forward, our Ministry would then take a decision whether we would continue with 51% per cent on the long term basis.

Regarding the question of imports and our refined products, I would like to say that the refining capacity at the moment is surplus in the country because of slack in the demand. It is quite possible and countries which have deregulated are often involved in both import and export to see that in the deregulated market, private players fix a proper price. They do not fix exorbitant prices which do not correspond to the international market."

1.28 Regarding competition, Secretary said:-

"Government imposes Customs Duty wherever they can. They use this system to protect the cost of all these excessive imports or the cost of dumping from foreign agencies."

1.29 The Committee asked whether the Finance Minister has free hand in this regard or is bound by compulsions under WTO, Secretary replied:-

"The Finance Minister and the Commerce Ministry has made commitment to WTO. Within those commitments a lot of protection is needed for our refineries. Even that small protection is quite adequate to take care of this problem.

Some of the refineries like the North-East refinery where the problem exists because their problem is such that any amount of protection cannot help them. There is also a problem of non-availability of adequate crude because that is a different kind of problem."

1.30 IOCL has surplus refining capacity and to absorb that capacity in the marketing, the Company decided to bid for equity in IBP, they later do not have any refinery. BPCL and HPCL both have their refineries and a wide marketing net work. In the event of disinvestment in these companies, the Committee wanted to know whether the Government would ensure that final acceptance of the prospective bidder's value of the equity being disinvested is proportionately more than the equity sold to IOCL. The Ministry of Disinvestment submitted in a written note as under:-

"The value of equity of HPCL and BPCL to be sold cannot be determined now. Government would follow the same transparent procedure of disinvestment as had been followed in the case of IBP disinvestment. The price to be realized by Government would depend on several factors such as the level of competitive tension in the bidding of HPCL/BPCL, the strength of HPCL/BPCL, the level of their strategic importance to the prospective bidders, etc. Government will sell its stake in HPCL/BPCL to the highest bidder benchmarked against the reserve price fixed by the Government based on the recommendations of advisors who are experts in the field of valuaton."

1.31 The Committee were not convinced with this reply and raised this issue during evidence when Secretary in the Ministry of Disinvestment stated as under:-

> "The valuation is done by different advisors and then there is a Committee in Government which goes into valuation and says whether the valuation is right or wrong. There are two parts. One is the sale price and the other is inherent worth of the company. We see what is synergy between the buying company and the selling company. We see what is the synergy between the buying company and the selling company. In the case of IOC and IBP, IOC felt that there was a huge synergy between IOC and IBP. I will give you the reasons for that. IOC had a surplus of refining capacity whereas IBP had only distribution outlets. So, a large part of IOC's refining capacity used to go to IBP and IOC did not want IBP to go to another company. Therefore, they wanted to give a high premium on the synergy which they did. They took a very sensible marketing decision and paid a huge premium over the valuation which the advisors had done. The valuation was approved by the Inter-Ministerial Group and by the Group of Secretaries."

1.32 The Committee observed that valuation system should be credible. The valuation is done with the assistance of advisors and asset valuers. The Ministry of Disinvestment explained the system as under:-

> "The Advisors for the disinvestment transaction are appointed through a well laid out transparent procedure involving global competitive bidding. Government appoints only one Advisor for one PSE. However, the Advisor could typically comprise a consortium of more than one firm. Moreover, an independent valuer values the assets of the company and depending on the size of the company and nature of the assets more than one asset valuer are also assigned the job of asset valuation. The valuations are also checked by a Committee consisting of officers of the administrative Ministry, CPSUs, Ministry of Disinvestment and Ministry of Finance. Further, the bids are called on a transparent international platform where the buyers also indicate valuation of the company through their bids."

1.33 The Committee specifically referred to the case of Vadodara plant of IPCL where both IPCL and IOCL had assessed the different values of this plant. The Committee wanted to know as to how it could be ensured that valuation system is foolproof and objective. The Ministry of Disinvestment submitted in a written note as under:-

“The question of valuation of the Vadodara Plant of IPCL arose when a proposal of transfer of this plant to Indian Oil Corporation on nomination basis was being explored. This route however, was not pursued and Government later opted for the strategic sale of the whole of IPCL. Therefore, the question of valuation of Vadodara plant is now no longer relevant.

An Evaluation Committee comprising officers from different ministries of Government and the PSU to be divested scrutinizes the valuation made by the Advisor. Ministry of Disinvestment has issued detailed guidelines on methodology of valuation, which have to be uniformly followed by all the advisors. Further, different advisors belonging to interested bidders value the PSUs divested. If competitive environment is ensured, one gets the highest price because different parties submit their bids based on the advice of their respective Advisors who are experts in the field of valuation.”

1.34 Secretary in the Ministry of Disinvestment explained this position further during evidence:-

“Ultimately, if there is an open competition, if there is international competitive bidding and there are a large number of bidders, then the market determines the price. The seller may value a commodity at ‘hundred’ but the buyer may value that commodity at 20. Ultimately, it has to be decided how the company is to be valued. If valuation was very simple, you could have had negotiations and sold the company. But every one recognizes that valuation is extremely tricky. Here the international valuers and other valuers evaluate the commodity differently.”

1.35 The Committee reacted to this and observed that so far Government’s assets are concerned, seller’s perception should prevail instead of buyer’s perception. Secretary in the Ministry of Disinvestment responded as under:-

“You can valuate your assets very high and not sell.”

1.36 Government’s decision to privatize oil Industry and disinvesting BPCL and HPCL did not find favour with the Committee. They apprehended that MNCs as part of their marketing practices resort to unstructured and fierce marketing creating unstable conditions for the smaller companies causing their elimination from the market. The Committee wanted assurance that privatization and granting of unrestricted market access to MNCs would not result in closure of existing Retail Outlets, massive discontinuity and retrenchment in the initial stages. Ministry of Petroleum & Natural Gas responded to these observations as under:-

"Larger number of marketeers in the domestic market is expected to improve competition and market efficiency to the ultimate benefit of the customers. While ensuring that market is competitive and interests of customers are protected, the Government/proposed Regulatory Board would discourage unethical practices and unfair pricing of products in the market.

Further, a provision has also been made in the Petroleum Regulatory Board Bill that for the transition period from 1.4.2002 till 31.3.2004 extendable by one more year by the Government, the Board shall monitor setting up of dealerships and distributorships of MS, HSD, SKO and LPG by the entities without effecting in any manner whatsoever on the retail network of the existing entities.

1.37 The Committee observed that the security of the country is linked with the infrastructure raised by our Oil Industry and strategic reserves of crude oil and petroleum products. Till now all the three National Oil-Marketing Companies hold these reserves based on Ministry of Petroleum and Natural Gas directions. However, with the privatization of BPCL and HPCL the Government's authority over private players is uncertain. The Committee were also apprehensive that MNCs would not be subject to rules and regulations of the State, would enjoy unrestricted powers which lead to unethical economic practices. The Ministry of Petroleum & Natural Gas replied to the above observations as under:-

"Oil companies hold stocks on commercial considerations. In a free market scenario, in case any company is made to hold higher inventories through Government intervention, the concerned company would have no other option but to pass on the additional costs in the selling prices. With a view to ensure level playing field in this regard, the Government instructions in this regard would apply uniformly to the oil companies in the public as well as private sector."

1.38 PSU oil companies including BPCL and HPCL make intensive and expensive efforts to reach out to the remotest and toughest places in the country. The Committee wanted to know whether the Government have analysed the situation when the private companies fail to reach out to these areas. Further they wanted to know the market share of each of the PSUs and their percentage of Retail Outlets belonging to 'A' category. The Ministry of Petroleum & Natural Gas replied to these enquires as under:-

"As per the guidelines for granting authorization to new entrants to market transportation fuels, Government/Regulatory Board while giving authorization may impose the condition of servicing remote areas and low service areas by setting up Retail Outlets in such areas at least in proportion to the existing percentage of Retail Outlets in these areas at the beginning of the year. The Government/Regulatory Board shall have the power to cancel the marketing authorization if the eligible company fails to comply with the conditions.

The percentage of ‘A’ category retail outlets of the Oil Marketing Companies (OMC) as on 1.4.2002 is as under:-

Name of OMC	**Total number of ROs**	**‘A’ category ROs**	**% of ‘A’ site ROs**
IOC	7870	3346	42.51
HPCL	4729	1632	34.5
BPCL	4701	2825	46.3
IBP	1559	853	54.7
Total	**18537**	**8579**	**46.3”**

CHAPTER – II

DISINVESTMENT IN PETROCHEMICAL SECTOR

2.1 The Petrochemical Industry mainly comprises polymers, synthetic fibres, fibres intermediates, elastrometers, synthetic detergents, aromatics and olefins. The production of domestic petrochemical industry has recorded a growth rate of 18.5% (compounded annually) during the 8^{th} Plan period whereas this growth was of the order of 17.9% (compounded annually) during the 9^{th} Plan period. The corresponding demand grew at 13.8% and 11.4% in 8^{th} and 9^{th} Plan respectively. The performance of the industry is as under:-

Figures in 000'MT

Production/ Demand	**1991-92**	**VIII Plan Ter. Year 1996-97**	**Growth at the end of VIII Plan**	**IX Plan Ter. Year 2001-02**	**Growth at the end of IX Plan**
Production	1148	2677	18.5%	6093	17.9%
Demand	1777	3392	13.8%	5811	11.4%

2.2 The following are the PSUs dealing with Petrochemical Industry:

Gas Authority of India Limited (GAIL) and Bongaigaon Refinery and Petrochemicals Ltd. (BRPL	:	Under the administrative control of Ministry of Petroleum & Natural Gas
Indian Petrochemicals Corporation Ltd. (IPCL)	:	Ministry of Chemicals & Fertilisers, Department of Chemicals & Petrochemicals

2.3 BPRL manufacturers Polyester Staple Fibre (PSF) and Dimethyl Terepthalate (DMT). GAIL produces Polyethylene and Chemicals. The IPCL manufacturers polymers which include polyethylene, polypropylene, PVC, fibre and fibre intermediates and chemicals.

2.4 The market share against major petrochemical products of BRPL is 1.5% for Polyester Staple Fibre (PSF) and 4.2% Dimethyl Terepthalate (DMT) and of GAIL is 15.43% for Polyethylene.

2.5 The IPCL manufacturers polymers which include polyethylene, polypropylene, PVC; fibre and fibre intermediates and chemicals. The production of major group of products manufactured by IPCL and its share of production in all India context is as given below:-

Product	**Production**	**Share of production**

	Lakh/MT	in all India context
Polymers	9.41	23%
Fibre and Fibre Intermediates	1.77	24%
Chemicals	2.53	61%

2.6 The Committee wanted to know the demands of the Petrochemical Industry, types of Challenges the indigenous Industry faces from international competition and the impact of imports on economic viability of the industry. The Committee were apprised as under;-

> "The integration of global economies under WTO regime and falling tariffs has posed stiff competition and challenges before the domestic petrochemical industry. With a view to stay competitive and face the challenges, the domestic industry would have to upgrade the technology, upscale its size and increase the efficiency with a objective of lowering cost of production.
>
> The imports of petrochemical products are allowed under Open General Licence (OGL) and the industry is exposed to global competition. the domestic manufacturers have to align their prices to international level and margins of industry are dependent upon the international prices and the cost of manufacturing. The imports of petrochemical products so far has been marginal and there is no evidence to suggest that free import of the petrochemical products has impaired the indigenous industry.
>
> The petrochemical manufacturers have been representing from time to time for reducing the cost of capital, lowering import duty on capital goods and feed stocks, supply of clean and continuous power at competitive rate, creation/improvement of infrastructure facilities, rationalization of customs/excise duties etc. In addition, requests for imposition of anti-dumping and safeguard duties are also received."

2.7 Replying to a specific query of the Committee, they were informed that the cost of production of major petrochemical products viz. DMT and PSF is higher compared to the private sector and imported products.

2.8 In view of the Government's policy on import of petrochemical industry and the present indigenous availability, the Committee sought to know whether new capacities are being added in Public and Private Sector in the next 5, 10 and 15 years and how far they would be able to meet international competition. The Committee also wanted information about the demand supply position of petrochemical products in the country and its foreseeable position in the above period. The Department of Chemicals & Petrochemicals furnished the information as under:-

"The demand of polymers and synthetic fibres are projected to grow at about 12% and 5% respectively during the next 10 years. Setting up of petrochemical plants to meet the growing domestic demands would depend upon factors like import duty on end petrochemical products, import duty on capital goods and feed stocks, cost of capital, improvement in infrastructure facilities, etc. The competitiveness of the industry would also be dependent on the aforementioned factors.

Polymers and synthetic fibres are important constituents of petrochemical industry. The demand of polymers and synthetic fibres are projected to grow at about 12% and 5% respectively during the next 10 years. For meeting the growing demand, additional capacities would have to be created. However, the creation of additional capacities would depend upon the factors like cost of capital, import duty on capital goods and feedstock, import duty on end products, rationalization of import/excise duties, creation of infrastructure facilities etc."

2.9 The Committee enquired about the capacity utilisation of the following petrochemical products in public and private sector vis-à-vis with global capacity utilisation :

(i) Ethylene
(ii) Benzene
(iii) Toluene
(iv) Polyethylene
(v) Polypropylene

The Department provided the information as under:-

"The capacity utilisation of public and private sector in respect of Ethylene, Benzene, Toluene, Polyethylene and Polypropylene for the year 2000-01 is as below:-

Figures in 000' MT

Products	**Sector**	**Capacity**	**Production**	**Capacity Utilisation %**
Ethylene	PSU	1130	900	79.6
	Private	1271	1013	79.7
	Total	2401	1913	79.7
Benzene	PSU	288	191	66.3
	Private	390	305	78.2
	Total	678	496	73.2
Toluene	PSU	80	67	83.8
	Private	200	70	35.0
	Total	280	137	48.9
Polyethylene	PSU	800	535	66.9

	Private	845	406	48.0
	Total	1645	941	57.2
Polypropylene	PSU	160	188	117.5
	Private	1170	982	83.9
	Total	1330	1170	88.0”

2.10 Global capacity utilisation in respect of Ethylene, Polyethylene and Propylene for the year 2000 is as under:-

(In ‘000 MT)

Products	**Capacity**	**Production**	**Capacity utilisation**
Ethylene	98765	88848	90
Polyethylene	60345	49880	83
Polypropylene	34575	28778	83

2.11 The Committee wanted contribution made by petrochemical Industry towards national exchequer during the last 3 years. The Department furnished the following information:-

“The customs and Central Excise Revenue realized for petrochemicals industries for the years 1998-99 to 2000-01 is as below:-

Rs. in crore

Year	**Revenue Realised**	
	Customs Duty	**Excise Duty**
1998-99	1623.73	2037.59
1999-2000	1777.96	2097.26
2000-01	1450.76	1456.61

Since corporate tax is levied on companies which are engaged in multi product manufacturing activities, separate data on corporate tax collected from petrochemical units is not readily available.”

2.12 The Committee enquired whether petrochemical industry in India is prone to monopolisation from indigenous point of view and also from international angle. The Department clarified the position in written note as under:-

“The petrochemical industry is largely de-regulated. Import of petrochemicals including Olefins, aromatics and fibre intermediates is allowed under OGL with different rates of duties. In the market, petrochemical products of indigenous and foreign origins are tradable freely and the market forces namely, demand, supply and quality determine the prices. As the products are allowed to be imported under OGL, there is remote possibility of domestic industry being monopolised. In the international scene also due to presence of large number of players, there is no possibility of monopoly."

PART-II

OBSERVATIONS/RECOMMENDATIONS OF THE COMMITTEE

Petroleum Sector

The Standing Committee on Petroleum and Chemicals while examining the Demands for Grants of the Ministry of Petroleum & Natural Gas for the year 2002-03 considered the issue of allowing IOCL to bid for equity in HPCL and BPCL and made recommendation No. 31 in their 27th Report. However, the Committee took note of the Government's statement in Lok Sabha, in reply to Q.No. 4085 dated 18th April, 2002 wherein it was stated that they have decided 'In Principle' to disinvest a part of its holding in BPCL and HPCL through strategic sale. In reply to the same Question, the Government also stated that the cost of freehold land and buildings as per books of account as on 31.3.2001 was about Rs. 1396.97 crore for BPCL and Rs. 913 crore for HPCL. The Committee were not agreeble to the position as stated by the Government and therefore, decided to have micro examination of the subject regarding Disinvestmnet in Petroleum and Petrochemical Sector and present a comprehensive and exclusive report.

2. Bharat Petroleum Corporation Limited (BPCL) refinery at Mumbai has been processing over 8.5 MMTPA of crude for the last three years consistently. The Corporation's employees presently number over 12000. Similarly, Hindustan Petroleum Corporation Ltd. is presently operating 2 refineries at Mumbai and Visakhapatnam and its work on setting up a grass root refinery at Bhatinda is in progress. The Corporation is a mega public sector undertaking and has been accorded Navratna status.

3. One of the objectives of disinvestment in BPCL and HPCL is to release the large amount of public resources locked up in these companies and redeploy the same in social and infrastructural sectors. In the view of the Committee health, family welfare, primary education and other social sectors are highly priority areas. The Committee would like to state that both these companies after having been made PSUs have set up a vast net work of marketing infrastructure such as port facilities, terminals, depots, LPG bottling plants, product pipelines etc. etc. In the Committee's opinion raising of this infrastructure is also an investment which ultimately helps the common man in the society. No private company singularly would have spent on setting up product pipelines and port facilities. The Committee feel that these companies have already done considerable work in raising infrastructure and hence the objective of disinvestment is already being fulfilled. The Committee, therefore, recommend that there is no need to disinvest BPCL and HPCL.

(Recommendation No. 1)

4. Another objective of disinvestment is releasing manpower currently locked up in managing the PSEs and their redeployment in high priority social sectors that are short of such resources. The Committee have not been convinced with the reply furnished by the Ministry of Disinvestment that manpower released, mostly possessing skills of some nature, is expected to be suitably absorbed by the economy. India is a welfare State and it is the duty of the Government to secure the welfare of the people. Releasing of employed manpower without any alternate job is not a welfare activity. The past experience of disinvestment in Modern Food and Balco is not a happy one. In the name of rationalisation of manpower after the locking period of one year, the staff of these companies was coerced to opt for VRS and many of them are without work. There is no organized system to rehabilitate them. Minister of Labour in reply to a Starred Question No. 623 dated 9th May, 2002 has admitted that the rate of growth in employment in the organized sector has declined by 0.5% during 1999-2000. The Committee, therefore, feel that even the chances of achievement of this objective are remote and therefore, recommend that in case of disinvestment in any industry, the Government should ensure rehabilitation of such staff which is declared surplus.

(Recommendation No. 2)

5. To support their point of view the Government have stated that the average dividend received by Government from HPCL and BPCL for the last five years has been Rs. 108.70 crore per annum and Rs. 95.90 crore per annum respectively. The Committee, however, find from the annual report of HPCL that their dividend during the last five years has been as under:-

Rs. in crores

Year	**Dividend**
1996-97	**83.5**
1997-98	**108.89**
1998-99	**248.71**
1999-2000	**284.98**
2000-01	**339.33**

The Committee feel that payment of Dividend should not be the only basis for deciding whether the company should be disinvested or not. These companies have contributed to national exchequer by way of custom, sales tax etc. They have increased their working capital. They have got their amount locked up in Oil Pool Account for years and even now the Government instead of having released the amount have issued Oil Bonds which fetch less than 7% interest whereas Government themselves expect 10% interest. The Committee would also emphasise that Government should take into account the basic fact that without seeking budgetary support from the Government these companies have raised the assets which are in real sense the National assets. The Committee, therefore, do not accept the view of the Government that rate of dividend of these companies is lower than that of private

companies. The Committee recommend that Government should take into account the above factors also while determining the real value of dividend.

(Recommendation No. 3)

6. The Committee take special note of the submission made by Secretary, Ministry of Disinvestment that Government's decision not to privatize Indian oil Corporation Ltd. was for the time being only. The Committee feel that Government lack seriousness. No company especially of the stature of Indian Oil Corporation can grow unless it prepares its perspective plan for the next 15-20 years. Such statements like 'For The Time Being' add uncertainty in planning and implementation. The Committee are of the firm opinion that Government should come out with categorical policy statement that Indian Oil Corporation shall not be privatized during the next 15-20 years.

(Recommendation No. 4)

7. Government intend to retain three companies in the hydrocarbon sector under its purview viz. ONGC in upstream, Indian Oil in refining & marketing and GAIL in gas. It is, therefore, all the more important to strengthen the position of Indian Oil by providing level playing field in the deregulated scenario to face stiff competition from MNCs and private players so that it always holds considerable market share and remains as the flagship company of the Government. Therefore, the Committee recommend that IOCL be accorded full freedom in portfolio management, acquisition and merger with other companies. The Committee further recommend that these flagship companies including OIL be advised to conserve their resources for investments in their spheres, expansion plans and strengthening marketing network such as acquiring equity in BPCL & HPCL instead of making investments in unviable joint sector and private sector in refining or petrochemicals activities.

(Recommendation No. 5)

8. The Committee attach a special significance for the economic development of North-Eastern region of the country. At present refineries operating in this region are life line for the region and source of employment. The Committee are dismayed to note the approach of the Government that in case of privatization and in the free market regime, refineries in the country would adjust their crude processing level depending on domestic demand and export possibilities. Refineries in the North-East are getting major part of their crude from the region within which is not sufficient to run them to full capacity. In case of privatization, it is not necessary that they would be assured of local supply of crude oil and may have either to import or transport from coastal region resulting in increase in their input costs which would make them further vulnerable from economics point of view. The Government have announced some excise duty concession but the Committee do not consider it adequate. The Committee, therefore, recommend that the Government should first consider a special package for refineries in North-East before initiating privatization.

(Recommendation No. 6)

9. The present refining capacity in the country is 116.07 MMTPA. The capacity is expected to increase by 56.40 MMTPA over the next five years. The consumption of petroleum products during 2001-02 is estimated to be 98.10 MMTPA. During the year 2001-02, the net exports from the country were 3.60 MMTPA. The Committee have also noted that BPCL and HPCL both are in the process of establishing grass root refineries at Bina, Allahabad and Bhatinda and have invested huge amount in pre-project activities. The Committee note with concern that already the refining capacity in the country is more than demand and what would be the situation if MNCs which happen to take over PSU Oil Companies prefer to import refined products from abroad. Another area of concern is about the future of grass root refineries which are being set up. The Committee are amazed at the reply of the Government that they would consider at appropriate stage all relevant issues relating to the feasibility for completion of on-going projects while finalising the Transaction Agreement that would be entered into with the Strategic partners. The Committee view this reply with utmost concern and feel that Government are in a hurry to disinvest without first deciding the basic issues. The announcements of the Government have already created uncertainties. The Committee, therefore, recommend that before taking any final decision the Government should ensure that all on-going projects including those which have been conceptualized such as Bhatinda Refinery in Punjab, Bina Refinery in Madhya Pradesh and Allahabad Refinery in Uttar Pradesh would be implemented and it would be legally binding for the acquiring company to execute them.

(Recommendation No. 7)

10. The Committee also recommend that the Government should ensure by legal means that marketing companies would lift the stocks from indigenous refineries only and would not be permitted to import refined products from abroad.

(Recommendation No. 8)

11. The Committee note that Government have decided to debar IOCL from bidding for HPCL and BPCL for the reason that after acquiring these companies IOCL would become a monopoly. The Committee feel that this decision is not only irrational but against the spirit of Article 19 of the Constitution of India. Article 19 (6) (ii) permits state monopolies in any trade, business, industry or service, whether to the exclusion, complete or partial, of citizens or otherwise. The Committee agree that petrochemicals is a manufacturing sector and in a manufacturing sector competition exists within the industry or even through imports under OGL avoiding a monopoly situation. But the contention of the Ministry of Disinvestment that petroleum sector is a service sector is not tenable. Petroleum industry is also very much a manufacturing sector with refining capacity in excess of 115 MMTPA. Secondly, all petroleum products except petrol and diesel can also be freely imported. There is no guarantee that even these products would not be put under OGL in future. The new entrants especially MNCs in the petroleum sector are likely to import petroleum products including petrol and diesel and this situation will certainly create competition. In this situation allowing IOCL to bid for BPCL & HPCL cannot be considered as leading to monopoly. Further, the demand for Indian petro-product is expected to grow

significantly in the next decade and a growth rate of 5-6% is expected in future. Since the petro-product market would be expanded considerably, allowing room for greater competition, acquisition of HPCL & BPCL by Indian Oil would not lead to a monopoly situation. The Committee, therefore, recommend that Government should review their decision to debar IOCL from bidding for BPCL & HPCL. The Committee draw the attention of the Government that in the past they have allowed BPCL and IOCL to acquire Kochi Refinery Ltd., Chennai Petroleum Corporation Ltd. and BRPL on a transparent formula. The Committee, therefore, also recommend that on the same principle, BPCL and HPCL may be transferred to IOCL/ONGC/GAIL in any combination as the Government may deem fit as long as the pricing formula is transparent.

(Recommendation No. 9)

12. Government policy do not debar the new entrants in the marketing sector to source the products from their manufacturing units in India or bringing in Indian market through imports. New entrants may not only grab a share of expanded market but also corner the existing market and as happens in any industry, the share of existing players will definitely come down with greater competition. This was experienced by our PSUs. In case of IndianOil in lubricants market, its share came down from earlier level of 60% to the level of 38% with opening-up of lube market. Thus, it is extremely important for our PSUs to consolidate their positions in the domestic oil sector through merger/acquisition in the refining and marketing segments to achieve economy of scale, synergy and lower costs benefiting the customers. In the recent past, the global oil sector as well as other sectors have also witnessed similar mega mergers (Exxon-Mobil, BP-Amoco-Arco, Total-Elf-Fina, etc.). The Committee, therefore, recommend that all these PSUs dealing with oil sector should be allowed rights of acquisition/merger.

(Recommendation No. 10)

13. As per recommendations of Sengupta Committee Report, Government have completed strategic alliance among Indian oil Corporation Ltd., Oil and Natural Gas Corporation Ltd. and Gas Authority of India Ltd. through acquisition of equity shares of each other. The primary objective of disinvestment in BPCL and HPCL is to off-load Government's equity and to obtain money. The Committee recommend that on the pattern of strategic alliance as completed in the companies mentioned above, only PSU oil companies be allowed to acquire equity of BPCL and HPCL at the reserved price or even at higher price as mutually agreed upon.

(Recommendation No. 11)

14. As per policy decision, the Government accord purchase preference to PSUs. On the same analogy, the Committee recommend to the Government to adopt a policy to allow preference to PSUs in buying equity of other PSUs being disinvested. The Government's reply in this regard is not convincing. The Government's only objective seems to be to obtain money out of sale.

(Recommendation No. 12)

15. The Committee as a matter of policy strongly favour promoting indigenous companies over the MNCs. The Committee are also against debarring any company from bidding equity in other companies in any industry. The Committee feel that economics should be allowed to have its way. The Committee rather recommend that indigenous companies should be preferred and promoted in acquiring the shares in the companies under disinvestment. The Committee hope that Government would frame a policy in this regard.

(Recommendation No. 13)

16. Another objective of disinvestment in BPCL and HPCL is stated to be to allow the common man to achieve the benefits of dismantling of the Administered Price Mechanism (APM)/deregulation of the Hydrocarbon sector. The Committee do not feel that BPCL and HPCL are hinderance in achieving the objectives of dismantling of APM. Both these companies, if allowed, can go in for more aggressive marketing and create healthy and perfect competition. Moreover, other indigenous private companies namely Reliance and Essar have already applied for marketing rights in this field. The Committee also note that some MNCs like (i) Total-Fina-Elf (ii) BP-Amoco (iii) Exxon-Mobil are also in the fray. All these companies by their operations would create competitive marketing and obviously the common man would be benefited. Rather BPCL and HPCL together as an Indian Company can counter other companies if they choose to form cartel to further their interests only. The Committee, therefore, recommend that all requests of all indigenous companies seeking marketing rights be expedited.

(Recommendation No. 14)

17. The Committee attach special importance to maintenance of strategic reserves of crude oil and petroleum products. Till now PSU oil companies hold these reserves. Government think that after privatization Government's instructions in this regard would apply uniformly to the oil companies in the Public as well as Private Sector. The Committee do not regard this as a practical approach to the basic need of creating and maintaining strategic reserves for national security. Only PSUs can be depended upon and they are reliable. The Committee rather feel the need of retaining both BPCL and HPCL in public sector for this reason also and therefore, recommend that their utility in this sector be given due consideration. ONGC and GAIL have shown interest in distribution and marketing of petroleum products. The Committee welcome their decision and would recommend to the Government to consider their requests on priority basis.

(Recommendation No. 15)

18. The Committee attach sanctity to the welfare schemes, social laws which aim at uplifting the weaker sections of society and uphold our national honour and maintain integration. With the privatization of undertakings in Public Sector, the worst casualty is protection of rights of weaker sections as no reservation for jobs is envisaged in new set up. There is little possibility that our laws such as 'Rajbhasha'

shall be honoured. The Committee, therefore, urge the Government to take note of this aspect also before going fast on disinvestment.

(Recommendation No. 16)

19. The Committee also examined the valuation system of the assets of PSUs and were not convinced with the reply of the Government that buyers concept of valuation has importance over seller's concept of valuation. The Committee regard the valuation system as tricky and would like that the valuation should not only be transparent but look credible also. In reply to Unstarred Question No. 4085 dated 18th April, 2002 in Lok Sabha, the Government have stated that the cost of freehold land and buildings as per books of account as on 31.3.2001 is about Rs. 1396.97 crore for BPCL and Rs. 913 crore for HPCL. The Committee have been apprised that marketing capitalization of BPCL was Rs. Nine thousand crore. Without going into details, the Committee would like that a representative of accredited largest union of PSUs be associated in Evaluation Committee while deciding valuation.

(Recommendation No. 17)

20. The Committee in their earlier reports have been emphasizing the need to make available petroleum products in rural, hilly and remote areas. Although the Government have decided that all marketing companies would be required to have at least 11 per cent of their total retail outlets in far flung areas yet the Committee feel that actual position would be not in accordance with this stipulation. Private Companies first priority is profit-making and their marketing practices are structured to achieve this end. while apparently implementing the Government's scheme, in practice the position may be otherwise. PSUs like IOCL have been making sincere efforts to reach out to the rural and hilly areas but even now their presence in remote and hilly areas combined together is less than 7% of their total retail outlets. The Committee feel that privatization of BPCL and HPCL would turn out to be a severe blow to the need of reaching out to the remotest areas. The Committee therefore, recommend the Government to have re-look at their policy. The Committee would also like to be assured that before granting marketing rights to new entrants, the Government would enforce investments limit of Rs. 20,000 crore strictly.

(Recommendation No. 18)

21. The Committee also note that out of 18537 retail outlets only 8579 belong to 'A' category which accounts for 46.3% of the total retail outlets. The Committee feel that other categories of retail outlets are prone to the manipulations and unstructured marketing activities often resorted to by private companies. A situation may arise when private companies may lure away retail outlets belonging to other than 'A' category. Private companies, to meet their ends, can form cartels which might cause dislocation of supplies affecting the normal life. In that eventuality there would be only one PSU namely IOCL to follow Government's instructions and to maintain supplies. The Committee's objective is to caution the Government not to consider the issue of disinvestment in BPCL and HPCL from commercial angle only but from other

angles also. Therefore, the Committee would urge the Government to have thorough examination of the subject and keep oil sector in core sector.

(Recommendation No. 19)

22. The Committee feel that experience of all the countries in privatization has not been pleasant. The Committee would like to draw the attention of the Government towards happenings in South Korea where national economy was ruined due to prviatization. The Committee would also like to point out that BPCL came into being in 1976 after acquiring Burmah-Shell Company. All relevance of decision taken in 1976 has not been lost. The Committee would, therefore, like the Government to reconsider their decision to disinvest BPCL and HPCL.

(Recommendation No. 20)

Petrochemicals Sector

23. The Committee note that there are only 3 PSUs in Petrochemical Sector namely Indian Petrochemicals Corporation Ltd. (IPCL), Bongaigaon Refinery and Petrochemicals Ltd. (BRPL) and Gas Authority of India Ltd. (GAIL). Out of these two BRPL is very small company and not even operating to its full capacity. Its market share against major petrochemical products is 1.5% for Polyester Staple Fibre (PSF) and 4.2 Dimethyl Terepthalate (DMT). In effect, there are only 2 PSUs competing with private sector in India and also facing inter-national competition.

24. Government of India have decided to disinvest their part of share in IPCL and have even invited bids. This Committee in their various reports have been recommending to the Government not to disinvest IPCL. The basic argument for their recommendations has been that IPCL is the pioneering petrochemical Industry with Navratna status. Many small scale industries are dependent upon this.

25. The Committee note that Petrochemical Industry has a vast scope of expansion in the country. The demand of polymers and synthetic fibres are projected to grow at about 12% and 5% respectively during the next 10 years. For meeting the growing demand, additional capacities would have to be created. However, the creation of additional capacities would depend upon the factors like cost of capital, import duty on capital goods and feed stock, import duty on end products, rationalization of import/excise duties, creation of infrastructure facilities.

26. The Committee find that the country's capacity to produce some of the petrochemical products like Ethylene, Benzene, Toluene, Polyethylene, Polypropylene is very small in comparison to global capacity. The petrochemical industry in the country is open to international competition and imports are freely allowed. Prices are fixed on the basis of landed costs of imported material. The global petrochemical industry is in an over supply situation and products are freely available. Because of WTO commitments, Government do not have effective control on their pricing.

27. **The middle east region has a significant competitive advantage because of their cheap feed stock and other input costs. They have started influencing Indian market and also European markets. According to an estimate both Middle East and China are expected to raise their capacity substantially in the next 10 to 15 years. Hence, Petrochemical Industry in India has to compete globally and also to survive. To ensure that the Industry does not suffer from global competition, the Government are supposed to extend all help.**

28. **The Committee, therefore, recommend that Petrochemical Industry in the country should be promoted through fiscal incentives. The Committee would like to see that indigenous industry is given priority over MNCs in operation of this business. With the ensuing of disinvestment in IPCL, practically there would only be the Private Sector running this Petrochemical Industry. To promote their growth, the Government should adopt policy measures to remove hindrances coming in their way. To face the global competition, Petrochemical Industry should be liberally permitted to set up their feed stock plants. The Committee would urge the Government that dumping of petrochemical products from abroad is dealt with strictly and their imports also discouraged by levying heavy Custom Duty.**

(Recommendation No. 21)

NEW DELHI
May 16, 2002
Vaisakha 26, 1924 (Saka)

MULAYAM SINGH YADAV
Chairman
Standing Committee on
Petroleum & Chemicals

APPENDIX-I

LOK SABHA

UNSTARRED QUESTION NO. 4085
TO BE ANSWERED ON THE 18TH APRIL, 2002

DISTINVESTMENT OF HPCL AND BPCL

4085. SHRI SULTAN SALAHUDDIN OWAISI: Will the Minister of PETROLEUM & NATURAL GAS

be pleased to state:

(a) whether HPCL and HPCL have been referred for disinvestment;
(b) if so, whether real estate has to be the key factor in HPCL and BPCL valuation;
(c) if so, the total property owned by these two companies at present; and
(d) the extent to which real estate is likely to play major role in valuation of these two companies?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM & NATURAL GAS AND MINISTER OF STATE IN THE MINISTRY OF PARLIAMENTARY AFFAIRS (SHRI SANTOSH KUMAR GANGWAR):

(a) The Government have decided 'in principle' to disinvest a part of its holding in BPCL and HPCL through strategic sale.
(b) The valuation of shares of companies for disinvestment is done by Government with the assistance of advisers and asset valuers who take into account all relevant factors under certain valuation methodologies including the value of fixed assets of the companies.
(c) The cost of freehold land and buildings as per books of account as on 31.3.2001 is about Rs. 1396.97 crore for BPCL and Rs. 913 crore for HPCL.
(d) The importance of real estate in the valuation of BPCL and HPCL by bidders may depend on a number of factors including the bidder's perception of business potential and strategic importance of assets of these companies.

APPENDIX-II

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2002)

EIGHTH SITTING
(02.05.2002)

The Committee sat from 1000 hrs. to 1100 hrs.

Present

Shri Mulayam Singh Yadav - Chairman

Members

Lok Sabha

2. Shri Ramchander Bainda
3. Shri Ananda Mohan Biswas
4. Dr. (Smt.) Chellamella Suguna Kumari
5. Prof. Kailasho Devi
6. Sh. Bijoy Handique
7. Shri Shriprakash Jaiswal
8. Shri Ram Sajivan
9. Shri Shyama Charan Shukla
10. Dr. Ram Lakhan Singh
11. Shri Ratilal Kalidas Varma

Rajya Sabha

12. Shri Balkavi Bairagi
13. Shri Shyam Lal
14. Shri Rajiv Ranjan Singh 'Lalan'
15. Prof. Ram Gopal Yadav

Secretariat

1. Shri P.D.T. Achary - Additional Secretary
2. Shri K.V. Rao - Joint Secretary
3. Shri P.K. Grover - Director
4. Shri J.N. Oberoi - Under Secretary
5. Shri Ram Raj Rai - Assistant Director

At the outset, Hon'ble Chairman welcomed the Members to the sitting of the Committee convened to discuss the important and urgent issue of disinvestment in petroleum and petrochemicals sector.

2. The Committee discussed the various aspects relating to disinvestment of profit making companies like Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL) and Indian Petrochemicals Corporation Limited (IPCL). Various issues which came up during discussion included the fate of employees of

the related companies, implementation of Government policy relating to reservation of weaker sections and Rajbhasha policy during the post-disinvestment period, need to promote indigenous companies over the MNCs. Finally, the Committee decided to select the subject 'Disinvestment in Petroleum and Petrochemicals sector' for detailed study and report during the year 2002. In this connection, the Committee also decided to take evidence of the representatives of Ministry of Petroleum & Natural Gas, Ministry of Disinvestment and the Department of Chemicals & Petrochemicals on 9th May, 2002.

The Committee then adjourned.

APPENDIX-III

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2002)

NINTH SITTING
(09.05.2002)

The Committee sat from 0900 hrs. to 1030 hrs.

Present

Shri Mulayam Singh Yadav - Chairman

Members

Lok Sabha

2. Dr. (Smt.) Chellamella Suguna Kumari
3. Shri Padam Sen Choudhry
4. Shri Dilipkumar Mansukhlal Gandhi
5. Sh. Bijoy Handique
6. Shri Ashok N. Mohol
7. Dr. Debendra Pradhan
8. Shri Ram Sajivan
9. Shri Shyama Charan Shukla
10. Dr. V. Saroja
11. Shri Ramjiwan Singh
12. Dr. Ram Lakhan Singh
13. Shri Shankersinh Vaghela

Rajya Sabha

14. Shri Balkavi Bairagi
15. Shri Shyam Lal
16. Shri Rajiv Ranjan Singh 'Lalan'
17. Shri Dipankar Mukherjee
18. Ms. Mabel Rebello
19. Prof. Ram Gopal Yadav

Secretariat

1. Shri P.D.T. Achary - Additional Secretary
2. Shri P.K. Grover - Director
3. Shri J.N. Oberoi - Under Secretary

(I) (i) Representatives of Ministry of Petroleum & Natural Gas

1.	Sh. B.K. Chaturvedi	-	Secretary
2.	Dr. Surajit Mitra	-	Jt. Secy. & Fin. Adviser
3.	Sh. Shivraj Singh	-	Joint Secy.(Refinery)

(ii) Representatives of PSUs

1.	Sh. M.S. Ramachandran	-	CMD – IOC
2.	Sh. P. Sugavanam	-	Director(Fin) – IOC
3.	Sh. U. Sundararajan	-	CMD – BPCL
4.	Sh. A. Sinha	-	Dir. (Fin.) – BPCL
5.	Sh. S.D. Gupta	-	Director (Fin.) – HPCL
6.	Sh. Arun Jyoti	-	MD – IBP

(II) Representatives of Ministry of Disinvestment

1.	Sh. Pradip Baijal	-	Secretary
2.	Sh. P.K. Basu	-	Joint Secretary

(III) Department of Chemicals & Petrochemicals

1.	Sh. Ashok Chawla	-	Joint Secretary

At the outset, Hon'ble Chairman welcomed the Members to the sitting of the Committee. On behalf of the Committee and on his own behalf, he welcomed Secretaries in the Ministries of Petroleum & Natural Gas, Disinvestment and other officers of these Ministries and also of Department of Chemicals & Petrochemicals and the representatives of the PSUs present in the meeting. Initiating the discussion, Hon'ble Chairman observed that Government have taken *in principle* decision to disinvestment their part of equity in BPCL and HPCL but the Committee are not agreeable to this decision. He invited the Committee Members to have discussion on the subject and suggest their view points in this regard.

2. During the discussion various issues which came up included the rationale of privatisation of BPCL and HPCL, acceptance of prospective bidders value of the equity of HPCL and BPCL in proportion to the equity of IBP sold to IOC, the Government's decision not to privatise IOCL, ONGC and GAIL for the time being, the present refining capacity of petroleum products and the demand, the future of the refineries especially in the North East in the event of privatisation of BPCL and HPCL, the future of grass root refineries being set up by the companies being disinvested, the concept of reserve price, the evaluation of assets and its credibility, disinvestment in petrochemical sector.

3. The verbatim record of the proceedings has been kept.

The Committee then adjourned.

<u>APPENDIX – IV</u>

<u>MINUTES</u>

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2002)

TENTH SITTING
(15.05.2002)

The Committee sat from 1500 hrs. to 1545 hrs.

<u>Present</u>

Shri Mulayam Singh Yadav - Chairman

<u>Members</u>

Lok Sabha

2. Dr. Chellamella Suguna Kumari
3. Shri Padam Sen Choudhry
4. Shri Dilipkumar Mansukhlal Gandhi
5. Smt. Sheela Gautam
6. Shri Paban Singh Ghatowar
7. Shri C. Kuppusami
8. Shri Ram Sajivan
9. Shri Shyama Charan Shukla
10. Shri Ratilal Kalidas Varma

Rajya Sabha

11. Shri Balkavi Bairagi
12. Shri Shyam Lal
13. Shri Rajiv Ranjan Singh 'Lalan'
14. Shri Dipankar Mukherjee
15. Ms. Mabel Rebello
16. Prof. Ram Gopal Yadav

Secretariat

1. Shri K.V. Rao - Joint Secretary
2. Shri P.K. Grover - Director
3. Shri J.N. Oberoi - Under Secretary

At the outset, Hon'ble Chairman welcomed the Members to the sitting and explained the purpose of the day's meeting. He invited the Members to give their suggestions, if any on the Draft Report being considered for adoption.

2. Thereafter, some Members gave some suggestions for deletion and incorporation in the Report which the Committee accepted.

3. The Committee then considered and adopted the Draft Report on 'Disinvestment in Petroleum and Petrochemicals Sector'.

4. The Committee, thereafter, authorised the Chairman to finalise the Report after factual verification from the concerned Ministries/Department and present them to the Parliament.

5. The Committee placed on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

The Committee then adjourned