

FORTY-FIFTH REPORT

**STANDING COMMITTEE ON
PETROLEUM & CHEMICALS
(2003)**

(THIRTEENTH LOK SABHA)

**PARALLEL MARKETING
IN
PETROLEUM PRODUCTS**

MINISTRY OF PETROLEUM & NATURAL GAS

Presented to Lok Sabha on 22.08.2003

Laid in Rajya Sabha on 22.08.2003



**LOK SABHA SECRETARIAT
NEW DELHI**

August, 2003/Sravana, 1925 (Saka)

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**COMPOSITION OF THE
STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (2003)**

**SHRI MULAYAM SINGH YADAV - Chairman
MEMBERS**

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4	Dr.(Smt.) Suguna Kumari Chellamella
5	Shri Padam Sen Choudhary
6	Shri Khagen Das
7	Smt. Sheela Gautam
8	Shri Paban Singh Ghatowar
9	Shri Bijoy Handique
10	Shri Shriprakash Jaiswal
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12	Shri Punnulal Mohale
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14	Shri Ashok N. Mohol
15	Dr. Debendra Pradhan
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22	Shri Shyamacharan Shukla
23	Shri Prabhunath Singh
24	Dr. Ram Lakhan Singh
** 25	Dr. Ramesh Chand Tomar
26	Shri Shankersinh Vaghela
27	Shri Rathilal Kalidas Varma
28	Shri A.K.S. Vijayan
29	Dr. Girija Vyas
30	Shri Dinesh Chandra Yadav

* *Nominated w.e.f. 21st February, 2003.*

** *Nominated w.e.f. 26th February, 2003.*

(iv)

RAJYA SABHA

- | | |
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| 31 | Shri Balkavi Bairagi |
| 32 | Shri Ram Nath Kovind |
| 33 | Shri Anil Kumar |
| 34 | Shri Rajiv Ranjan Singh 'Lalan' |
| 35 | Shri Moolchand Meena |
| 36 | Shri Dipankar Mukherjee |
| 37 | Shri Pritish Nandy |
| 38 | Shri Kripal Parmar |
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| 45 | Prof. Ram Gopal Yadav |

SECRETARIAT

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| 1. | Shri P.D.T. Achary | - | <i>Additional Secretary</i> |
| 2. | Shri P.K. Grover | - | <i>Director</i> |
| 3. | Shri J.N. Oberoi | - | <i>Officer on Special Duty</i> |
| 4. | Smt. Madhu Bhutani | - | <i>Senior Executive Assistant</i> |

SUB-COMMITTEE ON PETROLEUM
A SUB-COMMITTEE OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(2003)

Shri Mulayam Singh Yadav- Chairman

2. **Shri Dipanker Mukherjee- Convenor**

3. Shri Ashok Argal

4. Dr. (Smt.) Suguna Kumari Chellamella

5. Smt. Sheela Gautam

6. Sh. Paban Singh Ghatowar

7. Sh. Bijoy Handique

8. Sh. Anil Kumar

9. Sh. Rajiv Ranjan Singh 'Lalan'

10. Sh. Ahmed Patel

11. Sh. Ram Sajivan

12. Sh. Shyama Charan Shukla

13. Sh. Prabhunath Singh

14. Sh. Shankersinh Vaghela

15. Sh. Ratilal Kalidas Varma

16. Prof. Ram Gopal Yadav

SECRETARIAT

- | | | | |
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| 3. | Shri J.N. Oberoi | - | <i>Officer on Special Duty</i> |
| 4. | Smt. Madhu Bhuntai | - | <i>Senior Executive Assistant</i> |

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (2003) having been authorised by the Committee to submit the Report on their behalf present this Forty-Fifth Report on 'Parallel Marketing in Petroleum Products'.

2. This subject was selected for examination by the Standing Committee on Petroleum & Chemicals (2003) . The Committee decided to refer this subject to the Sub-Committee on Petroleum for detailed examination. This Sub-Committee considered the replies furnished by the Ministry of Petroleum and Natural Gas on the subject. The Sub-Committee took evidence of the representatives of the Indian Oil Corporation Ltd. (IOCL), Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL) and IBP Company Limited on 10th July, 2003 and of the representatives of Ministries of Petroleum & Natural Gas and Commerce & Industry on 23rd July, 2003. The Sub-Committee also took evidence of the representatives of Governments of Tamil Nadu, Gujarat, Kerala and Karnataka on 24th July, 2003 and Uttar Pradesh & Bihar on 13th August, 2003.

3. The Committee wish to express their thanks to officers of the Ministry of Petroleum & Natural Gas and Ministry of Commerce & Industry, representatives of Public Sector Oil Companies and representatives of Governments of Tamil Nadu, Gujarat, Kerala, Karnataka, Uttar Pradesh and Bihar for placing their views before them and for furnishing the information desired in connection with examination of the subject.

4. The Sub-Committee on Petroleum considered and adopted this Report at their sitting held on 18th August, 2003.

5. The Standing Committee on Petroleum and Chemicals (2003) also considered and adopted this Report at their sitting held on 19th August, 2003. The Committee place on record their appreciation of the work done by the Sub-Committee on Petroleum.

6. The Committee also 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.

NEW DELHI
August 19, 2003
Sravana 28, 1925 (Saka)

MULAYAM SINGH YADAV
Chairman
Standing Committee on
Petroleum & Chemicals.

REPORT

PART-I

CHAPTER-I

INTRODUCTION

The term Parallel Marketer and Parallel Marketing system were defined in the Kerosene (Restriction on use and fixation of ceiling price) Order, 1993 when it was originally notified on 2nd September, 1993 under this Order.

- (i) 'Parallel Marketer' means any person, firm, company, institution, association of persons, cooperative society or organisation carrying on the business of importing, refining, producing, packing, marketing, distributing and selling kerosene under the Parallel Marketing system; and
- (ii) 'Parallel Marketing' system means the system other than the public distribution system under which a person imports, transports, packs, distributes or sells under his own arrangement.

1.2 In 1992-93, SKO and LPG were in short supply and limited allocation of foreign exchange at official rates apart from inadequate import infrastructure made it difficult to import these products to meet the full demand. To overcome this, Government allowed marketing of SKO and LPG after their import by private agencies at market prices for those who could afford, on analogy of sugar and other food grain products which were available in the PDS, as well as in the open market at higher prices.

1.3 With the increase in refinery capacity in the country, availability of SKO and LPG has increased considerably. LPG connections are available across the counter in existing markets throughout the country. For the year 2002-03, against LPG sales of 8,170 TMT by Public Sector Oil Marketing Companies (OMCs), only 856 TMT was imported and rest was produced indigenously. In case of SKO, the indigenous production during 2002-03 was 10,204 TMT against sales of 9,686

TMT by OMCs. For the year 2003-04 also, the indigenous SKO production is projected to be higher than the PSU demand. Similarly, for LPG for the year 2003-04, the requirement of imports is estimated to be about 1,782 TMT for which adequate import infrastructure exists in the country.

Dismantling of the Administered Pricing Mechanism with effect from 1.4.2002 has completed the process of deregulation of petroleum sector, which started in the year 1997. As part of deregulation of the petroleum sector, imports of various petroleum products have been decanalised. Keeping in view the improved availability of LPG and SKO in the country and improved foreign exchange reserves, the concept of importing these products for parallel marketing in order to conserve foreign exchange is no more the governing factor.

CONCEPT ABOUT PARALLEL MARKETING

1.4 The concept of parallel marketing was developed in 1992-93 due to restricted availability of foreign exchange for the import of Kerosene which limits the scope of import by the Public Sector. Therefore with a view to increase domestic availability of kerosene and to reduce the scope for its unauthorized diversion from PDS supplies, Govt. of India vide gazette notification no. 2(RE)/29-97 dtd. 23-4-1993 introduced the concept of Parallel Marketing Scheme by decanalising Kerosene. Under this scheme, the private persons/agencies could import Kerosene and market the same in domestic market through their own network at Market determined price. The Kerosene control order was simultaneously amended on 2nd September 1993 to facilitate import and marketing of Kerosene by private parties under Parallel Marketing Scheme.

1.5 Subsequently, Govt. of India vide various amendments in the gazette notification dt. 2.9.1993 had imposed certain restrictions under Essential Commodities Act on sale and use of kerosene being imported by the parallel

marketers. The broad controls/restrictions imposed vide these Control Orders are as under:

- Parallel Marketer of Kerosene shall submit a monthly return before the 15th day of the following months giving details of kerosene imported, port-wise, to the Central Government in the Ministry of Petroleum and Natural Gas.
- No Parallel Marketer shall commence any activity such as import, transport, marketing distribution, sale or any activity incidental thereto, relating to the business of Kerosene without obtaining a rating certificate (which requires renewal by the rating agency, annually) on the basis of evaluation and rating for his capability, infrastructure network and readiness to carry out professed business and deliver goods and services promised, by an agency listed in Schedule- 'A' to the order.
- No person shall sell or use Kerosene imported under Parallel Marketing Scheme as fuel or as additive to fuel in a motor vehicle.
- Parallel Marketers have to file “**END USE CERTIFICATES**” from the industrial consumers to whom they have sold imported SKO and also furnish the customer wise sales on a quarterly basis to the State Supplies Authorities.
- The Parallel Marketers shall ensure that quality checks are carried out to ensure that Kerosene meets BIS specification No. IS- 1459 in all respects before discharging in to the storage infrastructure or selling to any customer.

1.6 The import of SKO by parallel Marketers are organized directly by them and the PSU Oil Companies are not associated in these imports.

1.7 The activities of parallel marketers, are legal to the extent of carrying out the activities in line with the gazette notification and amendments issued by the MOP & NG. Any other diversion for the purpose of adulteration or any unauthorized use (i.e. as transportation fuel etc.) renders such activities as illegal.

1.8 As per the amended LPG Order (Regulation of Supply & Distribution) 1993, parallel marketing of LPG was made legal by the Government. This included import of LPG and distribution / sale of domestic, commercial and bulk LPG to

customers at market driven rates. To protect the interest of the consumers, the parties entering into the business of parallel marketing of LPG had to be rated by the agencies nominated by the Government such as CRISIL, CARE , MDRA and ICRA etc. The rating certificate shall

- (a) be valid for a period of two years in case of 'good' and 'satisfactory' rating and one year in case of other ratings from the date of its issue, and
- (b) require renewal by the rating agency

Periodic reports were also supposed to be submitted by the parties to erstwhile OCC & currently PPAC.

1.9 Explaining the objective of Parallel Marketing, Chairman IOCL apprised the Committee during evidence:-

“The objective of Parallel Marketing Scheme at that point was that the PDS Kerosene should reach the poor people who cannot afford high prices and to ensure that affluent sections of society who can pay a little more, should pay more. It was intended that the industrial use of Kerosene need not be subsidized and so it could also be covered under the Parallel Marketing Scheme.”

1.10 The Committee sought to know the objective of the provision that no parallel marketer could commence any activity relating to the business of kerosene without obtaining a rating certificate by rating agency. Chairman IOCL during his evidence expressed as under:-

“Earlier, everybody indiscriminately applied for importing kerosene. The Government was worried that all unscrupulous parties will also apply and it was not clear whether they will have the financial resources or not. There was a need to ascertain if such parties have got the money or not or whether they have got the financial standing or not. To control the registration under parallel marketing scheme, it was decided that the parties get a rating by reputed credit rating agencies.”

1.11 The Committee wanted to know the present demand and availability of kerosene oil in the country and the necessity of importing the white kerosene. The Ministry replied to this as under:-

“The SKO production Vs PSU sales and PMS imports during 2002-03 is as under:

Year	Production	(figs. In TMT)	
		PSU Sales	PMS Imports
2002-03	10,204	9,686	688

Public Sector Oil Marketing Companies are not importing SKO. In fact the indigenous production is sufficient to meet the total demand (including PMS demand) in the country. In the deregulated scenario, it may not be possible to stop imports of SKO. However, Ministry of Petroleum & Natural Gas has requested Ministry of Finance to consider levying additional excise duty on PMS kerosene with a view to contain adulteration of PMS kerosene in diesel. Further, State Governments have been requested to increase sales tax on PMS kerosene at par with diesel.”

1.12 During evidence, CMD, HPCL further clarified this position when he said:-

“Roughly speaking, the production and consumption are matching.”

1.13 In view of the matching demand and supply position, the Committee queried whether the oil industry has now opposed the import of kerosene oil and whether it could be stopped altogether. Replying to this, CMD, IOCL submitted during evidence:-

“There are two questions. The first question is whether we have opposed it. At the time, when it was introduced, we were importing kerosene and the Government said that those who can pay more, let them do so. Therefore, we did not oppose it at that time. In fact oil companies published booklets at the request of the Ministry as to how to import and all assistance was given for PMS. So, there was no opposition from our side at that point of time. At that time, we did not think that this would lead to this kind of a problem. Therefore, we did not oppose.”

1.14 Chairman, BPCL replied to the second part of query regarding stopping of import and said:-

“There was a first phase of deregulation in the petroleum sector during the year 1992-93. At that stage, the Ministry had decided that since all the public sector companies are already into business, let the PDS parallel marketing scheme be handled by the private companies so that we will have infrastructure. So, let it be developed in the private sector. The problem is that the kerosene that we are selling today under PDS is heavily subsidized. As you are also aware, under the parallel marketing scheme, it is on the market determined prices. So, whatever mandatory is required to be produced by the refineries for the sake of meeting the PDS demand is being produced and any additional requirement, which is market-determined, is being imported. The other thing is that in the overall decanalisation process when the country is moving into the free trade regime, it may not be possible for us to completely stop it. What has been suggested and recommended is that we bring in customs duty at par with HSD or even higher at 35 per cent. But to say that we must stop the imports may find difficulty elsewhere and it may not be feasible.”

1.15 This issue also came up for discussion during evidence of representatives of Ministry of Petroleum and Natural Gas and the Secretary apprised the Committee:-

“This Scheme (Parallel Marketing) was started way back in 1993 and at that time, the scenario was different. The demand of petroleum products was not that high, the production and refining capacity were not adequate. Since then, we have moved a long way.

Today, the production of kerosene is surplus. We have surplus refining capacity for production of kerosene. We can meet all the demands of kerosene. ... The scheme of Parallel Marketing ... has outlived its utility. Unfortunately, in the meanwhile, we have hedged in a number of commitments which the Government of India has made at the international level. One is the commitment to the WTO because of which the question of whether we can stop imports by parallel marketers is a very difficult question.....”

1.16 The Committee wanted to know from the Director-General Foreign Trade the rationale in keeping kerosene in open list of import articles. He explained the position in a written note as under:-

“Superior Kerosene Oil (SKO) is classified under Exim Code No. 27101910 in ITC (HS) classification of Export and Import Items 2002-2007 was freely importable even prior to 1998. Further, India has been following a consistent policy for gradual removal of restrictions on imports since 1991. SKO is an item of common use in the country. Imposition of Quantitative Restrictions on any item can be justified with reference to the Principles of Restriction listed in Para 2.6 of the Exim Policy (copy enclosed –**Annexure-I**).”

1.17 Regarding role of Ministry of Commerce and Industry in import of SKO, Director-General Foreign Trade apprised the Committee as under:-

“As far as importability is concerned, the item is freely importable and an item which is in the free category can be imported for stock and sale but subject to other applicable mandatory regulations of the Government.”

1.18 The Committee noted that only the private marketers were importing kerosene oil and Public Sector Oil Companies are not engaged in this import. The Committee wanted to know the reasons for this. CMD, BPCL during the evidence explained the position as under:-

“About parallel marketing and import of kerosene, recently we had a meeting and we have sought that we should be given the similar facility. But to begin with, unless this price issue is resolved, the oil companies may be more keen to sell it directly to the end-users and customers rather than have the distribution network through which they sell. Otherwise we may also be accused of doing the same thing as these people are doing. So, what we would like to start with is to import and give it direct to the customers.”

CHAPTER-II

IMPACT OF IMPORTED KEROSENE ON SALE OF DIESEL

Ministry of Petroleum and Natural Gas and Oil Industry both were of the same opinion that it was not possible to indicate the exact impact of retailing of SKO on sale of diesel in the country as there were other factors which affected the sale of diesel, namely, economic recession, natural calamities, world wide industrial recession, new generation vehicles and introduction of green fuels i.e. CNG, LPG etc.

2.2 Oil Industry furnished the following data indicating retail sale of HSD of PSUs and growth during the last three years and April-May 2003:-

YEAR	INDUSTRY	
	HSD RETAIL SALES VOLUME (TMTS)	GR.%
2000 - 2001	29296.0	-0.38
2001 - 2002	28318.7	-3.08
2002 - 2003	28943.8	2.2
April / May 2003	4634.0	-12.9

2.3 It was also stated that with fairly similar characteristics to those of HSD, in many applications, HSD could be substituted by kerosene because of substantial price difference. As per market information, the relative approximate selling price of PMS Kerosene and Diesel in some of the major coastal and nearby markets, where the impact is likely to be more, was as under:

(Rs/Litre)

MARKET AREA	SKO	HSD	DEFFERENCE
Ahmedabad	16.50	22.30	5.8
Mumbai	17.00	24.26	7.26
Mangalore	16.00	21.30	5.30
Kochi	14.50	21.06	6.46
Chennai	17.00	21.27	4.27
Vizag	16.50	20.26	3.76

2.4 As per the available data collected from various sources, the details of PMS Kerosene imported during the period April 2000 to March 2003 were stated to be as under:

Period	Quantity (Figs in TMTs)
2000-2001	308
2001-2002	301
2002-2003	698
2003-2004 (Apr-May)	120

2.5 The Committee were also informed that with a large number of consumers spread through the length and breadth of the country, it was extremely difficult to check the misuse of kerosene and its adverse impact on the sales of HSD.

2.6 According to information furnished by the oil industry, due to subsidy for domestic LPG, parallel marketers have not been able to make much head-way in enrolling domestic LPG customers, however, they have made substantial inroads into non domestic (bulk and packed) LPG business of PSU Oil Companies. During the year 2002-03, the parallel marketers have sold approx. 400 TMT of LPG which was approx. 50% of the total market share of non-domestic bulk and packed LPG business in the country.

2.7 The Committee were apprised that the approximate landed cost of SKO as gathered from the various port locations varied from Rs. 10500 to Rs. 13300 per MT depending on the source and receiving port locations. This did not include duties, taxes and various incidental charges.

2.8 The Committee wanted to know whether the entire import of SKO was legal and there was no smuggling. The Ministry replied as under:-

“Ministry of Petroleum & Natural Gas has no information about smuggling of kerosene. Department of Revenue is the nodal Ministry to look after the activity of imports and preventing smuggling.”

2.9 The Committee had been informed by oil industry that import of kerosene oil in April-May 2003 was 120 TMT. However, Secretary Department of Food, Government of Kerala while apprising the Committee during evidence that kerosene being sold in Tamil Nadu was being imported through Cochin port, stated that:-

“They are (Port officials) telling that about 30,000 Metric Tonnes of it is coming every month through Cochin port. So, in a year, it would be 360,000 Metric Tonnes.”

2.10 During evidence, CMD, IOCL was specific on this issue as under:-

“As far as figures of import are concerned, as per the PMS Control Order, the importers are supposed to file returns and they are supposed to send the figures. Earlier they were sending them to OCC and now they are sending to PPAC. These figures we have collected from them. The Oil Companies have no means to collect information as to what private importers are importing. I cannot rule out the possibility that there may be smuggling because we keep hearing about it. But we do not have the figures.”

2.11 He further added as under:-

“We have told the Ministry bluntly that in our opinion, a part of this kerosene goes for adulteration There are two or three places where it is sold in very large quantities. One such place is in Tamil Nadu which is called Namakkal, which is a huge trucking centre. People use kerosene and add additives.”

2.12 A representative of Indian Oil Corporation Limited (IOCL) who visited such sites where imported kerosene oil was being sold as transportation fuel apprised the Committee as under:-

“Since I saw a drop in my diesel sales in Southern region, I went around and I could discover 60 to 70 shops in a row, make-shift sort of shops, where they get this white kerosene and they were basically selling it to truckers. As one of the hon. Members said here that the economics worked out by these truckers is very simple that even if it damages the

engine, still they have been able to make out their economics in six month or one year's time even if the entire engine has to go for an overhauling. We convinced them. We went around and did a lot of publicity for not using this as it creates pollution and it is against environmental norms. But when the cost economics comes into picture, nothing else works. In fact, I took some photographs. I met the Chief Secretary of Tamil Nadu Government, gave photographs to him and also gave written representations. That is why, they raised the sales tax from ten per cent to twenty five per cent, but still so long as price differential continues, there is a temptation to use this for unauthorized purposes.”

2.13 The Committee enquired whether the imported SKO was being used for the purpose for which it was imported. The Ministry submitted the following reply:-

“Anti-Adulteration Cell of the Ministry of Petroleum and Natural Gas has conducted investigations into the activities of some of the SKO importers/traders which has revealed that a part of parallel market SKO goes for either adulterating diesel or for use as a substitute for diesel.

In order to prevent misuse/diversion of imported SKO for adulteration, Ministry of Petroleum and Natural Gas notified the kerosene (Restriction on use and Fixation of Ceiling Price) (Amendment) Order, 1998 incorporating certain regulations on sale of imported SKO. As per the provisions of this Notification, no person shall sell or can use imported kerosene under the Parallel Marketing Scheme as a fuel or additive in the automobiles and the parallel marketers shall file the “end use certificate” from their industrial consumers and also furnish customer-wise sales on a quarterly basis to the civil supplies authorities of the State Governments.”

2.14 The Ministry further informed that in terms of the provisions contained in the kerosene (Restriction on use and Fixation of Ceiling Price) (Amendment) Order, 1998 certain specified officials of the State Government, Union Territories and the Public Sector Oil Companies could take punitive action like search and seizure etc. against the erring persons.

2.15 This issue came up for discussion during evidence when CMD, IOCL candidly admitted:-

“As per the Control Order for parallel marketing a lot of procedures are there to control, but in practice it is not possible to follow them. As per the Control Order, the person who is under taking parallel marketing has to give a declaration on the end use of the product on what the customer is doing with it. In reality, the product is going through several retail channels and I am not aware whether any State Government is getting any such return, and whether any useful purpose being served.”

2.16 While observing that the primary reason for using kerosene oil as transportation fuel was the wide difference between diesel price and imported kerosene price, the Committee enquired whether the price difference was mainly due to import duty or because of Sales Tax of the State Governments. CMD, IOCL explained the position during evidence by stating:-

“The Customs Duty on high-speed diesel is 20 per cent and it is 10 per cent on kerosene. Before I come to Sales Tax, there is a basic Custom Duty of 20 per cent on HSD and 10 per cent on kerosene. On top of that there is a road cess of rupee one per litre put on all high-speed diesel sales whereas it is not on kerosene. There is countervailing duty also which is equal to Excise Duty. So, first there is Custom Duty and Excise Duty, then there is special additional duty for national highways projects and Sales Tax.

In the international market, kerosene is costlier than diesel. Oil companies are supposed to price diesel as per import parity. So, you may be thinking that diesel has to be cheaper than kerosene, but it is not so because of concessional customs duty, concessional excise duty or countervailing duty as it is called, sales tax and special additional duty of one rupee per litre. You know that sales tax is *ad valorem*. When the basic duty increased by one rupee per litre, it has higher impact. Supposing there is a sales tax of almost 30 per cent in Maharashtra. You add custom duty of one rupee and the effect of this increase in customs duty is rupee 1.30. Because of this, there is a big difference in price. That is what we have shown here that there is a wide difference in the price of high speed diesel and PMS kerosene.”

2.17 The Committee noted that for sale of imported kerosene there were no restrictions in respect of areas of operations. The Committee queried whether by imposition of restrictions on areas of operations, the widespread operation of parallel marketing could be curtailed. CMD, IOCL was not optimistic about this suggestion when he submitted during evidence:-

“We can pass orders to restrict the areas but there is problem in its implementation. It is enough. If you ask every customer to give end-use certificate and tomorrow you do a raid and he is using it for a different purpose, then you can penalize him. Then, nothing is required. But this is not happening because more and more rules really will not solve the problem. We have to find physical solutions to most of the problems and make customer decide what he wants to buy. That is the only solution, to my mind; otherwise, the Food and Civil Supplies establishments in the States are already very big establishments, but they are not able to control.”

2.18 The Committee were apprised that free sale of imported kerosene is adversely affecting the sale of diesel in the country. There were reports of increased level of substitution of HSD by SKO in transportation and industrial applications. There has been a reported increase in level of imports of kerosene. As per the official figures of import furnished by oil industry, quantum of imported kerosene has more than doubled in the year 2002-03 than in the previous year.

2.19 Society of Indian Automobile Manufacturers has expressed concern over alarming spate in cases of engine failures and operating problems due to SKO being used as a substitute of transportation fuel. Usage of SKO in compression ignition engine was not desirable on account of damages to engines and increased level of wear and tear of vehicles and polluting exhaust emissions. Transporters in an attempt to keep transportation cost down not only spike diesel with kerosene but also use a combination of kerosene and lubricants to run their trucks. Auto Industry also believed that the reason why commercial vehicles sales have not pushed up diesel consumption was because of rampant adulteration with kerosene.

2.20 The Committee wanted to know as to which parts of the country were most affected by the Parallel Marketing of Petroleum Products. The Ministry furnished the information in a written note:-

“The imports by parallel marketers are mostly in the Western and Southern Coast, and as such, the availability of PMS Kerosene is more in an around these areas. It is not possible to indicate exactly which part of the country is most affected as the parallel marketers’ area of distribution are not restricted and they are free to appoint dealers of their own choice except those who are signatories of the dealership agreement of the existing Public Sector Oil Companies. However, as per the Market Information, the areas most affected by parallel marketing of SKO are as follows:

Gujarat – Saurashtra, Kutch and districts adjoining Ahmedabad.
Tamil Nadu – Salem, Karur, Erode and Coimbatore.
Kerala – Palghat and Trichur belts.
Karnataka – Mangalore belt

The effect cannot be quantified since there are many reasons for loss of HSD trade in the affected areas.

In regard to LPG product, all the coastal states i.e. A.P , Maharashtra, Gujarat, Karnataka and West Bengal are most affected by the parallel marketing. This is in view of the fact that product can be easily imported into these states and also substantial indigenous product is available in the State of Gujarat.

Few parallel marketers of LPG have set up LPG import infrastructure facilities in some coastal locations as given below:

- a. Caltex Gas India Ltd at Tuticorin
- b. Hindustan Aegis at Pirpau, Mumbai
- c. SHV Energy Ltd., Porbandhar
- d. Indian Oil Petronas Ltd at Haldia
- e. East India Petroleum Ltd at Vizag
- f. Elf Gas, Mangalore
- g. Shri Shakti LPG, Kakinada

These major parallel marketers who imported LPG mostly traded the product in the Industrial and Commercial sector at a price lower than the Oil Marketing Companies selling prices. The estimated sale of parallel marketers in the Commercial / Industrial segment is approximately 400 TMT.”

2.21 The Committee wanted to know the estimated revenue loss being suffered by the Central Government and State Governments due to illegal parallel marketing of petroleum products. The Ministry furnished the information as under:-

“Revenue loss to the Central Government on account of adulteration of SKO imported by the parallel marketers with Diesel would mainly depend on the quantity used for adulteration and difference in the Central Excise Duty on diesel and the CVD on imported SKO. At present, basic Central Excise (CENVAT) Duty of 14% and additional Excise Duty of Rs. 1.50 per litre are levied on Diesel whereas CVD of 16% is levied on SKO imported by the parallel marketers.

Revenue loss to the State Governments in this regard would depend on the difference in State levies such as Sales Tax, etc. on Diesel and PMS, SKO, which differ from State To State.”

2.22 Apart from the revenue losses, the parallel market kerosene which was being sold by the retail sellers on highways for fuel purpose for lorries also created air pollution which was injurious to health.

2.23 The Committee also learnt that some of the leading power Generating set manufacturers are publically advocating use of kerosene in place of Diesel as it reduces the operation cost of power generation cost. This act is not only violation of Guidelines issued by the Government from time to time but also a cause of atmospheric pollution.

CHAPTER-III

MODUS OPERANDI OF PARALLEL MARKETERS

Under the Parallel Marketing Scheme, the Parallel Marketers were authorized to develop their own infrastructure for storage of product and appointment of dealer network for marketing the product. There were no restrictions in respect of the area of operation as applicable to PDS SKO dealers. The product was directly supplied to the consumers. However, as per the available market information, some of the parallel marketing agents were reported to have installed under ground tank and dispensing facilities for distribution of PMS Kerosene. At some locations such arrangements were made with authorized licenses. However at many other locations especially along highways make shift shops (Dumps) have come up to sell SKO for trucks/tractors and small industries.

3.2 The Committee specifically enquired as to how many importers of kerosene oil were engaged in importing kerosene oil and whether they were regularly submitting monthly reports and whether any punitive action has been taken against the importers on the basis of these monthly reports. The Ministry provided the following information:-

“18 parallel marketers, who imported Kerosene under PMS during the year 2002-03, have submitted monthly reports as per the provisions of the Kerosene Control Order. Based on the reports submitted by the parallel marketers, import data is updated regularly and the total consumption of Kerosene in the country is worked out (taking into account the quantity imported by the parallel marketers and sales by the Public Sector oil marketing companies).

As per the provisions of the Control Order, parallel marketers are required to submit monthly reports giving details of port-wise Kerosene imported. Therefore, no punitive action is called for based on the monthly reports unless it is established that the parties have reported incorrect information. So far, Ministry has not come across with such a situation.”

3.3 The Committee further enquired as to what action was taken against importers who did not submit such monthly returns. The Ministry summarized its reply and stated:-

“Government notified the Kerosene Control Order under the provisions of the Essential Commodities Act, 1955. Therefore, any violation of the provisions of the Control Order would attract penal action as per the Essential Commodities Act.”

3.4 The Committee learnt that some parallel marketers were importing LPG also and some of the them mostly traded this produce in the Industrial and Commercial Sector at a price lower than the oil marketing companies selling price. The Committee wanted to know as to how the Ministry viewed this phenomena. The Ministry while responding to this submitted:-

“During 2001-02 and 2002-03, Parallel Marketers have imported about 178 TMT and 209 TMT of LPG respectively against total LPG sales of 7,310 and 8,170 TMT respectively. This works out to an average of 2 - 2.5% PMS sales only. However, OMCs have reported loss of market share in industrial/commercial sector. It is noteworthy that subsidized domestic LPG sales are being done by OMCs alone. Certain policy measures are under consideration of Government to provide necessary freedom to OMCs to increase their share in the non-domestic sector.”

3.5 The Committee wanted to know the system involved in importing kerosene. CMD, IOCL explained the procedure as under:-

“It is in IGL and only a registration has to be made. Rating certificate has to be obtained from credit rating agencies like CRISIL and ICRA. They have to give a declaration on the quantity imported to erstwhile OCC now called PPAC. We would get to know from that declaration how much is imported. Otherwise, we would not get to know that information also. There are restrictions as per the control order for PMS, which are difficult to implement by the State Governments. There are many wholesalers who import and there are retailers who sell. So, the end use certificate and the purpose for which he is buying it are difficult to get. In my opinion, no such thing is being done.”

3.6 The private companies were thus permitted to import kerosene by Government of India for sale and these companies were known as parallel marketers. These companies should have the rating certificate from the agencies approved by Government of India. Unlike Public Distribution System, there was no restriction with regard to price and quantity in parallel marketing system. The concept of parallel marketing in petroleum product could be helpful only if the operators sold the products without any violation of rules.

3.7 The parallel marketers obtained Government of India's permission for importing kerosene and did not come under the purview of State Government's Orders regulating trade. Some States have also formulated their own rules to further regulate trading in imported kerosene. The Committee were informed that coastal States viz. Gujarat, Kerala, Tamil Nadu and Karnataka were affected by the parallel marketing of kerosene. The Committee sought to know the modus operandi of parallel marketing in these States. Tamil Nadu Government informed as under:-

“Tamil Nadu Government has framed Tamil Nadu Kerosene (Regulation of Trade) Order 1973. In this State there are 34 importers, 375 wholesalers and 3895 retailers under Parallel Marketing system. Both the wholesalers and retailers have been issued with licences under Tamil Nadu Kerosene Order, 1973. Some of the parallel marketers intentionally and with the knowledge are selling it to the vehicle owners as substitute of diesel. Normally, the parallel marketers do not set up retail outlets on their own on highways to dispense kerosene. However, parallel marketers are selling this product to the licenced retail outlets, some of which are located on highways.”

3.8 Gujarat Government apprised the Committee by stating:-

“Normally agreements are made by importers to appoint distributors and agent makes appointment of sub-dealer. Parallel marketers have set up retail outlets on highways to dispense imported kerosene. Government of Gujarat takes serious action such as sealing of dispensing units.”

3.9 Government of Kerala stated its position as under:-

“Imported kerosene oil is being distributed through wholesale and retail dealers appointed for the purpose. Wholesale dealers are permitted to sell bulk quantity to retail dealers, industrial concern, hotels etc. It has come to the notice of the State Government that certain parallel marketers are supplying kerosene oil to the motor vehicles and they have set up retail outlets by the side of roads. The Motor Vehicle Department detected such sales and four cases have been registered against them.”

3.10 Government of Karnataka summarily apprised the Committee and submitted:-

“Parallel marketers sell kerosene directly to large industrial consumers and also sell kerosene through retailers to end consumers. Reports have been received that retail outlets which dispense kerosene have been set up on the highways.”

3.11 The Committee during the examination found that end-use certificate was an important aspect in regulating the trade of sale of imported kerosene. The Committee, therefore, enquired from all the four coastal States as to what was their system to ensure that parallel marketers file the end-use certificate regularly. Government of Tamil Nadu explained its position as under:-

“The agencies engaged in parallel marketing system have already been directed to file returns on quarterly basis about the quantity of kerosene sold. All the District Collectors were instructed to obtain quarterly report from the wholesale dealers and retailers and closely monitor the end use of parallel market kerosene. They have also been instructed to ensure that the kerosene is not diverted for adulteration.

But, some parallel marketers have filed writ petitions in Hon'ble High Court Chennai in W.P. No. 38449/02 and challenged that the dealers under Parallel Marketing System are not required to take license under state enacted Tamil Nadu Kerosene (Regulation of Trade) Order 1973 and got stay orders for banning the authorities to enter into their business premises and activities. Likewise clause 3A of Central Order 'Kerosene (Restriction on use and Fixation of Ceiling Prices) Order 1993' which prevent the use of kerosene as fuel in automobile and clause 7 (d) of the same order which

require a dealer under parallel marketing system to furnish end use certificate to the authorities have been challenged in W.P. No. 38448/2002 and the cases are still pending with the Hon'ble High Court. This has handicapped the authorities to find out and assess the quantity supplied to a particular sector and the nature of its usage. Any move to insert further provision amending the existing control order may prejudice the case before Hon'ble High Court.”

3.12 Government of Gujarat shared its working practice with the Committee and stated:-

“Under the instructions issued by the State Government, a Mamlatdar at taluka level has been authorized to obtain and use certificate from importer and trader. The State Government has also issued instructions to take punitive action based upon these certificates.”

3.13 Government of Karnataka stated its position as under:-

“While the District authorities have been directed to ensure that Parallel Marketers file the end-use certificate from the industrial consumers and furnish customer-wise sales details, more effort needs to be put up to scrutinize these returns and take further follow-up action. Punitive measures have been taken in the case of Naphtha suppliers.”

3.14 Government of Kerala did not file the reply.

3.15 This issue also came up for discussion during evidence of the officials of the State Governments when Principal Secretary, Government of Karnataka submitted as under:-

“The modus operandi was that it was imported in Mangalore. Then, it was transported through trucks, on paper, for destinations in Maharashtra and Pondicherry, across our borders. In reality, the Naphtha did not reach those places. It was dropped en-route in various places in Karnataka and this was being used for adulterating petrol. We did carry out checks. We took the help of the Anti-Adulteration Cell of Government of India, we took the help of our commercial Taxes Department; and we took the help of our Transport Department..... Our difficulty is that when the end-destination is beyond the State, the degree of coordination involved increases

tremendously because then, we are not dependent only on our own officers and staff; we are also dependent on the officers and staff of the neighbouring States.

Similarly, about kerosene ... sale by unlicensed people were being made and this kerosene was being used for adulteration. We launched a campaign to identify such shops and close them to seize kerosene. Again, our experience has been that if one shop closes down here, another one comes up somewhere else.....”

3.16 The Committee also noted that in some States civil authorities issue licenses for sale of diesel in rural areas. These sellers instead of selling diesel to the consumers are found indulging in adulterating kerosene in it. This issue came up for discussion during evidence of some other subject when the Committee wanted to know from the Government, the action taken by them to check this practice. Secretary, Ministry of Petroleum and Natural Gas submitted before the Committee as under.

”The issue is very important. We had earlier issued orders. We shall again pass orders. We shall discuss this issue in the next meeting which shall be held with State Governments. We shall monitor this to see to what extent our orders have been implemented.....”

CHAPTER – IV

IMPLEMENTATION OF ORDERS ON ILLEGAL PARALLEL MARKETING

In order to prevent mis-use/diversion of imported Kerosene for adulteration, Government notified the Kerosene (Restriction on Use and Fixation of Ceiling Price(Amendment) Order, 1998 incorporating certain regulations on sale of imported Kerosene. As per the provisions of this Notification, no person shall sell or can use imported Kerosene under PMS as fuel or additive to the fuel in the automobiles and the parallel marketers shall file the 'end-use certificates' from their industrial consumers and also furnish customer wise sales on a quarterly basis to the civil supplies authorities of the State Governments.

4.2 Further, MOP&NG has requested the Ministry of Finance to consider levying of additional Excise Duty on PMS Kerosene with a view to contain adulteration of PMS Kerosene in Diesel. MOP&NG has also requested the State Governments to increase Sales Tax on PMS Kerosene at par with Diesel. Some State Governments like West Bengal and Tamil Nadu have increased Sales Tax on PMS Kerosene. State Governments have also been requested from time to time to issue instructions to the concerned authorities/agencies of the State Governments to prevent mis-use of PMS Kerosene.

4.3 PSU Oil Companies have no direct control over the functioning and operation of parallel marketers. However, State level coordinators have taken up the matter with respective State Governments to levy Sales Tax on PMS, SKO at rates equal to those for HSD or to impose entry tax equivalent to Sales Tax for HSD to reduce price differential between PMS, SKO and HSD.

4.4 The Committee sought to know the role of the State Governments in regulating Parallel Marketing in the States. Tamil Nadu Government elaborated the system as under:-

“The marketing licence holders are mostly importing the white kerosene through Mangalore and Cochin Ports. The solvents like Naphtha etc. are imported through Kandla (Gujarat), Bombay and Visakhapatnam Ports. the licencees are selling the product to the approved wholesale licence holders. In order to regulate the parallel marketing system, the dealers have to obtain a licence under “Tamil Nadu Kerosene (Regulation of Trade) Order 1973”. They need not remit any security deposit. The business premises of both wholesalers and retailers are being inspected by the inspecting officials periodically and action is being taken against those dealers who contravene the provisions of the Tamil Nadu Kerosene (Regulation of Trade) Order 1973.”

4.5 The Committee observed that the Government of India’s Notification dated 2.9.1993 relating to import of SKO stipulated that no person should sell or use kerosene imported under Parallel Marketing Scheme as fuel or as additive to fuel in a motor vehicle. In this context, the Committee desired to know as to who was responsible to implement the above Notification. Tamil Nadu Government explained the procedure as under:-

“In order to implement Government of India’s Notification dated 2.9.1993 the following officers have been notified as authorized officers:

- (i) All Officers of Civil Supplies and Consumer Protection Department not below the rank of Checking Inspector in Chennai City and its belt areas.
- (ii) All Officers of Revenue Department not below the rank of Deputy Tahsildar in mofussil area.
- (iii) all Gazetted Officers in Police Department.

If the kerosene is used as fuel or additive to fuel for motor vehicle, then the Civil Supplies C.I.D. are taking action by registering Criminal Cases under the Kerosene (Restriction of use and Fixation of Prices) Order 1993 and arresting the accused seizure of fuel, adulterated fuel and the vehicle concerned. Thereafter a final report is sent to the Collector to take action under rule 6A of E.C. Act. The collector has discretionary powers to try the case himself or to refer it to the Judicial Court for trial depending on the gravity of the offence.”

4.6 During the evidence, the Committee discussed this issue with IOCL representatives and specifically wanted to know whether the entire import was

legal and enforcement agencies were successful in implementing Government's Order. CMD, IOCL was candid to admit when he said:-

“.....The only information that we have in the oil companies is that the importers are filing their returns with the Petroleum Ministry and they are compiling the report. We have no other information. On the question whether we think that these are the only imports and there is no other import, .. I cannot say with certainty that there are no more imports. At present, import of kerosene is allowed on OGL basis.

On the question as to who is to enforce this, the agency is the Food and Civil Supplies Department. They are supposed to do it. Whether they are doing it or not, we cannot say.”

4.7 Speaking about the role of Sales Officers of Oil Companies in checking parallel marketing CMD further admitted:-

“While the power is there for the Sales Officer, but to state the truth before the Committee, these are anti-social elements and it is very dangerous to go and raid them....”

4.8 On a query by the Committee as to why Sales Officers were helpless, CMD was straightforward and said:-

“When the powerful State machinery supported by the police and the law enforcement agencies cannot do anything, then what to talk about the poor Sales Officers.....”

4.9 The Committee specifically sought to know whether the oil companies have seized stocks of defaulting parallel marketers as provided under the rules, a representative of HPCL stated:-

“Sir, no seizer has been affected by any oil companies on kerosene.”

4.10 The Committee desired to know the enforcement agencies who were competent to control the illegal parallel marketing of kerosene and the extent to which they have succeeded, CMD IOCL apprised as under:-

“As per the Control Order for parallel marketing a lot of procedures are there to control, but in practice it is not possible to follow them. As per the control order, the person who is undertaking parallel marketing has to give a declaration on the end use of the product on the customer is doing with it. In reality, the product is going through several retail channels and I am not aware whether any State Government is getting any such return, and whether any useful purpose is being served...”

4.11 The Committee sought to know the experience of State Governments in getting end-use certificates. Representative of Government of Gujarat explained his experience as under:-

“For PDS kerosene we are quite well empowered and we have been taking action consistently. In the matter of this particular kerosene (PMS), we find that the legal position is a little weak. These parallel marketers are supposed to give us certain information. They are supposed to give us end-user certificates. We find that this information is not really coming to us as it is supposed to.”

4.12 When the Committee specifically wanted to know whether the States are getting the end-user certificates from Parallel Marketers, the witness replied:-

“Not at the frequency with which they are supposed to come. We keep on issuing them notices but they do not really respond.... The reason we are not getting end-user certificates is not that giving end-user certificates is a very difficult thing. The reason we are not getting end-user certificates, perhaps, is that free-sale kerosene is not going to the end-user which is there on paper. That is, unfortunately, the problem. If everything was bona fide, and if everything was fine, we would not have this problem.”

4.13 He further submitted as under:-

“We give them notices. They are not our licencees basically. When you start taking action against them, the question comes as to how do you take action against a person who defaults? Action can be taken against them under the Essential Commodities Act. Under this Act, you have an option,.... you can have seizures, you can have criminal prosecutions.... You can proceed against them under the prevention of Black Marketing Act... but that is not a very deterrent section of law especially when the amounts of profit involved are so high. These people unfortunately since they do not require licences from us, are subjected to no other control of the State Government. Our ability to enter, search and so on is also in question.”

4.14 The witness narrated the following case to illustrate his point of view:-

“In Ahmedabad, the food controller passed an order saying that these people should give us information about how much stock they are receiving and to whom they are selling. Even that was challenged and that order of the food controller has also been stayed by the Hon’ble High Court. These are the constraints under which the State Government is functioning.... In a couple of States, dealers have even gone and questioned whether imported kerosene is concerned at all under the Essential Commodities Act.”

4.15 The Committee observed that as per the Gazette Notification dated July 7, 1994, the Food and Civil Supplies Department of respective State Governments have been authorized to seek information from the parallel marketers as deemed necessary under the Kerosene Control Order. In terms of this notification, the Committee wanted to know from the States, as to how many cases of defaulters of PMS have been booked and penalized for violating this Gazette Notification. In response, Tamil Nadu Government furnished the details of cases booked for violating this notification which is at **Annexure-II**. While Gujarat Government stated that no person has been booked in their State for the violation of this Notification, Karnataka Government stated that during the last three years, 201838 litres of non-PDS kerosene and 4488 cylinders were seized.

4.16 The Committee after examining various notifications and especially of 23rd April, 1993 and 2nd September, 1993 enquired from the Government whether they have reviewed these notifications and felt the necessity of their revision in the light of experience gained during the last then years. The Government furnished the reply in a written note as under:-

“The Ministry of Petroleum & Natural Gas had issued the Kerosene (Restriction on use and Fixation of Ceiling Price) (Amendment) Order, 1998 to amend the Control Order dated 2.9.93. As per the amended provisions, no person shall sell or can use imported kerosene under the PMS as fuel or additive in the automobile and the parallel marketers will file the end-use certificates from their industrial consumers and also furnish customer-wise sales on a quarterly basis to the State Civil Supplies authorities. .

In addition to the above, the Ministry of Petroleum & Natural Gas has requested Ministry of Finance to consider levying additional excise duty on PMS Kerosene with a view to contain the adverse impact on the sales of this product on the sale of diesel.

In view of the current supply – demand balance of SKO, Government is contemplating necessary policy changes to utilize the indigenous production of SKO for meeting the total demand including PMS demand in the country.“

4.17 The Committee noted that Government oil companies were not importing kerosene and this trade was left entirely in the hands of private persons. The Committee enquired as to what would be the advantages or disadvantages of completely canalizing the import of white kerosene through public sector oil companies and allow them to sell it at a differential price. The Ministry replied as under:-

“Complete canalization of white kerosene imports would be viewed as a retrograde step in the overall liberalization process. The possible advantage could be better monitoring of end-use of product.”

CHAPTER V

NEED TO CHECK ILLEGAL PARALLEL MARKETING

Illegal parallel marketing in petroleum products is affecting adversely the sale of Diesel in the country. Kerosene when used as transportation fuel causes environmental pollution. The Committee invited the views of oil industry, Ministry of Petroleum & Natural Gas and also of State Governments to check the menace of illegal marketing of petroleum products. The Oil Industry gave their views as under:-

“Though MOP & NG has advised the Chief Secretaries of all State and Union Territories regarding prevention of unauthorized sales of PMS Kerosene, it is felt that certain fiscal measures may also be necessary. It is therefore suggested that following measures may be considered.

1. The Customs Duty on imported kerosene was reduced from 35% to 20% w.e.f. 1.3.2002. The Custom duty may be restored back to 35%.
2. Take up with State Governments to levy Sales Tax and entry tax on PMS SKO.

With the above, the price gap between HSD and imported Kerosene would get reduced, thereby reducing the incentive for diversion of imported kerosene.

LPG

As per the available information with us there are no instances of illegal parallel marketing reported as of now. The existing rules, regulations and laws as per LPG Control Order – Regulation of Supply & Distribution are fairly adequate to deal with the erring parties

Gas Control Order is a powerful tool and needs to be implemented vigorously.”

5.2 The Ministry supplemented the same suggestion and added as under:-

“Government has advised all State Governments and Union Territories regarding prevention of unauthorized sales of PMS Kerosene. The following suggestions can help in controlling the illegal parallel marketing :-

- (i) Increase customs and excise duty as well as the sales tax on SKO and Naphtha.
- (ii) Bring price parity between SKO and Diesel and similarly between MS, Pentane, Naphtha and SBP solvent.
- (iii) Stringent action against those involved in adulteration trade including the retail outlet dealers by effectively implementing Essential Commodities Act, 1955.

Government is reviewing the policy in order to see whether the scheme should be scrapped in view of the dismantling of APM and marketing rights to several of them.”

5.3 The Committee noted that West Bengal and Tamil Nadu Governments have enhanced Sales Tax in their States and therefore, wanted to know whether enhancement had any impact on sale of HSD in these States. The Ministry furnished the information as under:-

“Increase in sales tax on PMS SKO was effected in West Bengal from 16th December 2002 from 7.5% to 20%. The Sales of HSD for the period January - March 2003 and April - June 2003 were as under:

PERIOD	SALES(TMTs)		GROWTH	
	<u>RETAIL</u>	DIRECT	RETAIL	DIRECT
Jan/March '03	445.5	72.7	-5.4	-26.2
April/June '03	383.5	69.4	-7.2	3.4

It may be stated that it is difficult to indicate the exact impact of increase in sales tax on PMS SKO on the sales of HSD as the growth in sales of HSD inter-alia depend upon various other factors such as industrial demand, agricultural demand etc.

Increase in sales tax on PMS SKO was effected in Tamil Nadu from 22nd March 2003 from 4% to 25%. However, the entry tax on PMS was not

imposed. Thus, possibility of imported SKO coming into Tamil Nadu from neighbouring States cannot be ruled out. The Oil Industry has taken up this matter with Government of Tamil Nadu. The Industry Sales of HSD for the period April - June 2003 is as under:

PERIOD	SALES (TMTs)		GROWTH	
	RETAIL	DIRECT	RETAIL	DIRECT
April/June '03	525.7	184.2	-10.8	-6.4

5.4 State Governments put forth their views as under:-

Tamil Nadu

Stringent enforcement of existing rules by respective departments will check the illegal parallel marketing in petroleum products.

Gujarat

So far as free sale kerosene is concerned a license system should be introduced in the State for complete check on illegal marketers.

Kerala

The illegal parallel marketing in petroleum products can be effectively checked by constituting an Anti-Adulteration Cell at State level with the representatives of Motor Vehicle Department, Police Department, Legal Tax Department, Civil Supplies Department, Legal Metrology Department etc.”

5.5 Government of Karnataka was more elaborate when it submitted as under:-

“The field officers of the Department at district level have been instructed to conduct the inspections at the premises of PMS Marketers and during inspections verify:-

- (a) Valid and current rating certificate issued by Rating Agencies before the commencement of business by the importers;
- (b) Licences issued by Chief Controller of Explosives for storing and transporting PMS kerosene;
- (c) License issued by the Food and Civil Supplies Department for doing sales;

- (d) Display of Rating Scale awarded by rating Agency on the letter heads and advertisements issued by PMS marketers;
- (e) Periodical inspections of the storing points at the ports by Food and Civil Supplies authorities;
- (f) Punctual submission of End Use Certificates to the Food & Civil Supplies Department and its proper verification in correlation with sales.
- (g) The officers of Food and Civil Supplies Department at District level have been instructed to conduct inspection of PMS wholesale points and prevent its unauthorized sale on National Highways.”

5.6 During evidence, Secretary Ministry of Petroleum and Natural Gas apprised the Committee of his Ministry's views regarding checking of illegal parallel marketing of kerosene and stated:-

“There has been a very strong economic incentive for parallel marketers to do two things. First, it is to gradually replace diesel as an automobile fuel in certain States and this problem is most acute in the State of Tamil Nadu and other Southern States. It has also led to the use of PMS in adulteration of normal fuels. This also has been a big menace with us. With the making of the parallel marketing scheme, we had not permitted the oil companies to sell kerosene in the domestic market.... We can use the instrument of permitting the oil companies also to enter the domestic market and thereby drive away the parallel marketing system out. Since their cost can be most competitive, they can give it to the Industry and to other genuine players. Their prices will be more competitive because they are located here. It is possible that they may drive out the parallel marketing system. We are considering this suggestion. We are discussing with the oil companies about its implications.”

5.7 One of the options of checking/regulating the illegal trade can be imposition of quantitative restrictions on import. The Committee sought to know the views of Director-General Foreign Trade in this regard who stated as under:-

“Imposition of quantitative restriction is really not an option available to the Government now because of commitment to the WTO. As a matter

of fact, the bulk of the quantitative restrictions in the import policy had to be removed. They were justified on the ground of balance of payments problem. So, that went out of the window with our growing foreign exchange reserves. So, right now, any restriction on import of anything would depend on the grounds which are specified in the WTO agreement like environment, national security concerns etc. None of these grounds seems to be applicable in this case.

As far as the option of public sector undertakings being given the canalization rights to import this particular item is concerned, there also, as per our commitments, we are gradually moving away from, what is called, the State Trading Enterprises. In every successive policy, we are reducing the items which are exclusively given for import or export to a State Trading Enterprise. Even in respect of EXIM policy we had written to all the Ministries of the Government of India – including the Petroleum and Natural Gas Ministry – saying that we should review any item which is being exclusively exported or imported by STE. That is how, in this also, there are certain relaxations of import of certain petroleum products through the Indian Oil Corporation. This has been introduced. We were informed at that time by the Ministry that this was the first phase that they were moving away from the exclusive rights being given to STEs; in the second phase, further liberalisation would take place. From that point of view also, I doubt whether giving exclusive right to a State Trading Enterprise to import this item could be a feasible alternative. Even if we were to consider under the WTO agreement, there are specific conditions that no commercial advantage should accrue to a State Trading Enterprise by channelising import and export of anything.

So, there may be other complications even if we accept this alternative as a feasible alternative. I would like to submit to the Committee that there is a national treatment clause in the WTO agreement, whereby we cannot discriminate between an imported item and the same item produced in the domestic tariff area. Conversely, whatever we subject in the domestic tariff area, any mandatory condition can be applied to the imported item. So, I was informed by the Ministry that one way of ensuring that kerosene is not diverted to follow the Gazette notification. If that is the statutory condition, we can certainly consider imposing that condition for the import of white kerosene. So, that may, if the Committee feels, lessen the possibility of misuse or even if there is diversion, detection would be much more easier than it is now.”

PART - II

RECOMMENDATIONS / OBSERVATIONS OF THE COMMITTEE

The concept of parallel marketing was developed in 1992-93 when there was limited availability of foreign exchange with the Public Sector Oil Companies for the import of kerosene. Therefore, with a view to increase domestic availability of kerosene and to reduce the scope for its unauthorised diversion from Public Distribution System Government of India in April, 1993 introduced this concept. Under this scheme the private persons / agencies were allowed to import kerosene and market the same in domestic market through their own network at market determined prices. The position has since changed. The Country's position is strong as far as availability of foreign exchange is concerned. With increase in refining capacity in the country and availability of kerosene oil and also easy availability of LPG connections across the country the supply position of kerosene in the country has become very satisfactory. For the year 2002-03 the indigenous production of SKO was 10204 thousand metric tonnes against sales of 9686 TMT by OMCs. For the year 2003-04 also the indigenous SKO production is projected to be higher than the demand. It is now an established fact that the imported kerosene is not only being used for the purpose for which it is meant but is also substantially being diverted for adulteration in diesel and also being substituted as transportation and power generating fuel. The Committee do not find any logic in continuing with the parallel marketing scheme for SKO. In view of the fact that indigenous production of kerosene matches with the demand, the Committee recommend that the Government should seriously consider stopping the import of SKO. Till Government take a final decision on this recommendation, the Committee make the other recommendations in the succeeding paras to regulate the trade in imported SKO.

2. The Government have reduced the customs duty on the imported kerosene from 35% to 20% w.e.f. from 1st April, 2002. The Committee do not find any rationale for this reduction. The Committee feel that the objective of importing kerosene is being defeated by diverting it for purposes for which it is not meant. The customs duty on indigenously produces high speed diesel is 20% and for kerosene, it is 10%. Besides this there is road cess of Re. 1 per litre on high speed diesel sales whereas Kerosene is left out of this cess. The delivery price of HSD thus goes up in comparison to kerosene's price. The Committee strongly recommend that the customs duty on imported kerosene should be restored to 35%.

3. The Committee find that there is a big difference between the selling price of SKO and HSD ranging from Rs. 3.76 to Rs. 7.26 per litre. This wide difference is the basic cause of misuse of SKO. The Committee are of the opinion that this difference should be bridged. Apart from raising customs duty, the Committee recommend that the State Governments should impose sales tax to such an extent that the difference between rolling price of SKO and HSD is marginal. The Central Government should persuade such States and Union Territories for this purpose where imported kerosene is traded on a large scale to take necessary steps in this direction.

4. Government through a notification have made it mandatory for the public sector oil companies to colour the kerosene blue meant for Public Distribution System (PDS). Imported kerosene is of white colour and can easily be mixed with diesel and even with petrol. The Committee are of the opinion that the Government should make it mandatory to colour the imported kerosene also with a colour different from blue which is meant for PDS.

5. The sale of imported kerosene is being regulated through various notifications and Government orders such as Government of India's notification, dated 23rd April, 1993, the Kerosene (Restriction on Use and Fixation of Ceiling Price) (Amendment) Order, 1998 dated 21st October, 1998. In between these two orders, there are six or seven Government orders / notifications put in place to regulate the parallel marketing of kerosene. In addition to these orders, State Governments have also formulated their own regulations to regulate the trade. The Committee feel that with multiplicity of notifications and orders the objective of regulation is becoming cumbersome and confusing. The enforcement agencies and the traders are interpreting these orders as per their convenience. Some of the State adjudicatures have pronounced various judgements on these orders. The State Governments feel that these orders do not empower them adequately to deal with the traders in their States. The Committee feel that the Government should have a re-look at all these existing orders and issue a single comprehensive notification covering all aspects of regulation of this trade. They, therefore, recommend that an expert study be undertaken to study judicial pronouncements and identify the lacunae in the existing orders with a view to formulating a single comprehensive order on this subject. This order should also empower the State Governments adequately to enable them to deal effectively with the traders violating its provisions.

6. Some of the States have apprised the Committee that they have sufficient authority in case of SKO distributed through PDS under Essential Commodities Act, 1955 (ECA) but in case of imported kerosene they have very limited powers to take suitable action against the defaulters. In some of the States namely, Tamil Nadu and Gujarat parallel marketers have gone to the courts and challenged the authority of the State Government in regulating their trade. The Committee are convinced that the State Governments have not been able to control the illegal parallel marketing of SKO under existing Essential Commodities Act. They are of the opinion that

a separate legislation for regulating this trade is needed which should provide that such of the importers who violate the provisions of the Government regulations would be dealt with sternly. Under this legislation itself a provision should be incorporated declaring imported SKO as an essential commodity. The legislation should also define the role of central agencies including Public Sector Oil Companies in ensuring quality control of imported kerosene, inspection of records, seeking of information from parallel marketers etc. The Committee, therefore, recommend that the Central Government should appoint an expert committee to draft a separate legislation to deal with the importers and distributors of imported SKO suitable safeguards should be provided to prevent its misuse as well as the consumers who use the kerosene as transportation fuel.

7. The Committee have learnt that at present the parallel marketers obtain Government of India's permission for importing kerosene and they do not come under the purview of State Government orders for regulating their trade. The importers of free sale SKO appoint their sub-dealers and these sub-dealers are not required to be licensed in some States. The Committee feel that the objective of regulating the trade would be served well if the State Governments are also associated in matters like licensing the importers and distributors. For this purpose the importer should be required to obtain licenses from the State Governments for selling their commodity in the States where they operate. No unlicensed seller should be allowed to deal in the sale of kerosene. The State Governments should formulate their regulations for licensing the sub-dealers.

8. As per the existing orders parallel marketers have to submit a monthly return before the 15th day of following month giving details of kerosene imported port-wise to the Central Government in the Ministry of Petroleum & Natural Gas. The Committee have the impression that this procedure of submission of monthly details has become a ritual only and Central Government are not monitoring follow up action effectively. The Committee,

therefore, recommend that it should be made mandatory for the parallel marketers to submit monthly returns regularly to the Central Government as well as to State Governments and other agencies listed by the Central Government .

9. The parallel marketers are under obligation to file the End Use Certificates. The Committee have gathered the impression that this requirement is not being fulfilled in letter and spirit. State Governments have reported that they have to pressurise the parallel marketers to obtain these certificates. The Committee desire that parallel marketers are mandated to file their End Use Certificates from the Industrial Consumers alongwith list of customers/copies of invoices on quarterly basis to Central Government, concerned State Governments and also to Director General, Anti-Adulteration Cell. Before renewing the licence, no objection certificate from these agencies should be made compulsory and imports of SKO should be channelised through PPAC.

10. As per the existing definition of parallel marketing, Government Oil Companies cannot do the business of parallel marketing of indigenous kerosene. The Committee recommend that the Public Sector Oil Companies should also be allowed to import SKO and trade it in the country and compete with the parallel marketers. Public Sector Oil Companies can provide necessary safeguards to ensure that end use is limited to industrial and commercial consumers in the desired sectors.

11. The Committee note that some importers with a view to evade the local taxes manipulate their import documents in a way that they do not fall into the State's tax network where the product is imported. For instance, when a petroleum product is imported at Mangalore Port, on paper it is shown as meant for transportation for destinations in Maharashtra and Pondichery across the borders of Karnataka. However, in reality this

product does not reach these places and is traded/dumped en route in various places in Karnataka itself. Similarly, if a product is unloaded at a Port in Gujarat, on documents it is shown as being transported to other States for sale outside Gujarat . It becomes virtually impossible for States to check each and every consignment. The Committee recommend that there should be a system to check this sort of menace. The system should provide that the moment some product is unloaded at a port, the concerned State should issue transit pass to the importer if the product is to leave for some other State. This transit pass should be surrendered at the border when the consignment leaves the State.

12. State Governments have apprised the Committee that they do not have a systematic and structured channel to receive the information from the Government of India regarding the new entrants in the field of import of petroleum products. Similarly, they are not even aware of the protracted contracts between the parallel marketers and the Central Government regarding quantum of import and other related issues in this regard. Importers refuse to provide the information sought by the State Governments on the plea that they do not have any jurisdiction over them in this matter. State Governments want that there should be regular exchange of information between the Central and the State Governments on the issues concerning the State Governments in the matter of parallel marketing and the State Government should have statutory powers to seek information from the importers and distributors. They should have access to the documents maintained by importers and the distributors and should have the right to seize and seal these documents and stocks in case of default. The Committee feel that they have a valid point in their suggestion. The Committee, therefore, recommend that a formal system should be established between the Central Government and the State Governments through which all relevant information relating to import and distribution of imported kerosene be exchanged. Regarding empowerment of the State

Governments to have access to the document and deal with the defaulters effectively, the Committee are aware that provisions in the existing notifications exist but are vague. The Committee have already recommended that a new legislation is needed to deal with the menace of parallel marketing effectively and in the new legislation the demand of State Government for empowering them suitably can be taken care of.

13. The Committee find that the Director General, Anti-Adulteration Cell (AAC) with his organisation in different places in the country is discharging its responsibility in checking the adulteration in petroleum products. The Committee, however, find that its performance in this regard is not satisfactory. One of the reasons for unsatisfactory performance is the inadequacy of staff and also the lack of powers. Director General, Anti-Adulteration Cell is dependent upon the State Government agencies for proceeding against the defaulters. As such, it has become an ineffective organisation. The Committee recommend that Director General, Anti-Adulteration Cell and his office should be strengthened adequately and should have adequate independent legal powers to proceed against the defaulters. For this purpose, the role of the Director General, AAC should be clearly defined in the new legislation recommended by the Committee.

14. Under the parallel marketing scheme the parallel marketers have the authority for developing their own infrastructure for storage and for appointing dealer network for marketing the product. There are no restrictions applicable to PMS-SKO dealers in respect of areas of operation. Some of the parallel marketing agents are reported to have installed underground tanks and dispensing systems in the form of pumps on the highways for distribution of imported kerosene. The Committee note that the State Governments cannot compel them to stop their trading activities on highways as the rules do not put any embargo on them on areas of operation as applicable to PDS - SKO dealers. The Committee recommend

that the Government through notification or if necessary through legislation should impose area restrictions on distribution network of parallel marketing. No parallel marketer or distributor dealing with the imported kerosene should have the right to establish underground tank and dispensing system within one kilometre of either side of highways.

15. The Committee note that neither the State Governments nor the Central Government have put in place any system to check the quality of imported kerosene at the ports. It is left entirely to the importers to import the kerosene as per the BIS specifications. The Committee recommend that Oil Companies should be authorised to collect samples of imported kerosene at the ports and from any other place being used as storage infrastructure and get these samples tested to ensure its quality and take action against the defaulters.

16. The Committee note that imported kerosene oil is not only being used as transportation fuel but even some reputed firms manufacturing electric generating sets publicly advocate the use of kerosene in place of diesel for generating electricity. They publicise that the use of kerosene will reduce the operation cost of generating electricity. This is not only against the rules but also a cause of pollution of environment. The Committee recommend that the Ministry of Petroleum & Natural Gas should take up the matter with the concerned authorities in the State Governments and the Union Territories for imposing ban on use of kerosene in the generating sets. The Ministry should endeavour to get a law passed that no manufacturer can make publicity advocating use of kerosene in place of diesel in the generators.

17. The Ministry of Petroleum & Natural Gas has apprised the Committee that during the last 3 years a very small quantity of kerosene was imported. It has furnished the following data in this regard.

<u>Period</u>	Quantity (Figs in TMTs)
2000-01	308
2001-02	301
2002-03	698
2003-04(Apr-May)	120

As against this data, the representative of Government of Kerala during evidence informed the Committee that about 30,000 metric tonnes of kerosene oil is being imported every month through Kochin Port only. The Committee gather the impression that the Ministry of Petroleum & Natural Gas does not have the perspectives of quantum of illegal import of kerosene oil in the country. They feel that the concerned official agencies charged with regulating the import of kerosene are not functioning in coordination with one another.

Besides, Illegal marketing of kerosene is not only having adverse impact on sale of diesel resulting in revenue losses but also causing environmental pollution. The Committee recommend that in all the coastal States of the country a Cell should be constituted to look into various implications of the illegal sale of imported kerosene. This Cell should consist of representatives of Revenue Department, Pollution Control Board, Civil Supplies, Transport Department, Anti-Adulteration Cell, Police and the Oil Companies. Its job should be to monitor implementation of orders right from the time the petroleum product is unloaded at the port and is delivered to the end consumer. Monthly return of the importers being filed to the Ministry should be routed through this Cell. The Cell should also have the powers to undertake surprise raids and book persons violating any

provision of the existing laws relating to evasion of tax or polluting the environment, etc.

18. The Committee have also noted that in some States civil authorities issue licenses to sell diesel in the rural areas of their states. Such licensees have been found indulging in adulteration of kerosene in diesel or in petrol. Although Central Government have been persuading the State Governments to ban this practice of parallel marketing yet this practice is continuing. The Committee recommended that Central Government through notification should restrain the civil authorities from issuing such orders.

NEW DELHI
August 19, 2003
Sravana 28, 1925 (Saka)

MULAYAM SINGH YADAV
Chairman
Standing Committee on
Petroleum & Chemicals

ANNEXURE - I

Principles of Restriction	2.6	DGFT may, through a notification, adopt and enforce any measure necessary for
		(i) Protection of public morals.
		(ii) Protection of human, animal or plant life or health
		(iii) Protection of patents, trademarks and copyrights and the prevention of deceptive practices.
		(iv) Prevention of prison labour.
		(v) Protection of national treasures of artistic historic or archaeological values.
		(vi) Conservation of exhaustible natural resources.
		(vii) Protection of trade of fissionable material or material from which they are derived;and
		(viii) Prevention of traffic in arms, ammunition and implements of war.

ANNEXURE - II

DETAILS OF CASES REGISTERED FOR MISUSE OF PDS KEROSENE & SUPERIOR KEROSENE
OIL IN AUTOMOBILES AS FUEL

2001: NIL

2002:

S. No.	Unit	Cr. No.	Date of occurrence	Commodity	Quantity	Value	No. of persons arrested	No. of vehicles seized
1.	Erode	227/02	3.10.02	W. Kerosene	200 Ltrs.	3,000/-	--	Lorry-1
2.	Coimbatore	314/02	4.10.02	White Kerosene	400 Ltrs.	6,800/-	--	Lorry-1
3.	Krishnagiri	168/02	17.10.02	W. Kerosene	90 Ltrs.	1,350/-	--	Tanker Lorry-1
4.	Salern	253/02	19.10.02	W. Kerosene	2110 Ltrs.	35,000/-	--	Lorry-1
5.	Pollachi	152/02	22.10.02	W. Kerosene	75 Ltrs.	1,245/-	--	Lorry-1
6.	Madurai	233/02	22.10.02	White Kerosene Diesel	180 Ltrs. 120 Ltrs.	5,220/-	2	Tanker lorry-1
7.	Coimbatore	342/02	24.10.02	PDS Kerosene	70 Ltrs.	1,050/-	--	Lorry-1
8.	Madurai	238/02	26.10.02	PDS Kerosene Diesel	450 Ltrs. 75 Ltrs.	8,325/-	2	Lorry-1
9.	Virudhunagar	236/02	26.10.02	Kerosene Diesel	35 Ltrs. 25 Ltrs.	525/- 475/-	--	Lorry-2
10.	Virudhunagar	236/02	26.10.02	PDS Kerosene Diesel	35 Ltrs. 25 Ltrs.	525/- 475/-	--	Lorry-1 Tricycle-1

11.	Cuddalore	394:02	29.10.02	PDS Kerosene Diesel	400 Ltrs 150 Ltrs	9,600/-	--	--
12.	Madurai	243:02	31.10.02	White Kerosene Diesel	150 Ltrs	3,015/-	1	Lorry-1
13.	Krishnagiri	172:02	25.10.02	W.Kerosene	25 Ltrs	97,600/-	1	Tanker Lorry-1
14.	Cuddalore	413:02	12.11.02	PDS Kerosene Diesel	30 Ltrs. 70 Ltrs.	1,500/-	--	Lorry-1
15.	Coimbatore	369:02	19.11.02	W.Kerosene	500 Ltrs.	8,500/-	--	Lorry-1
16.	Madurai	259:02	20.11.02	W.Kerosene Diesel	80 Ltrs. 160 Ltrs.	3,360/-	1	Lorry-1
17.	Salem	286:02	25.11.02	W.Kerosene	280 Ltrs.	4,200/-	-	Lorry-1
18.	Pollachi	171:02	25.11.02	W.Kerosene	60 Ltrs.	948/-	--	Lorry-1
19.	Coimbatore	383:02	1.12.02	W.Kerosene	700 Ltrs.	11,900/-	--	Lorry-1
20.	Salem	295:02	2.12.02	W.Kerosene	200 Ltrs.	3200/-	--	Lorry-1
21.	Dindigul	243:02	2.12.02	W.Kerosene	1000 Ltrs.	16,500/-	--	Lorry-1
22.	Salem	299:02	3.12.02	W.Kerosene	600 Ltrs.	9600/-	--	Lorry-1
23.	Erode	285:02	3.12.02	W.Kerosene	200 Ltrs.	3000/-	--	Lorry-1
24.	Salem	300:02	4.12.02	W.Kerosene	440 Ltrs.	6,600/-	--	Lorry-1
25.	Pollachi	191:02	28.12.02	W.Kerosene	30 Ltrs.	510/-	--	Lorry-1
	Total				15065 Ltrs	2,44,023/-	7	26

S. No.	Unit	Cr. No.	Date of occurrence	Commodity	Quantity	Value	No. of persons arrested	No. of vehicles seized
1.	Erode	3/2003	4.1.2003	W.Kerosene	790 Ltrs.	11,850/-	1	Lorry-1
2.	Pollachi	4/2003	7.1.2003	W.Kerosene	40 Ltrs.	680/-	--	Lorry-1
3.	Salem	12/2003	11.1.2003	W.Kerosene	515 Ltrs.	14,420/-	--	Lorry-1
4.	Erode	17/2003	18.1.2003	W.Kerosene	100 Ltrs.	1500/-	--	Lorry-1
5.	Salem	19/2003	18.1.2003	W.Kerosene	175 Ltrs.	2,251/-	--	Lorry-1
6.	Salem	24/2003	24.1.2003	W.Kerosene	100 Ltrs.	1,500/-	--	Lorry-1
7.	Erode	23/2003	24.1.2003	W.Kerosene	100 Ltrs.	1500/-	--	Lorry-1
8.	Madurai	22/2003	27.1.2003	PDS Kerosene	1177 Ltrs.	17655/-	3	Lorry-1
9.	Krishnagiri	22/2003	31.1.2003	W.Kerosene	110 Ltrs.	1,870/-	--	Lorry-1
10.	Vellore	25/2003	4.2.2003	W.Kerosene	1800 Ltrs.	27,000/-	--	Lorry-1
11.	Vellore	28/2003	5.2.2003	W.Kerosene	1180 Ltrs.	1,88,800/-	--	Lorry-1
12.	Vellore	29/2003	5.2.2003	W.Kerosene	200 Ltrs.	3,200/-	--	Lorry-1
13.	Salem	37/2003	6.2.2003	W.Kerosene	140 Ltrs.	2380/-	--	Lorry-1
14.	Salem	42/2003	11.2.2003	W.Kerosene	100 Ltrs.	1700/-	--	Lorry-1
15.	Vellore	37/2003	13.2.2003	PDS Kerosene	40 Ltrs.	600/-	--	Lorry-1
16.	Krishnagiri	36/2003	20.2.2003	PDS Kerosene	120 Ltrs.	1800/-	--	Lorry-1
17.	Salem	52/2003	21.2.2003	PDS Kerosene	100 Ltrs.	1500/-	--	Lorry-1
18.	Dindigul	45/2003	21.2.2003	W.Kerosene	1600 Ltrs.	29600/-	--	Lorry-1
19.	Utharapalayam	52/2003	24.2.2003	PDS Kerosene	230 Ltrs.	1950/-	1	Lorry-1
20.	Erode	53/2003	24.2.2003	PDS Kerosene	70 Ltrs.	1050/-	--	Lorry-1
21.	Pollachi	34/2003	24.2.2003	W.Kerosene	20 Ltrs.	380/-	--	Lorry-1
22.	Salem	71/2003	7.3.2003	W.Kerosene	1040 Ltrs.	18720/-	--	Lorry-1
23.	Erode	69/2003	11.3.2003	PDS Kerosene	50 Ltrs.	750/-	--	Lorry-1
24.	Krishnagiri	55/2003	12.3.2003	W.Kerosene	120 Ltrs.	2400/-	--	Lorry-1
25.	Vellore	66/2003	13.3.2003	PDS Kerosene	20 Ltrs.	400/-	--	Lorry-1
26.	Salem	89/2003	19.3.2003	W.Kerosene	450 Ltrs.	9000/-	--	Lorry-1

27.	Salern	132/2003	02.05.03	W/ Kerosene	20 Ltrs.	300/-	--	Lorry-1
28.	Salern	144/2003	12.05.03	W/ Kerosene	180 Ltrs.	3600/-	--	Lorry-2
29.	Cuddalore	143/2003	22.05.03	White Kerosene Diesel	105 Ltrs. 125 Ltrs.	3450/-	2	Lorry-1
30.	Trichy	151/2003	23.05.03	White Kerosene	100 Ltrs.	1500/-	--	Lorry-1
31.	Cuddalore	146/2003	24.05.03	PDS Kerosene	315 Ltrs.	4725/-	2	Lorry-1
32.	Pollachi	95/2003	28.05.03	White Kerosene	35 Ltrs.	560/-	--	Lorry-1
33.	Salern	184/2003	16.06.03	White Kerosene	200 Ltrs.	4000/-	--	Lorry-1
34.	Dindigul	134/2003	25.06.03	White Kerosene	150 Ltrs.	2625/-	--	Lorry-1
35.	Salern	203/2003	28.06.03	White Kerosene	130 Ltrs.	2600/-	--	Lorry-1
36.	Erode	179/2003	02.07.03	PDS Kerosene	50 Ltrs.	750/-	--	Lorry-1
37.	Salern	225/2003	13.07.03	PDS Kerosene	20 Ltrs.	300/-	--	Lorry-1
	Total				22437 Ltrs	3,68,866/-	8	38

Abstract

Sl No.	Year	No. of cases Registered	Seized quantity	Value	No. of Persons arrested	No. of vehicles seized.
1.	2001	Nil	Nil	Nil	Nil	Nil
2.	2002	25	15065 Ltrs.	2,44,023/-	7	26
2.	2003 (upto 5.7.03)	37	22437 Ltrs.	3,68,866/-	8	38
Grand Total		62	37502 Ltrs.	6,12,889/-	15	64

ANNEXURE-III

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003)

SIXTH SITTING

(10.07.2003)

The Sub-Committee sat from 1500 hrs. to 1630 hrs.

Present

Shri Paban Singh Ghatowar - In the Chair

Members

Lok Sabha

2. Shri Ashok Argal
3. Shri Bijoy Handique
4. Dr.(Smt.) Suguna Kumari Chellamela
5. Shri Ram Sajivan
6. Shri Shyama Charan Shukla
7. Shri Shankersinh Vaghela
8. Shri Ratilal Kalidas Varma

Rajya Sabha

9. Shri Anil Kumar
10. Shri Rajiv Ranjan Singh 'Lalan'
11. Prof. Ram Gopal Yadav

Secretariat

1. Shri P.D.T. Achary - Additional Secretary
2. Shri P.K. Grover - Director
2. Shri R.K. Saxena - Under Secretary
3. Shri J.N. Oberoi - Officer on Special Duty
4. Dr. Ram Raj Rai - Assistant Director

Representatives of Indian Oil Corporation Ltd. (IOCL)

1. Shri M.S. Ramachandaran - Chairman
2. Shri P. Sugavanam - Director (Finance)
3. Shri T.L. Jain - Executive Director

Representatives of Hindustan Petroleum Corporation Ltd. (HPCL)

1. Shri M.B. Lal - Chairman & Managing Director
2. Shri N.K. Puri - Director (Marketing)
3. Shri S.P. Choudhry - Executive Director (Retail)

Representatives of Bharat Petroleum Corporation Limited (BPCL)

1. Shri S. Behuria - Chairman & Managing Director
2. Shri S. Radhakrishnan - Director (Marketing)

Representatives of IBP Company Limited

1. Shri R.S. Guha - Director (Marketing)
2. Shri S.K. Khosla - Executive Director

In the absence of Convenor, Sub-Committee on Petroleum, the Sub-Committee chose Shri Paban Singh Ghatowar to act as Convenor for the sitting under Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

2. At the outset, Hon'ble Convenor of the Sub-Committee on Petroleum welcomed the Members to the day's sitting. On behalf of the Committee and on his own behalf, he welcomed the representatives of the Public Sector Oil Companies. Hon'ble Convenor explaining the objective of the day's meeting observed that Parallel Marketing in petroleum products has adversely affected the sale of HSD in the country. Parallel marketers are not only flouting the norms laid down by the Government but in effect are challenging the system itself. Therefore, the Government has to assert its authority to check the menace of parallel marketing. Responding to the observation of the Chair, CMD, IOCL admitted that quite a bit of imported kerosene is finding its way into places where it should not go. He apprised the Committee that although there were rules and regulations to regulate and sell the imported kerosene yet in practice these were not being implemented sincerely. In his opinion fiscal measures were the only ways to check this problem. The other issues which came up during the meeting were, difference in rates between imported kerosene and HSD, modus operandi of the parallel marketers to sell imported kerosene in the market, areas most affected by parallel marketing, administrative steps taken in checking this menace. The Sub-Committee decided to summon Petroleum Secretary and the Secretaries of the coastal States where parallel marketing of petroleum products was reported to be on high scale for further discussion on the subject.

3. The Committee also discussed the issues relating to rationale for heavy expenditure incurred on Jubilee / COCO Retail Outlets, setting up of One Stop Truck Shops of BPCL and norms for incurring expenditure on maintenance of Jubilee / COCO and 'A' category outlets.

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

The Sub-Committee then adjourned.

ANNEXURE-IV

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE

**STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(2003)**

SEVENTH SITTING

(23.07.2003)

The Sub-Committee sat from 1500 hrs. to 1630 hrs.

Present

Shri Paban Singh Ghatowar - In the Chair

Members

Lok Sabha

1. Smt. Sheela Gautam
2. Shri Ram Sajivan
3. Shri Prabhunath Singh

Rajya Sabha

4. Shri Rajiv Ranjan Singh 'Lalan'

Secretariat

- | | | | |
|----|--------------------|---|-------------------------|
| 1. | Shri P.D.T. Achary | - | Additional Secretary |
| 2. | Shri P.K. Grover | - | Director |
| 3. | Shri R.K. Saxena | - | Under Secretary |
| 4. | Shri J.N. Oberoi | - | Officer on Special Duty |
| 5. | Dr. Ram Raj Rai | - | Assistant Director |

Representatives of Ministry of Petroleum & Natural Gas

- | | | | |
|----|------------------------|---|----------------------------|
| 1. | Shri B.K. Chaturvedi | - | Secretary |
| 2. | Shri M.S. Srinivasan | - | Additional Secretary |
| 3. | Shri Prabh Das | - | Joint Secretary |
| 4. | Shri S. Vijayaraghavan | - | Joint Secretary |
| 5. | Shri G. Prasanna Kumar | - | DG, Anti-Adulteration Cell |

Representative of Ministry of Commerce and Industry

Shri L. Mansingh

- Director General of Foreign Trade

In the absence of Convenor, Sub-Committee on Petroleum, the Sub-Committee chose Shri Paban Singh Ghatowar to act as Convenor for the sitting under Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

2. At the outset, Hon'ble Convenor of the Sub-Committee on Petroleum welcomed the Members and the representatives of the Ministry of Petroleum & Natural Gas and Director General, Foreign Trade. Initiating the discussion on the day's agenda, Hon'ble Convenor observed that the parallel marketing of kerosene oil in the country has adversely affected the sale of HSD in the country. The imported kerosene oil was not only being used for adulteration in HSD and MS but also was being sold as transportation fuel. The parallel marketers were freely indulging in illegal activities and were challenging the system itself. He sought to know from the representatives of Petroleum & Natural Gas whether there could be total embargo on import of kerosene oil in the country. He also referred to the fiscal measures taken by the Governments of West Bengal and Tamil Nadu in the form of enhancing sales tax to bridge the gap between the sale price of kerosene and diesel and also check the illegal parallel marketing but observed that from the data available these measures have also not shown the results. Responding to the Chair's observations, Secretary, Ministry of Petroleum & Natural Gas admitted that parallel marketers were not observing rules and the Government was considering measures to check their illegal activities. He outlined certain measures which the Government were considering to take. Director General, Foreign Trade apprised the Committee that under WTO conditions the imported articles could not be discriminated against the indigenous articles and there were limits of taking fiscal measures. Further, under the WTO conditions even the quantitative restrictions could not be imposed. During discussion, the other issues which came up included the role of the Director General, Anti-Adulteration Cell in checking the parallel marketing, the role of the State Governments for the same purpose, the effectiveness of Essential Commodities Act and also the cases registered against the defaulters found indulging in adulteration.

3. Some of the Members of the Sub-Committee observed that this menace of adulteration was not confined only to coastal States where parallel marketing of kerosene oil was on high scale but also in other States such as Bihar and Uttar Pradesh. The Sub-Committee decided to summon Chief Secretaries of these States also to discuss the issue of adulteration in these States and the role of the States Governments in checking this menace.

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

The Sub-Committee then adjourned.

ANNEXURE -VII

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE

**STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(2003)**

**TENTH SITTING
(18.08.2003)**

The Sub-Committee sat from 1500 hrs. to 1530 hrs.

Present

Shri Ram Sajivan - **In the Chair**

Members

Lok Sabha

1. Shri Paban Singh Ghatowar
2. Shri Bijoy Handique
3. Dr. (Smt.) Suguna Kumari Chellamela
4. Shri Prabhunath Singh

Rajya Sabha

5. Shri Anil Kumar
6. Prof. Ram Gopal Yadav

Secretariat

1. Shri J.N. Oberoi - Officer on Special Duty
2. Dr. Ram Raj Rai - Assistant Director

In the absence of Hon'ble Convenor of the Sub-Committee on Petroleum, Members chose Shri Ram Sajivan to act as Convenor in terms of Rule 258 (3) of Rules of Procedure and Conduct of Business in Lok Sabha.

2. At the outset, Hon'ble Convenor welcomed the Members to the sitting of the Sub-Committee and stated that Sub-Committee were meeting to consider and adopt the following two Draft Reports:-

- (i) Parallel Marketing in Petroleum Products
- (ii) Marketing Plans of Public Sector Oil Companies and their implementation

3. Thereafter, Hon'ble Convenor presented the reports for consideration and adoption by the Sub-Committee. A Member referred to the media reports indicating that the Government have issued guidelines for allotment of Retail Outlets and LPG Distributorships. He wanted the observations/ recommendations of the report on marketing guidelines to be modified accordingly. The Sub-Committee agreed to this suggestion and the relevant portions of the Report were amended accordingly. The Sub-Committee, thereafter, adopted the Report.

4. The Sub-Committee authorised the Convenor to finalise the Draft Reports and submit the same to Hon'ble Chairman for consideration and adoption by the Standing Committee on Petroleum & Chemicals.

The Sub-Committee then adjourned.

ANNEXURE-VIII

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003)

SEVENTH SITTING (19.08.2003)

The Committee sat from 1000 hrs. to 1030 hrs.

Present

Shri Mulayam Singh Yadav - Chairman

Members

Lok Sabha

2. Dr. (Smt.) Suguna Kumari Chellamella
3. Shri Khagen Das
4. Shri Harpal Singh Sathi
5. Shri Paban Singh Ghatowar
6. Shri Bijoy Handique
7. Shri Shriprakash Jaiswal
8. Shri Punnulal Mohale
9. Shri P. Mohan
10. Shri Ashok N. Mohol
11. Dr. Debendra Pradhan
12. Shri Ram Sajivan
13. Dr. (Smt.) V. Saroja
14. Dr. Ramesh Chand Tomar
15. Shri Prabhunath Singh
16. Dr. Ram Lakhan singh
17. Shri A.K.S. Vijayan

Rajya Sabha

18. Shri Balkavi Bairagi
19. Shri Ram Nath Kovind
20. Shri Anil Kumar
21. Shri Kripal Parmar
22. Shri V.V. Raghavan
23. Ms. Mabel Rebello
24. Shri Thanga Tamilselvan

Secretariat

- | | | | |
|----|------------------|---|-------------------------|
| 1. | Shri P.K. Grover | - | Director |
| 2. | Shri J.N. Oberoi | - | Officer on Special Duty |
| 3. | Dr. Ram Raj Rai | - | Assistant Director |

2. At the outset, Hon'ble Chairman welcomed the Members to the sitting and explained the purpose of the day's meeting.

3. Thereafter, he invited the Members to give their suggestions, if any, on the following draft Reports being considered for adoption:-

(i) Forty-Fifth Report on 'Parallel Marketing in Petroleum Products';

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

(iii) ** ** ** ** ** ** ** ** ** ** ** ** ** ** ** ** **

(iv) ** ** **~ ** ** ** ** ** ** ** **

(v) ** ** **~ ** ** **~ **

(vi) ** ** **~ ** ** **~ **

(vii) ** ** **~ ** ** **~ **

4. After some consideration, the Committee adopted the Reports subject to minor modifications.

5. The Committee, thereafter, authorised the Chairman to finalise the Reports after factual verification from the concerned Ministries/Departments and present them to the Parliament.

6. The Committee placed on record their appreciation of the work done by all the Sub-Committees of the Standing Committee on Petroleum & Chemicals.

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

8. ** ** **~ ** ** **~ **

The Committee then adjourned

** ***Matters not related to this Report***