

**COMMITTEE ON PUBLIC  
UNDERTAKINGS  
(1981-82)**

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**(SEVENTH LOK SABHA)**

**FORTY-SEVENTH REPORT  
ON  
OIL COMPANIES—IMPORTS OF PETROLEUM  
CRUDE AND PRODUCTS AND DISTRIBUTION  
OF GAS**

**(Ministry of Petroleum, Chemicals & Fertilizers  
Department of Petroleum)**

*Presented to Lok Sabha on 30-4-1982*

*Laid in Rajya Sabha on 30-4-1982*



**LOK SABHA SECRETARIAT  
NEW DELHI**

*April, 1982/Vaisakha, 1904 (s)*

*Price Rs. 2.00*

CCRRIGENDA

TO

Forty-seventh report of the Committee  
on Public Undertakings.

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# COMMITTEE ON PUBLIC UNDERTAKINGS

(1981—82)

CHAIRMAN

1. Shri Bansi Lal

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2. Shri Gulam Nabi Azad

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4. Shri Harikesh Bahadur

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19. Shri R.R. Morarka

20. Shri R. Ramakrishnan

\*\*21. Shri Shrikant Verma

\*\*22. Shri Ramanand Yadav

## SECRETARIAT

1. Shri H.G. Paranjpe—*Joint Secretary.*

2. Shri T.R. Krishnamachari—*Chief Financial Committee Officer.*

3. Shri S.P. Chanana—*Senior Financial Committee Officer.*

---

\*Ceased to be a Member consequent on his appointment as Deputy Minister on 15 January, 1982.

\*\*Ceased to be a Member consequent on his retirement from Rajya Sabha on 2 April, 1982.

**STUDY GROUP I ON INDIA TOURISM DEVELOPMENT  
CORPORATION LTD., INDIAN AIRLINES CORPORATION,  
HINDUSTAN PHOTOFILMS MFG. CO. LTD., AND  
CERTAIN ASPECTS OF INDIAN RARE EARTHS LTD.  
AND OIL COMPANIES**

1. Shri K. Ramamurthy—*Convener*
2. Shri Harikesh Bahadur—*Alternate Convener*
3. Shri Hiralal R. Parmar
4. Shri R. Ramakrishnan
- \*5. Shri Ramanand Yadav]

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\*Ceased to be a Member consequent on his retirement from Rajya Sabha on 2 April, 1982.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Forty-seventy Report on the Oil Companies—Imports of Petroleum Crude and Products and Distribution of Gas.

2. The Committee took evidence of the representatives of Indian Oil Corporation Ltd., Bharat Petroleum Corporation Ltd., Hindustan Petroleum Corporation Ltd. and Indo-Burma Petroleum Company Limited on 14, 15, 23, 25 September, 1981, 13 November, 1981 and 20 February, 1982 and of Ministry of Petroleum, Chemicals and Fertilizers—Department of Petroleum on 24 and 25 March, 1982 and 2 April, 1982.

3. The Committee considered and adopted the Report at their sitting held on 28 April, 1982.

4. The Committee wish to express their thanks to the Ministry of Petroleum, Chemicals & Fertilizers—Department of Petroleum—and the Oil Companies for placing before them the material and information they wanted in connection with the examination of the subject. They also wish to thank in particular the representatives of the Ministry of Petroleum, Chemicals and Fertilizers—Department of Petroleum—and the Oil Companies who gave evidence and placed their considered views before the Committee.

NEW DELHI;  
April, 29, 1982  
Vaisakha 9, 1904 (S)

BANSI LAL,  
*Chairman,*  
*Committee on Public Undertakings.*

## CHAPTER I

### I. IMPORTS OF CRUDE OIL

#### A. General

1. India's indigenous production of Crude Oil (on shore and off shore) in 1980-81 amounted to 10.51 million tonnes as against 11.77 million tonnes in 1979-80. According to the original estimates in the Sixth Plan, the Crude Oil production will reach 21.60 million tonnes by 1984-85. The latest estimate of the Department of Petroleum, however, indicates that indigenous Crude Oil production may touch 29.46 million tonnes in 1984-85.

The total requirement of imported Crude Oil and of petroleum products will entail a total import bill of about Rs. 5,200 crores in 1981-82.

2. It has been stated that Bombay High production is estimated to increase to 12.11 million tonnes in 1982-83, 16.57 million tonnes in 1983-84 and 19.12 million tonnes in 1984-85. As against this, the built up of Bombay High Crude Oil processing capacity would be 11.6 million tonnes in 1982-83, 13.6 million tonnes in 1983-84 and 18.3 million tonnes in 1984-85. Chairman, Indian Oil Corporation stated in evidence that there was surplus Bombay High Crude. Though its quality was good it did not give certain products like Bituman, Lubricating Oil etc. He indicated that as secondary processing facilities had not developed as yet they had to resort to swapping Bombay High Crude with imported crudes. To a query whether it would not be prudent to slow down production at Bombay High Crude till secondary process capacity developed, the witness indicated that Govt. policy was to keep on exploiting Bombay High Crude Oil because the country's foreign exchange position was not comfortable enough to allow larger imports of Crude.

#### *Refining capacity*

3. The total refining capacity in the country at the end of 1981 in terms of Crude throughput was 31.80 million tonnes per annum. There are eleven Refineries in operation. With the take over of Digboi Refinery of the Assam Oil Co. on 14-10-1981, all the refineries are in the public sector. Installed capacities of these Refineries are as under :—

Name of Refinery	Locality	Installed capacity (Million Tonnes in terms of crude throughout)
1	2	3
1. Indian Oil Corporation Ltd.	Gaughati	0.85
2. Do.	Baraini	3.30
3. Do.	Koyali	7.30
4. Do.	Haldia	2.50
5. Madras Refinery Ltd.	Madras	2.80

1	2	3	3
6.	Cochin Refinery Ltd.	Cochin	3.30
7.	Bharat Petroleum Corporation Ltd.	Bombay	5.25
8.	Hindustan Petroleum Corporation Ltd.	Bombay	3.50
9.	Do.	Vizag	1.50
10.	Bongaigaon Refinery & Petro-Chemicals Ltd.	Bongaigaon	1.00
11.	Assam Oil Division of ICC.	Digboi	0.50
Total			31.80

When Mathura Refinery also goes on stream shortly, total refining capacity in the country will go up to 37.8 million tonnes. When approved and anticipated expansions of refineries are completed, the refining capacity will be around 45.5 million tonnes by 1984-85.

4. Asked whether India should not have some cushion in its refining capacity, the witness conceded "In India, we need to have a little cushion in refining capacity which is required to cater to unscheduled shut downs e.g. local and labour troubles and other factors."

#### B. Import of Crude Oil

5. In order to meet the gap between demand and indigenous production of Crude Oil the following imports of Crude Oil were made :

Year	Crude Oil	
	Qty. (Million tonnes)	Value (Rs./Crores)
1977-78	14.51	1246.20
1978-79	14.66	1251.17
1979-80	16.14	2187.53
1980-81	15.80	3348.97
Provisional		
1981-82 (upto Dec., 81)	11.16	2735.52

6. The Committee wanted to know that considering the increased emphasis being placed on exploration and indigenous production of Crude in recent years what in the assessment of the Department of Petroleum were in the prospects of reduction of crude oil imports in the foreseeable future. The Department of Petroleum intimated, in a Note, that based on the estimated indigenous production and the availability of refining capacity, country's import requirements of Crude Oil expected to be as follows :

Year	Total Estimated requirements as per refining capacity	(Million Tonnes)			
		Production		Imports	
		Sixth Plan (original)	Anticipated now	With reference to original Sixth Plan Production	on the basis of anticipated production
1982-83	35.3	20.5	20.95	14.8	14.35
1983-84	35.8	21.3	26.38	14.5	9.42
1984-85	42.2	21.6	29.46	20.6	12.74



### Procedure for Import of Crude Oil

7. The following procedure is followed in the matter of import of Crude Oil and petroleum products :—

- (i) The import requirements of Crude Oil are assessed every year by the Oil Coordination Committee who incorporates these in their proposals on the annual Oil Economy Budget submitted for approval to the Ministry of Petroleum and the Department of Economic Affairs.
- (ii) Except the Crude Oil requirements of the Madras Refineries Ltd. covered under a long term Agreement with Iran and part of the requirements of Hindustan Petroleum Corporation covered through an Agreement with EXXON, all imports of Crude Oil are handled by the Indian Oil Corporation. For this purpose IOC normally enters into term agreements with the approval of Government with the National Companies of various producer countries such as Iraq, Iran, Abu Dhabi, USSR, etc.
- (iii) The uncovered deficit in the Crude Oil availability as envisaged in the Oil Economy Budget or arising out of delays in concluding long term agreements/slippage in crude supplies restriction in indigenous crude product etc. is identified by the Oil Coordination Committee from time to time. The OCC also indicate the type of crude needed for making good the deficit. Such deficits are made good by spot purchases.
- (iv) The Comparative statement of bids with evaluation results and recommendations regarding acceptance are scrutinised by the Finance Director and Chairman, IOC. The statement is then submitted to the Empowered Standing Committee consisting of the representatives of the Ministry of Petroleum, Ministry of Finance and the Indian Oil Corporation who examine in detail the relative merits of the offers, and after detailed deliberations convey their decision to the IOC and circulate the Minutes of the meeting giving there in details of the reasons for acceptance and rejection of offers received in response to tender.

### Coverage by Long Term & Spot Contracts

8. Crude Oil Imported by the Indian Oil Corporation from various sources during the years 1975-76 to 1980-81 under the Long Term Contracts and by spot purchases respectively was as under :—

Year	Quantity Imported under Long Term Contracts	Quantity imported under Spot Purchases	Total quantity imported	Percentage of spot purchases to total imports
	(Tonnes)	(Tonnes)		
1975-76	73,27,709	5,07,442	78,35,151	6.4
1976-77	86,34,350	5,30,292	91,64,642	5.5
1977-78	97,44,286	8,04,749	105,49,035	7.6
1978-79	112,88,122	5,47,725	118,35,847	4.2
1979-80	133,37,141	Nil	133,37,141	Nil
1980-81	81,81,934	21,79,662	*103,61,596	18

\*Excluding 16,73,012 tonnes purchased from Rupees source.

9. The Committee wanted to know why all the requirements of imported Crude Oil could not be assessed realistically and covered each year by long term contracts. In reply, the Department of Petroleum explained in a note :

"The long term agreements however can only be entered into when we have a clear picture of our requirements of Crude Oil for a particular period of time. If however long term agreements are entered into in such a manner that they cover our entire estimated requirements of Crude Oil to keep our refineries operated at full throughput, sullage problems are likely to arise in the event of unexpected shutdown of a refinery or refineries for any reason what so ever. In view of this, long term agreements are entered into to cover about 80% to 90% of our estimated Crude Oil requirements leaving the balance to be covered by spot purchases from time to time, should this become necessary."

10. Commenting on the relative advantages of spot purchases *vis-a-vis* long term contracts the Department of Petroleum stated, in a Note, that :

"The advantages of long term agreements are (a) assured supplies for a specific period of time and (b) relatively stable price, since the only fluctuation in prices permitted is the one which is imposed by the host Government. The advantages of spot purchases are that Crude Oil can be tied up at short notice to cover requirements which could not have been otherwise adequately predicted earlier or which would have arisen due to factors beyond our control such as unexpected stoppage of supplies, due to force majeure reasons, from any source from which terms supplies have been contracted. The disadvantage of spot purchases is that prices fluctuate considerably from day to day."

### C. Shortfalls in supply of Crude

11. Indian Oil Corporation reported that during 1978 to 1980 the shortfalls in supply of Crude Oil more than 10 per cent covered by long term contracts in the following cases :

Name of Supplier	Date of contract	Type of Crude	Contract quantity	Delivery period	Official selling price	Quantity lifted	Percentage short-fall in supply with reason for shorfa
1	2	3	4	5	6	7	8
1. NICC, Iran	5-7-78	Iran Light/Heavy	1.600 MTS	1-7-78 to 31-12-78	12.81 (L'ght) 12.49 (Heavy)	1.129 MTS	29.42 (Force majeure declared from 1-11-78)
2. HIPL	—	Rostam	0.500	Jan., Dec., 1978	12.76	0.374	23.20 Do.

1	2	3	4	5	6	7	8
3. INCC, Iraq	26-12-78	Basrah Light	32.850 bbls	Jan., Dec., 1979	13.293	40.089 bbls	
		Do.	7.320 bbls	Apr. Sept. 1979	15.696		64.10 Qty. not firmly contracted
		Do.	1.000 MTS (Additional)	Jan., Dec., 1979	13.293	0358 MTS	
4. Bregamaft Libya	10-4-79	Brega/zueitina	1.000 MTS	Apr.— Dec., 79	18.25 (Brega)	0.332	83.36 (Supplier unilaterally contract)
			1.000 MTS	Jan.— Mar., 80	18.30 (Zueitina)		
5. INCC, Iraq	19-11-79	Basrah light	3.970 MTS	Jan.— Dec., 1980	27.96	4.694	27.4 (Itan Iraq conflict)
			2.000 MTS	Apr.— Sept. 1980		27.4	

12. Explaining the reasons for 64.10% short-fall in supply from INOC, Iraq, IOC pointed out in a Note that the contract with INOC Iraq for the supply of one million tonnes during Jain.—Dec., 79 was not a firm commitment. On the basis of contract entered into with National Iranian Oil Company, Iran on 5-7-1978, Iran was to supply to India 1.6 million tonnes of Iran Light/Iran heavy Crude during 1-7-78 to 31-12-78 but after delivering only 1.1 million tonnes stopped further supplies from 1-11-1979 due to Revolution in Iran. Consequently, IOC is stated to have approached INOC, Baghdad to assist us in making good the short-fall in India's Crude oil availability. In his letter dated 26-12-78, SOMO Baghdad assured the Chairman, IOC that Iraq will make "best endeavours" to supply the additional quantity of one million tonnes. The Secretary, Department of Petroleum confided in evidence :

"They (INOC Iraq) made it very clear we have no more crude to supply. We will buy on the spot market and supply. And what they really did, as I understand it, was that they had already sold this crude oil to certain companies. They bought that crude oil back and supplied it to us at a higher price. The price was lower than the spot market prices."

13. Asked whether IOC would have to pay more if instead of making good the shortfall from INOC Iraq, it had gone in for spot purchase, the witness said "Yes' Frankly, as I see from the papers, we were obliged to them (INOC Iraq) because we were unable to get crude in the market."

14. In reply to a question about the circumstances in which the Libyan contract was unilaterally terminated by the Libyan authorities and the level at which this matter was pursued with them, the Secretary, Department of Petroleum, stated on evidence that—

"The Chairman of IOC visited Libya discussed with the National Oil Company of Libya and was told that the cessation was on the orders of the Government of Libya. This was pursued at different levels. We continued to insist with the Indian Oil

Corporation and the Department of Petroleum that there should be no question of linkage between cooperation in the supply of oil and other areas of economic cooperation of the type I mentioned. Unfortunately we did not succeed.....It was taken up through the Ambassador not only by the Petroleum Secretary but also by the Foreign Secretary. There was also a discussion between the Foreign Minister and one of the Libyan Minister."

15. The Committee enquired that as the shortfall in supply of crude by Libya was caused by an act of Government, was not the supplier liable to pay compensation under the contract, the witness revealed that no compensation was payable under the contract as "the force majeure clause does include orders of the Government."

Asked if Government had entered into any further contract with Libya, the witness said, "My impression is, no. The Libyan Crude is very expensive. Apart from that, it is not suitable for our purpose."

16. As regards loss suffered due to termination of this contract by Libya, the Department of Petroleum intimated in a note furnished after evidence that "The shortfall in the contracted supply of Libyan crude oil has been made good by supplies under agreement from other National Companies at the respective official prices and no purchases were made in the spot market during this period. The assessment indicates] that this did not result in any loss."

17. The Committee observed that if neither the contracted quantities of Crude were supplied in full nor compensation paid in the event of failure to supply, would not the very purpose of entering into long term agreements get defeated. While sharing this view, the Secretary, Department of Petroleum described the current world oil situation thus :—

"I should like to indicate that this is because it is a normal feature in the world oil situation, a prevailing state of uncertainty, with a wide and sudden variation of availability, the price and terms, etc. That has changed the nature of contractual obligations. None of the contracting parties can undertake to maintain the terms for the duration of the contract. A new code of behaviour has developed";

18. The Committee pointed out that of late there was reported to be a glut in the international oil market. Asked about the possibility of providing penalty clause in the long term agreements in a situation of glut, the Chairman, IOC assured, "We can definitely look into that." The Secretary, Department of Petroleum, however, opined "No chance at all, as far as my judgement goes."

#### *D. Retrospective Increase in Crude Oil Prices.*

19. For the details of specific contracts for import of crude furnished by the Indian Oil Corporation to the Committee, it was noticed that in 1979 Petromin of Saudi Arabia had revised and that too retrospectively prices of crude oil supplied by them to India during the periods 1-6-79 to 30-6-79

and 1-11-79 to 16-12-79. Extent of additional payments made by IOC on this account were as under :—

Date of communication on price revision	Effective date of price increase	Period of delivery	Grade	Quantity lifted (bbl)	Previous price (bbl)	Revised price (bbl)	Increase in FOB value in US Dollars
30-6-79	1-6-79	1-6-79 to 30-6-79	Arab Light	1,058,111	14.5460	18.0000	3654715.39
			Arab Heavy	364,077	13.6434	17.1724	1284827.73
16-12-79	1-11-79	1-11-79 to 16-12-79	Arab Light	1,074,919	18.0000	24.0000	6449514.00
			Arab Heavy	738,827	17.1724	23.1724	4432962.00
				3,235,934			15822019.12

20. Defending the additional payment of 1.58 crores U.S. Dollars on account of Petromin's retroactive measure, Indian Oil Corporation state, *inter-alia*, in a note, that :—

- (i) While some uncertainty surrounds the legality of the retrospective price revision measure implemented by Saudi Arabia, to challenge such a measure would have been self defeating.
- (ii) It was not at all certain that we would have won our case had we opted for a judicial remedy. We are not aware of any case where any party had successfully sued Petromin in a Court of Law on this account ;
- (iii) Retrospective price revision was made applicable by Saudi Arabia to all of their customers and was not particularly directed towards IOC.
- (iv) Hindustan Petroleum Corporation had to pay the same price for Saudi Crude Oil supplies through ECCON as the IOC paid on account of retrospective revision.

21. Asked whether the legal validity of Saudi Arabia's retrospective measure was examined, the Secretary, Department of Petroleum stated in evidence "The precise legal aspects do not appear to have been examined. There is no record about that." He, however, added that this matter was examined in the Ministry of Finance as the release of the payment involved foreign exchange.

22. The Committee enquired at what level the decision to make additional payment of 1.58 crores U.S. Dollars to Petromin of Saudi Arabia was taken. In reply, the Chairman, IOC, said in evidence :—

"The approval for the first case was given by me and for the second one, by the Finance Director. . . . I discussed them with the Ministry of Petroleum and the Financial Adviser and the Joint Secretary in the Ministry of Petroleum (on 3-7-79) and then we made the payment."

23. In reply to a question whether any record of the aforesaid meeting with the Financial Adviser and the Joint Secretary in the Ministry was available, the Chairman, IOC stated "No, we do not have any record. The point is that I did not record the minutes of the meeting." The witness, however, pleaded that there was no alternative but to accept this increase in price. When asked whether in view of the huge amount involved the Joint Secretary had discussed this matter with the Secretary or the Minister, the witness said, "I have no knowledge about that." The Secretary, Department of Petroleum surmised, "I expect that he (Financial Adviser) must have informed the Secretary."

24. The Committee wanted to know that as the legal validity of retroactive measure was not free from doubt, and the amount involved was substantial, was it not necessary for the Chairman, IOC to have at least got the prior approval of the Board of IOC formally before making additional payment of 1.58 crore U.S. Dollars, the Secretary, Department of Petroleum stated that Board was not consulted because the Board had already delegated to the Chairman the power to enter into contracts for imports of crude, bulk petroleum products including Lube Base Stock.

25. The Committee wanted to know that when the suppliers increased prices of crude whenever there was upward swing in international market, whether any of the suppliers reduced the prices consequent on glut in the international market. In a note furnished after evidence, Department of Petroleum intimated that downward revisions of prices of crude oil had been made during the period 1 January, 1981 to 22 February, 1982 by suppliers in Iran, Saudi Arabia, Iraq, Abu Dhabi, Nigeria and Venezuela.

#### *E. Import of crude from Algeria at high prices*

26. During January, 1981 to June, 1981, IOC imported from Algeria the crude oil at rates which were the highest compared to the rates at which crude oil was imported from other countries. The price differential between the lowest and this rate worked out to about Rs. 25 crores as per details given below:—

Supplier	Quantity (MTs)	FOB Value paid (Rs. Lakhs)	Unit Rate (FOB/Tonnes Rupees)	Period of Import
Sonatrach Algeria	261885	6904.06	2636.29	Jan. '81 to March '81.
	248695	6665.53	2680.20	April '81 to June '81.
INOC Iraq	3343496	59325.07	1774.34	Jan. '80 to Sept. '80
	827342	18844.34	2277.70	April '81 to June '81.

27. Asked why crude oil was imported from Algeria at such a high price, the Chairman, IOC stated in evidence : "This contract (with Algeria) was signed in December (1980) when the price was very high. This is a Government to Government agreement. At that time the price was high in open market. Now the price has dropped. I am not in favour of continuing the contract, at prevailing price."

28. When the Committee pointed out that there was a glut in the international market from June, 1981, IOC could have done away with this contract instead of accepting supplies at such a high rate till December, 1981, the witness said, "It was not my decision, but Government's decision. I recommended that we should give Notice. If we decline to take we have to give them a notice for three months."

29. The Secretary, Department of Petroleum adduced the following reasons for importing crude oil from Algeria in 1981 at higher price as compared to other suppliers :—

"In the beginning of 1981 itself, the procurement of crude oil from Algeria, Venezuela, Mexico and Nigeria was considered desirable in order to diversify our source of supply. It was recognised that this diversification would result in payment of higher prices; there was an assessment of the crude oil situation in a meeting held on 30 June, 1981. This meeting was also attended by the Foreign Secretary and the Secretary of the Department of Economic Affairs. The consensus reached was that the domestic, political and economic situation in Iran was expected to be deteriorating sharply affecting Iran's ability to supply crude oil of the required quantity. This was again reviewed on August 18, 1981 in an inter-ministerial meeting where it was pointed out that in 1981 Algeria agreed to supply one million tonnes at a time when crude oil was very difficult to get. It had also waived the special premium of \$ 1 per barrel. In view of these factors, it was felt that it would be prudent to maintain the relationship with Algeria in the oil industry which has been built-up with great effort. All these have been regularly reported and the advice of the Cabinet Committee on Political Affairs obtained."

30. The Committee asked whether IOC which was in favour of cancellation of this contract was unaware of these facts. In reply the Secretary, Department of Petroleum explained "The situation in Iraq-Iran was not known to the IOC". When asked what considerations had weighed with IOC in recommending cancellation of this contract, the witness said, "IOC's advice was based on price. He (Chairman, IOC) recommended cancellation of it purely on commercial consideration."

#### *F. Import of Crude from Egypt*

31. During 1976-77, IOC had imported crude oil from the following suppliers on the basis of long term contracts :—

Supplier	Quantity (Tonnes)	FOB Value (Rs./Lakhs)	Unit Rate (FOB Tonnes Rs.)
1. INOC, Iraq . . . . .	3117115	24152.67	774.84
2. Petromin . . . . .	1091001	8312.34	761.90
3. NIOC, Iran . . . . .	2951996	23518.58	796.70
4. ADNOC, UAE . . . . .	935705	7639.89	816.46
5. HPCL, Iran . . . . .	432540	3451.89	789.05
6. EGPC, Egypt . . . . .	105993	738.83	697.06

32. The Committee asked how was it that Egypt had supplied crude to India at a unit rate (Rs. 697.06 per tonne) which was the lowest. In reply, Chairman, IOC explained in evidence that :—

“From Egypt we took only once. This is a heavy crude. That is why, its price is very low. It was not suitable to us. . . . In the Egyptian crude there is one acidic thing called naphthenic acid, which is harmful to the refinery. Our refineries are not capable of processing this crude. What we have done, is we have generally processed this crude alongwith the other crude over a period of time.”

33. When asked if the quality of Egyptian crude was unsuitable for our requirements, why it was purchased, the witness said “This is a Government to Government transaction.” He added “a long discussion took place but we could not get any compensation from the supplier.”

34. Defending the aforesaid crude oil deal with Egypt, the Department of Petroleum, explained in a Note furnished after evidence that the urgency for importing crude oil from Egypt during January—June, 1977 had developed because money had got blocked on account of imbalance in the trade plan. The net outstanding against Egypt was Rs. 81 million. Though the Trade Agreement on 1976 signed on 18-12-75 and side letter to the Trade Agreement signed on 18-12-75 had provided for import of “El Morgan or equivalent light crude, subject to specification and prices being acceptable”, a decision was taken to import “Belayim Mix” crude after the Oil Coordination Committee had carried out a techno-economic evaluation of available Egyptian crude oils and confirmed in their letters dated 3-11-76 and 9-11-76 that it should be possible to handle “Belayim Mix”, crude in the Cochin Refinery in admixture with other imported crudes and in Bharat Refinery in Bombay if the salt content could be kept within 10 pounds per 1000 barrels.

35. Asked about extent of loss involved in this deal, the Department of Petroleum intimated that “the loss with reference to the price of \$ 10.40/bbl is estimated at US \$ 0.92 million which at the exchange rate of \$ 1 = Rs. 8 (prevailing at that time), came to about Rs. 7.3 million.”

## II. IMPORTS OF PETROLEUM PRODUCTS

### A. Imports of Products

36. In 1974-75, Government had taken various policy decisions in order to reduce consumption of petroleum products. Since then, the consumption of these products which was 22.17 million tonnes in 1974-75 has risen to 30.89 million tonnes in 1980-81. Of the total consumption of 30.80 million tonnes in 1980-81, 7.28 million tonnes i.e. 23 per cent of total consumption had to be met by imports. Year-wise details of actual consumption, production and imports of petroleum products for the last 3 years are given below :—

Quantity : Million Tonnes

Year	Consumption	Production		Imports		Value
	Quantity	Qty.	%	Qty.	%	(Rs. in crores)
1978-79 . . .	28.241	24.193	85.7	3.878	13.7	429.99
1979-80 . . .	29.843	25.794	86.3	4.478	15.0	1082.39
1980-81 . . . (provisional)	30.791	24.124	78.3	7.058	22.9	1914.50



2. Department of Petroleum, in a note intimated that the anticipated trend of import of Petroleum products is likely to be as under :

Year	Anticipated Imports	
	Qty. (Million tonnes)	Value (Rs./crores)
1981-82 (upto Feb. 82)	4.6	1355.30
1982-83	4.5	*1250.00
1983-84	7.1	*1972.00
1984-85	4.3	*1194.40

\*Based on existing average price and exchange rate.

38. According to an estimate made by the Chairman, IOC "If this growth rate of consumption of petroleum products is allowed to go unchecked, the requirement of petroleum products in the next 10 years may touch the figure of 80 million tonnes. When the attention of the Secretary, Department of Petroleum was invited to this estimate, he explained that as efforts were constantly being made to reduce consumption of petroleum products, there should be no cause for any alarm on this account. In fact according to the estimate made by the Indian Institute of Petroleum and accepted by the Planning Commission, the consumption of petroleum products in the country might go upto 62.6 million tonnes in 1989-90. However, the Ministry's own estimate on the basis of latest trend of consumption was stated to be around 57.9 million tonnes in 1989-90.

39. In order to monitor and coordinate efforts for conservation of energy and tapping of alternative sources of Energy countries like USA and Brazil are understood to have set up bodies. The Secretary, Deptt. of Petroleum informed the Committee in evidence that in India, the Ministry of Energy was the focal point in regard to all matters relating to energy, including that of energy conservation. Various proposals are processed through a Committee of Secretaries, comprising of the Cabinet Secretary, Secretary, Ministry of Energy, Secretary, Department of Petroleum, Secretary, Deptt. of Coal and Mines, Secretary, Department of Science and Technology, Secretary, Deptt. of Atomic Energy, etc. There is also a Cabinet Committee on Energy presided over by the Prime Minister. In addition, there is a Commission on Alternative Sources of Energy. This has been set up in the Department of Science and Technology.

40. IOC intimated that during 1976-77 to 1979-80, the annual growth in consumption of petroleum products over each previous year ranged between 6.2 to 10.5 per cent. The Committee desired to know what measures were being taken to arrest this growth rate and thereby obviate larger imports of crude and products. In reply, the Secretary, Deptt. of Petroleum gave a detailed account of the important areas where efforts were being made for conservation of energy and increase of fuel efficiency. Some of the efforts being made in this direction were stated to be (i) maximisation of extraction of LPG from all natural gases to minimise the use of kerosene, (ii) setting up of small scale units to take up manufacture of 'Nutan', a wick stove, having 60% of thermal efficiency as compared to 45% of other stoves, (iii) research on materials for cooking utensils, (iv) standardisation of design of pump sets, (v) experiments at the Petrol Conservation Research Institute to attain higher efficiency in the use of HSD, (vi) trials to produce a new type of HSD by using the surolus naphtha, (vii) introduction of Energy Audit

in refineries and (viii) Oil Industrial Development Board's scheme for providing short term finances for replacement of inefficient Boilers, etc.

### B. System of Acceptance of Lowest Tender

41. In April, 1979, while SNE Moscow delivered 88,825 MTs of Kerosene at \$ 222.62 per M.T. on the basis of long term contract of 22-12-1978, and Iraq National Oil Company 12,365 M.T. of kerosene \$ 194.75 per M.T. on the basis of long term contract of 26-12-1978, IOC made a spot purchase of 15,275 M.Ts. of Kerosene from Gulf Sea Singapore at as high a price as \$ 288.08 per M.T.

42. The Committee desired to know why the spot purchase from Singapore was made at \$ 288.08 per MT as against \$ 194.75 charged by INOC, Iraq and \$ 222.62 charged by SNE Moscow. In reply, the Chairman, IOC stated: "We have long term contracts with Moscow and Baghdad. After that the Moscow price was going up. And Singapore was the lowest acceptable tender." Asked in cases where the difference between the lowest and the long term contract was unjustifiably large, would it not be better to either call for a fresh tender or hold negotiations, the witness pleaded:

"It is our responsibility to supply petroleum products in the country.

If there is a shortage, we have to go to the open market to buy the products at the lowest acceptable price; otherwise there will be chaotic situation in country."

43. During January, 1979 the supplies of High speed Diesel were made by the following suppliers at the rate mentioned against each :—

Supplier	Mode	Quantity	Price	Remarks
1. Kuwait Petroleum Corporation Kuwait	Spot contract dt. 19-11-78	9,110	(S/MT) 136.17	
2. SITCO London	Spot contract dt. 9-1-79	28,980	177.89	In October, 1978 this party supplied at the price of 128.56 per M.T.
3. Scandinavian Trading Co. Stockholm (Intrace Karachi)	Spot contract dt. 29-12-79	23,715	161.45	
	Spot contract dt. 9-1-79	25,045	169.04	

44. Asked why there was so much difference in prices in spot contracts entered into on the same day or within a few days of each other for import of HSD, the Chairman, IOC explained that "during that period we did not get enough products from one party. So, we had to take them from a range of suppliers." The Committee wanted to know whether in cases where the lowest tenderer failed to deliver the quantity contracted for why could not IOC purchase it from the next tenderer at the same price instead of purchasing at a higher price. In reply, Chairman, IOC said:

"We find that after we open the tenders, we must not do any negotiation further — for some reason. The first of them is that we will not get the

lowest offer. Where, if time permits, we can try; but we have found that once we start negotiation, there is trouble. Others will say 'why not negotiate with us?'

45. When the Committee pointed out that their suggestion of asking the next tenderer to supply a product at the same price as that of the lowest tenderer instead of the higher price, did not mean negotiation in the accepted commercial parlance, the witness assured "We can try that suggestion."

46. Agreeing with the Committee's suggestion, the Secretary Department of Petroleum said in evidence "We do agree that experiments do need to be carried out if negotiations can be fruitful and the Empowered Standing Committee will be asked to frame guidelines immediately for these things including defining the circumstances in which this will prove useful and should be adopted. The main constraint which has been pointed out is the time available.

### *C. Indian Agents of Foreign Suppliers*

47. Quotations for spot tenders floated by the IOC for import of petroleum products are quoted by the foreign suppliers directly or through their Indian Agents. There are about 50 to 60 such agents. These include Unitrade, New Delhi, Mator Pvt. Ltd., Bombay, Survir Enterprise, New Delhi, Hindustan Monark, New Delhi, Chinai Chemicals, Bombay, Hotel Oberoi, Bombay, Rager Enterprises, New Delhi, Oberoi, Walia & Associates, Bombay, Argus & Co., New Delhi, Petro products, New Delhi, Bhardwaj Exports, Bombay, Menon Associates, Bombay, etc. These agents get their commission from the foreign suppliers in foreign currency.

48. The Committee wanted to know what commission did the Indian Agents get from their foreign suppliers. The Chairman, IOC said in evidence, "we do not ask them what commission they get." To a query why it was not possible for the IOC to eliminate these intermediaries by obtaining quotations directly from the foreign suppliers, the witness deposed:

"We are responsible for having so many Indian agents in the country because we have introduced the system of sealed tenders as per the instructions of the Government. But the Government has got a point. Previously, the complaint was if the foreign company sends telex offer, then the price offered by that company is likely to be disclosed and this may lead to many difficulties. That is why the system of sealed tender was introduced. Then the Indian Company agents came into the picture. Now we are reviewing our policy. We are going to have some telex arrangements which will be completely sealed. Our intention is to completely eliminate the system."

49. Asked if IOC had already been having a telex system before introduction of sealed tender system and if so, why was that changed, the Secretary Department of Petroleum stated "Apparently, there was such system but unfortunately, some information appears to have leaked out." This change from telex to sealed covers was done on 27/28 March, 1980. This was discussed in the Ministry. There was a meeting held in the office of the Minister of Petroleum on March 21, in which Secretary, Petroleum Ministry and Chairman of IOC were present." The Committee observed that the change over to sealed tender system had encouraged the agent system.

50. The Committee asked if after installation of sealed telex system, the agent system would be completely abolished, the witness assured "My recommendation would certainly be that."

51. Asked if meanwhile, Indian Agents could be paid in Indian rupees, instead of the foreign exchange, the witness stated "it can be done. We have said so. This will be introduced forthwith."

52. The Committee pointed out that if at the time of switch over to sealed tender system in March 1980, a provision had been made for payment to them in Indian currency, it would have to that extent, saved foreign currency. In reply, the witness said, "I agree."

#### D. Storage Capacity

53. According to information furnished by the IOC, the latest position of storage capacity both for crude oil and petroleum products is as under :—

	Existing storage capacity (Millio MTS)	No. of days	Proposed increase in storage capacity by 1985-86	Total	Coverage terms of No. of days
A. Crude Oil . . .	1 613 (June, 1981)	21.22	2 301	3 904	45
B. Petroleum Products	3 736 (April, 80)	31.2	3 081	6 817	46

54. These figures, it has been stated, are in respect of storage capacity of the oil industry as such, made up of the marketing companies and their own refineries and do not take into account the existing or proposed storage capacities available with Cochin Refineries, Madras Refineries and Bogai-gon Refineries as also with various bulk consumers.

55. The Committee enquired if it was a fact that sometimes IOC could not take advantage of the low prices of petroleum-products in the international market because of inadequacy of storage capacity in the country. In reply the Chairman, IOC said in evidence :

"What you say is correct. We have seen during the last two or three years our calculation about oil wagons have gone wrong. Two things are necessary if we have to buy a product at a particular point of time. First of all, we should have storage capacity. Also, we should have money to buy the product. For instance, at the moment crude prices have crashed so also the by-products."

56. Dealing with the question of problems involved in raising the storage capacity, and how these were being overcome, the Secretary, Department of Petroleum explained :

"Some of the problems e.g. getting land are big ones. In installation and depots, much of our land is railway land, or port commissioner's area. Getting additional land at a time when the Railways also want to re-site their plants, is proving to be a problem. We sat with the Railways, and we solved it; we sat with the Port Trust authorities in Bombay also."

### E. Transportation of Petroleum Products

57. During the years 1979 to 1981, Shipping Corporation of India had to charter foreign flag vessels to uplift petroleum products ex-Black sea on f.o.b. basis. The volume of shipments through SCI owned, SCI chartered and IOC chartered foreign flag vessels is given :

	(Figures in M.Ts)		
	1979	1980	1981
(i) By SCI through Indian flag vessels	169,237	157,192	215,529
(ii) By SCI through foreign flag vessels	238,997	210,047	141,529
(iii) Voyage charter by IOC foreign flag vessels	33,206	64,487	87,537
	441,440	428,726	444,742

58. During examination of the representatives of IOC, the Committee wanted to know why the IOC had not been floating their tender for import of petroleum products on FOB basis instead of C&F basis. In reply, the Chairman, IOC said :

"I shall tell you the problem we are facing. We can go in for FOB only in the AGPG area or Singapore area. We cannot go to far off places. We know perfectly well that till 1981 we were short of product tankers....In the absence of shortage of product tankers, it would be difficult for us to go on FOB basis."

59. Asked whether the IOC derived any advantage by floating tenders on C&F basis, the witness said "I do not find any advantage." In reply to a query whether it was not in the larger interests of the country that all our imports were on FOB basis and all exports on C&F basis, the witness agreed and said "We do give preference to Shipping Corporation."

60. In a note furnished after evidence, IOC claimed that "All SCI owned vessels are fully utilised by the oil industry for coastal movement as well as import needs of the country."

The following facts have been cited by the IOC in support of this claim :—

- (a) Director's Report in the Annual Report of the SCI for the year 1979-80 pointed out that "As in the previous years, not a vessel of the Corporation was laid up for want of employment and all tonnage owned was fully utilised, inspite of uneconomic rates at times."
- (b) In his letter dated 7-11-1981 addressed to the then Manager Director (M) of IOC, the Executive Director, SCI had inter-alia stated "For last 3 years SCI had not been able to carry Indian share of product movement from USSR in accordance with the Indo-Soviet Trade Protocol because of limited number of product carriers available with SCI."

- (c) During the year 1980-81, due to shortage of Indian flag vessels, a foreign flag vessel JUBILEE VENTURE was chartered by IOC, on Time Charter basis from 7 March, 1980 to 8 Feb., 1981.
- (d) As and when they have to uplift cargoes on FOB basis and there is no availability of Indian flag tankers, is no availability of Indian flag tankers, IOC Chartered vessels on voyage charter basis through "Transchart" (Chartering Wing of the Ministry of Shipping and Transport). Transchart floats enquiries to all Indian shipowners as well as foreign shipowners. While finalising the fixtures, priority is given to Indian flag vessels. Amongst the Indian flag vessels, priority is given to those of the public sector flag vessels. Thus there is an built system to ensure that all Indian flag vessels are utilised for upliftment of products for the industry.
- (e) As the Indian flag tonnage was not adequate enough to take care of IOC's total transportation needs for petroleum products, a large number of foreign flag vessels were utilised for FOB upliftments by chartering them through Transchart.
- (f) Though ocean freight payments made by the IOC to SCI had increased in absolute terms from Rs. 55.72 crores in 1979-80 to Rs. 72.29 crores in 1980-81, freight of SCI expressed in terms of percentage of total freight payments had decreased from 78 in 1979-80 to 72 per cent in 1980-81. This decrease in freight earnings of SCI has been attributed by the IOC to (a) a substantial increase in imports of petroleum products during 1980-81 as compared to 1979-80, resulting in larger outgo of freight and (b) Limitation of tonnage available with SCI. Substantial increase in imports during 1980-81 coupled with limited tonnages available with the SCI resulted in increased freight earnings by the Indian flag vessels of private sector companies and the foreign companies.

26. The Shipping arrangements and the rates are settled by Transchart and the IOC is reported to have no check. The Committee, therefore, desired to know how far this position was consistent with the autonomy of public undertakings and whether it was not necessary for IOC to have at least a commercial satisfaction of the arrangements. In reply, the Secretary, Department of Petroleum stated :—

"The charters are in accordance with the decision taken by the Cabinet in December, 1957... So far as the Ministry is concerned we have no reason to believe that there is any dis-satisfaction on the part of IOC... We will look into it again. I will have a specific discussion with the Shipping and Transport and our Agents. I will specifically go into the transchart Charter rates... As a matter of principle it (imports on FOB basis) should be not only in the interest of SCI but even export-import companies, including IOC... In fact, we are trying to formulate a strategy for not merely increasing Indian flag bottoms but also for ensuring that these bottoms are efficient and cost effective."

### F. Spot Purchases

62. All finished petroleum products except paraffin wax and LPG are being imported by the Indian Oil Corpn. by

- (i) entering into long term contracts;
- (ii) making spot purchases on the basis of tenders/negotiations and sometimes by considering even the unsolicited offers.

63. Of the total import of petroleum products, the quantity and value of imports made by spot purchases was as under :—

(Million Tonnes)

Year	Imports of petroleum products by Spot purchases
1976-77	0.36
1977-78	0.94
1978-79	2.29
1979-80	2.18
1980-81	3.40

64. At the instance of the Committee, the IOC furnished an analysis of 88 selected spot contracts entered into by it during 1976-77 to 1980-81 (5 years) for import of petroleum products. The analysis revealed that:

- (i) While spot purchases in 56 cases were made by tenders, in 32 cases the prices were settled by the IOC by negotiation;
- (ii) In the case of spot purchases by tenders, while there were 15 clear instances where the contracted prices were lower than all three spot postings viz. Italy, Singapore and AG/PG or the notional C&F prices derived therefrom on the respective dates of acceptance, there were only 11 instances where the contracted prices were higher than all the three spot postings or notional C&F prices derived therefrom. As against 9 instances where the contracted prices were lower than two of the spot postings or the notional C&F prices derived therefrom, there were 21 instances where the contracted prices were higher.
- (iii) In the case of contracts finalised by negotiations, there were 13 clear instances where the contracted prices were lower than all the three spot postings or the notional C&F prices derived therefrom, as against only 3 instances where they happened to be higher. In 7 instances the contracted prices were lower than two spot postings or the notional C&F prices derived therefrom as against 9 instances where the contracted prices were higher.

65. Explaining the larger incidence of contracted prices exceeding majority of the spot postings, the IOC stated :

“19 of these cases (out of 21 cases) were during the years 1978-79 and 1979-80 when the international oil market was affected very seriously by the Iranian revolution which started in October, 1978 and the cumulative price increase of 14.5% announced by OPEC for the year 1979. These were the years when product availability in the international market itself was a difficult proposition,

leave alone the consequential effect on prices. Out of these 19 cases, 12 cases alone relate to November, 1978 to March, 1979.... Out of 9 cases (of the spot purchases settled by negotiation) where the contracted prices were higher than majority spot postings 3 were during 1978-79, 4 during 1979-80 and 2 during 1980-81. These were the years when the international oil market was influenced by the Iranian revolution, substantial crude price increased by OPEC and the outbreak of Iraq-Iran war."

66. The Committee observed that the quantum of petroleum products imported by spot purchases had been increasing every year. Asked if this was not an unhealthy feature, the Secretary, Department of Petroleum said in evidence :—

"I agree, but there were circumstances. You remember the Iranian Revolution.... Due to internal disturbances in Iran in 1978 there was a considerable drop in crude exports from Iran. Then you will remember the agitation in Assam, in 1980. In 1982-83 we have made a determined effort to go into every single figure. Our expectation was that almost all the HSD kerosene will be fully covered by the term contract with the USSR plus spill over of term contracts from Bulgaria and Kuwait. But suddenly came the Bharat Petroleum strike and we had to enter the spot market. We deliberately left fuel oil uncovered because there was a doubt whether we would really need to import it. Because of our conservation measures and other efforts, our total imports of fuel oil may be substantially lower. If we need it, there are countries in the neighbourhood like Shri Lanka and Pakistan which sell fuel oil at very low prices. As it is, our effort is to maximise term contracts. In 1981-82, term contract was 3.45 million tonnes and spot purchase was only 1.90 million tonnes or 38% as against 50%, 47.7% and 56.8% in the previous years."

67. Referring to spot contracts, the IOC stated in a note, that it will be pertinent to point out that :

- (a) all their spot purchases against tenders were finalised on the basis of the lowest acceptable offer(s) with a view to cover urgent product requirements tendered for and
- (b) the spot market quotations for various products given in the Platts publications could at best be utilised for the purpose of analysing the price trends in the international market but never as an accurate indication of the product availability at the quoted prices.

68. When the Committee pointed out that not only were the spot purchases substantial but these had been made by the IOC at much high prices, the witness assured :

"I think, you are right because there have been such cases. But I assure you that this is a point that we have taken up and we want to try and reduce spot purchases to the absolute rock bottom. The only point is that the demand cannot be seen. So there may be a little hedging against risk and uncertainty.



## G. Unsolicited offers

69. IOC had been purchasing petroleum products on the basis of unsolicited offers also. The prices of these unsolicited offers were invariably lower than the prices at which spot purchases were made. A few instances are given below :

Name of Supplier	Product	Quantity	Price \$ per M.T.	Period	Prices changed by other suppliers for delivery made in the period
Gulf sea, Singapore	Kerosene	19,915	178.92	Mar. 79	\$281.68
	H.S.D.	19,760	153.00	Mar. 79	\$ 299.53 (STCO, Stock- holm) \$148.83 (STICO London)
Kuwait Petroleum, Corp. Kuwait	H.S.D.	24,065	152.74	Feb. 79	\$165.58 (STCO, London)
Kuwait Petroleum Corp. Kuwait.	F.O.	8,100	80.86	Mar. 79	95.84 (NRL Karachi) 96.19 to 96.85 (NIO Co. Tehran)
Helbron Bermuda	H.S.D.	13,730	337.35	Sep.79	352.53 (Interpol Bermuda)
Scandinavian Trading Stockhold	Kerosene	13,610	335.91	Sep. 80	344.94 (Seapac Resources, Singapore)

70. The Committee observed that the fact that an offer was an unsolicited one and carried a lower price created a suspicion about the quality of product. The Committee therefore, wanted to know whether there had been any cases where products purchased on the basis of unsolicited offers were not found to be of requisite quality. In reply, the Chairman, IOC stated :—

“Yes, we have found in a few cases (of unsolicited offers) that the supply was not exact to our specifications. Sometimes it happened in regular cases also. In such cases, if the quality is not according to the specifications or not upto the standard, we reduce the price as a penalty. Otherwise we do not accept the offer.”

71. The Secretary, Department of Petroleum expressed the view that “unsolicited offers should be accepted only in exceptional cases such as to

meet sudden, immediate, unforeseen demands, which, if not met, may create a shortage or at specially attractive price but for reasons that must be recorded in writing and approved by the Empowered Standing Committee."

72. Asked if there has been any case where a supplier who had supplied product of low quality on the basis of his unsolicited offer, was black listed, the witness said "Yes, there has been". He added "In the case of new suppliers whose performance capability has not been established satisfactorily, a performance bond is insisted upon. Further more, there is a provision for deletion of the names of the companies which have not performed. It does mean that those which have performed satisfactorily, in their case no performance bond is insisted upon."

#### H. Price Differentials in Contracts

73. From the details of specific contracts for import of petroleum products furnished by the Indian Oil Corpn. it was noticed that there were wide variations in prices at which long term and spot contracts were entered into with different parties at about the same time. Some of the glaring instances which were discussed by the Committee during examination of the representatives of the IOC are dealt below in the succeeding paragraphs.

74. In December, 1978, the import of kerosene, from the following parties was at the prices mentioned against each :

Name of Supplier	Date of Agreement	Mode	Quantity imported (M.T.)	Price (\$/MT)
1. SNE Moscow . . . . .	29-11-77 & Adendum dt. 15-6-78	Long Term	50,855	150.05
2. Iraq National Oil Co.; Baghdad . . . . .	21-11-78	Do.	16,675	183.11
3. Kuwait Petroleum Corpn. Kuwait . . . . .	19-11-78	Spot	14,940	163.99
4. Scandinavian Trading Co. Stockholm (Extra Ltd. Karachi)	17-11-78	Do.	22,295	177.20

75. The Committee wanted to know how USSR was able to supply us kerosene at \$ 150.05 per M. T. in Dec. 1978 whereas other suppliers had charged between \$ 164 MT and \$ 183.11 per MT from supplies made in that month. In reply, the Chairman, IOC explained :

"It is done based on the spot posting, not the regular posting. They (USSR) go by the Iranian posting price. By not taking into consideration the Mediterranean posting, the Russians were losing heavily upto 1978. At that time they wanted to go for the Mediterranean postings; and we had accepted the Mediterranean postings; After they had gone in for the Mediterranean postings, price started dropping. The Russians lost heavily, earlier and this happened at a point of time when nobody could predict it."

76. Asked if it was a fact that prices stipulated even in long term contracts for import of petroleum products were not at a fixed price but depen-

ded on prices ruling at the time of delivery. In reply, the Chairman, IOC said in evidence :

“That is correct. All the long term contracts generally are based on certain escalations/de-escalations. Every country has got different methods of fixing the escalation/de-escalation condition. To give you an example, our biggest import of petroleum products is from USSR. There again there is no fixed price. Originally, it was based on the price in the Mediterranean, then we changed it to the Iranian Port, then to the Saudi-Arabian Port. Ultimately, we went back to the Mediterranean. These changes are dependent on the contracts we have with them. There can be a violent difference in price if at a particular time, there has been some shortage of products in a particular region. Normally, it should not. Mediterranean is the lowest, but sometimes it becomes the reverse.”

77. In reply to a query whether there was any relationship between prices of crude oil and petroleum products, the witness clarified that “till then (i.e. upto 1978) there was a sanctity of the price of crude oil and petroleum products. There is always some relation between these two. After November, 1978, there is no relation between crude oil and petroleum products.”

#### I. Payment of Higher Prices of Spot Purchase from Bermuda

78. It was noticed that spot contracts with the suppliers in Bermuda were at higher prices compared to prices charged by other suppliers in most cases. Details of few instances are given below :

S. No.	Name of Supplier	Date of Agreement	Product	Quantity	Price	Delivery (B/2)
1.	Interpetrol Bermuda (From Sawhney, London)	17-12-79	Kerosene (Free)	27,210	447.21	Dec. 79
2.	Gulfsea Singapore	17-12-79	„	28,675	429.42	Dec. 79
3.	Trans World Bermuda	1-12-80	Naphtha (free source)	14,485	354.23	Dec. 80
4.	National Refinery Karachi	15-11-80	„	17,420	344.08	Dec. 80
5.	Transworld Bermuda	26-2-80	HSD (Free source)	31,000	339.64	Apr. 80
6.	Iraq National Oil Co. Baghdad	29-12-79	„	3,295	315.99	Apr. 80
7.	Coastal Bermuda	F.O.	F.O. (Free source)	18,475 33.029	215.10 216.60	April. 81 „
8.	National Refinery, Karachi	31-3-81	„	16,660	205.64	„

79. The Committee wanted to know why suppliers from Bermuda had invariably got higher prices compared to other suppliers. In reply, the Chairman, IOC deposed :

“There are international companies which operate from four or five places in the world like Bermuda, Bahamas, Liberia, Switzerland

etc. because there they do not have any tax problem... We do not accept it, unless it is the lowest acceptable tender... We always try to avoid or minimise the purchase on the spot. But when there is sudden stoppage of production by the refineries in the country, we are compelled to buy on the spot."

### J. Import of HSD from Hong Kong

80. While purchase of HSD (Frce) on long term basis was made from SNE Moscow and Kuwait National Petroleum Co., Kuwait in April, 1980 at \$ 325.40 and \$ 336.73 per MT respectively, the price at which this product was purchased from Kuo Oil, Hong Kong (Hindustan Monarak, New Delhi) was \$ 352.65 per M.T. Though Agreements with Kuwait National Petroleum Co., Huo Oil, Hong Kong and SNE Moscow were signed on 6-2-80, 22-2-80 and 29-2-80 respectively, the difference in price was quite substantial. The Committee, therefore, desired to know the reason for this price differential. In reply, the Chairman, IOC said in evidence :

"The Moscow Agreement was signed on variable price basis whereas Kuo Oil was on fixed price basis for the whole year. The contract (with Kuo Oil) was signed at the instance of Government.... We got a directive asking us to accept the offer".

81. Giving a back ground of the circumstances leading to award of contract to Kuo Oil, the Department of Petroleum intimated inter alia, in a note furnished on 7-4-82 after evidence that :

- (1) On 18-1-1980, IOC had floated a tender for the supply of 300,000 tonnes of SKO and 500,000 tonnes of HSD to be delivered during March, 1980 to December, 1980. The last date for the receipt of offers was 5-2-1980 and the offers were required to be kept valid till 15 February, 1980. The validity of the offers was later extended to 22-2-1980. 14 offers were received for the supply of HSD and 10 for the supply of SKO. Only 4 (out of 14) parties offered supplies on fixed prices. The quantities offered and the prices quoted by these parties (as on 15-2-1980) were as under :

Name	Quantity offered (MTS)	Price quoted (\$ per MT)	Escalation
1. Interpetrol Sarguda	150/220,000 + 10% sellers's option combined with Kerosene in a VLCC Tanker.	368.15 (Vizag)	No escalation.
2. Coastal Petroleum Singapore Offer-I	450,000	390.18	Fixed upto 31-5-80, escalation thereafter
Offer-II	450,000 MT ± 10% Buyer's option	409.73	Fixed upto 31-8-80 Escalation thereafter.
3. Sitco London	30,000 MT	350.00	Fixed price. No escalation.
4. Mediterranean Petrofin. Corpn. Athens	10,000 MT/ Month in cargo lots of 60 days (120000 tons)	388.17	No escalation indicated.

- (2) On 15-2-1980 after seeing the offers of prices quoted against the tender issued by the IOC for the supply of HSD, the Minister noted that all parties had quoted with escalation clauses on various types of formulae. Since such quotations, he pointed out, created an indeterminate liability. They were not in the overall interest of the country. He felt that we could not ignore that there was a great urgency for the purchase of both diesel and kerosene and in view of the deteriorating situation on account of Assam, Government had to agree forthwith and with speed to meet the shortage. He accordingly directed that :
- all the parties should be told that their quoted price shall be treated as firm price without any variation;
  - parties who do not agree should naturally be rejected outright; and
  - negotiations on prices should not be conducted and no counter offers should be accepted to preserve the sanctity of tendering.
- (3) On 17-2-1980, the Department submitted a note (endorsed by the Secretary, Petroleum) which concluded that current international practice is to fix prices of products with escalation/de-escalation clause; it is sometimes advantageous to go in for a fixed price clause in case of spot purchases where deliveries are effected within a very short period. Whether products should be purchased at a fixed price or prices with escalation/de-escalation clause, is a commercial judgement and would be influenced by market conditions of supply of demand prevailing from time to time. In the present situation, a fixed price for a long term delivery does not appear to be in our interest.
- (4) After seeing the Department's note, the Minister recorded in the File on 19-2-1980 that the Chairman, IOC, the J.S. in-charge of the subject in the Deptt. of Petroleum, the JS&E FA in the Deptt. of Petroleum, the J.S. in the Deptt. of Economic Affairs and the Finance Director of IOC should discuss.
- (5) After consideration of the points mentioned by the officers of the Department of Petroleum in the note on 17-2-1980, the Minister (PC&F) recorded a detailed Minute dated 21-2-1980 in which he took note of the fact that the price of SKO/HSD dropped by \$ 60 per metric tonne and it climbed up \$ 4 to \$ 16. Since he felt that since the prices had hit the bottom and were now on the climb, it would be prudent to strike the bargain at the lowest possible firm prices without any variation for the whole year. The Minister observed that commercial expediency demanded that firm price contracts be entered into by buyer when prices were at their lowest ebb whereas variable price contracts should be concluded when prices were at the highest level.
- (6) After a further discussion with the Chairman, ICO and Secretary (Petroleum), the Minister reiterated in his note dated 22-2-1980 that it was in the best interest of the country to purchase on firm price basis in the given situation in HSD bids for 500,000 tonnes till December, 1980 (Tender No. 1/80) and no further extension of the bids should be made. He noted that Saudi Arabia had already announced a cut back in crude oil production which would

in its turn affect by-products like diesel and kerosene. Under the circumstances, he directed that the contract be concluded with the lowest priced firm offer on record as per the guidelines laid down above and that the party should give IOC a Performance Guarantee of 3% and the contract should be for deliveries commencing immediately and continuing till December, 1980.

- (7) On the same date (22-2-1980), Secretary (Petroleum) recorded a note for the Minister recapitulating the discussions and notings on the subject and mentioned that only two fixed price offers fell within the range of consideration as follows:—
- (i) an offer of 30,000 tonnes of HSD from SITCO, London at US \$ 250 per M.T. C&F Bombay; and
  - (ii) an offer of 400/500,000 tonnes of HSD from Kuo Oil, Hong Kong, at US \$ 355 per metric tonnes C&F Bombay. This party had originally offered 400/500,000 tonnes of HSD on a variable basis subsequently indicated on 18-2-1980 to offer supply at a fixed price of US \$ 355 per M.T. and during the course of the day on 22-2-1980 submitted a revised offer through their local representative (Hindustan Monark) reducing the fixed price to US \$ 353.50 per M.T.

82. The Secretary (Petroleum) further stated in the aforesaid note (to the Minister), that at a meeting held in the Minister's room on the afternoon of 22-2-1980, the Minister desired that in view of the urgency of our need for HSD and the fact that these offers were due to expire by 10 P.M. that night, immediate action should be taken to direct IOC to issue acceptance letters to both the parties. Accordingly Petroleum Secretary sent the following letter dated 22-2-1980 to Chairman, IOC ;

“Reference our discussions today on the above subject, Government have decided that you should immediately accept the revised fixed price offer dated 22-2-1980 of Hindustan Monark Pvt. Ltd. It has also been decided that 30,000 tonnes may be purchased from SITCO, London at the fixed price. C&F Bombay offered by this party”.

From the details furnished by the IOC, it appears that 27,100 tonnes of HSD was purchased from SITCO, London.

83. Posted prices in the Mediterranean, AG/PG and Singapore did show an increase in the days preceeding the date of the decision and date are set out in Annexure II. Though spot prices in Singapore, substantially higher than posted Singapore price, showed a rather different trend, it appears that there were uncertain conditions in the world oil position at the time.

84. As regards loss on this contract, the Secretary, Department of Petroleum indicated that “IOC has carried out this analysis and they say, it is notional, because no contracts are indential and the quantities are different. The figure that they have indicated comes to 9.854 million dollars. This, I would repeat, is a notional figure.”

85. Summing up the development in this case the Department of Petroleum has stated that the decision was based on an analysis of the pros and

cons of the alternative courses and was a considered judgement. The Department of Petroleum has stated :—

“In 1976-77, 1977-78 and 1978-79 there were at least 5 occasions when contracts were entered into with an overseas supplier (INOC, Iraq on fixed price basis for supplies to be made for a long term period. Whereas there was a loss to the IOC of about US) 98,000 in the first two contracts, the remaining four contracts are stated to have resulted in a gain to the IOC of nearly \$ 3.6 million.”

86. Indigenous production of petroleum crude in 1980-81 was 10.50 million tonnes. Imports of the crude were of the order of 16.25 million tonnes. In addition petroleum products were imported to the extent of 7.28 million tonnes. The value of the imports of petroleum crude and products was Rs. 5263.47 crores. The Committee have been informed that the indigenous production of crude in 1984-85 is now expected to be 29.46 million tonnes which exceeds the original anticipation by about 8 million tonnes. However, the imports of petroleum crude and products would still be necessary to the extent of about 12.74 and 4.3 million tonnes respectively. The consumption of petroleum products which was 30.89 million tonnes in 1980-81 is expected to go up to 57.9 million tonnes by 1989-90. The Committee note the government's endeavours in the direction of energy conservation exploration of alternative sources including synthetic oil and reduction of consumption. They are glad to observe that significant progress has been achieved and is expected to be achieved in the indigenous production of crude. Nevertheless in view of the substantial imports entailing huge foreign exchange outgo that would still be needed in the years to come these endeavours need to be monitored and coordinated better by institutionalising the present arrangement as in some other countries.

87. The present refining capacity in the country is 3.180 million tonnes (as at the end of 1981). This appears to be inadequate. The Committee suggest that even if it is not possible to attain self-sufficiency in crude production in the foreseeable future, an attempt should be made to make the country self-sufficient in refining so as to eliminate import of petroleum products. The Committee suggest having regard to the need to have some cushion in the refining capacity as an insurance against unforeseen shutdown of the refineries, additional capacity should be planned and installed to achieve self-sufficiency within a decade.

88. The imports of petroleum crude and products are made almost entirely by the IOC normally on long term agreements with the producers after acceptance of tenders by an Empowered Standing Committee. Spot purchases sometimes at higher prices are also made to meet unforeseen sudden demands. The Committee desire that the spot purchases should be avoided as far as possible. If it becomes unavoidable care should be taken to see that the price is the lowest prevailing price. In case the lowest tenderer is unable to meet the entire quantity needed negotiations should be held with the second lowest tenderer to get the supply at the lowest price. In any case the Committee feel acceptance of unsolicited offers should be avoided except in extreme emergency where the circumstances must be reduced to writing and the prior approval of the Empowered Committee obtained. Necessary guidelines in this regard should be laid down by the Empowered Committee.

89. At present the storage capacity for petroleum crude and products is provided to meet 21 to 31 days requirement. It is planned to create additional

capacity to meet 45 days requirement by 1985-86. Having regard to the need to purchase larger quantities at a time taking advantage of price situation the Committee feel that the present as well as proposed storage capacity on the low side. Efforts should be made to provide for a larger storage capacity.

90. The Committee find that at present spot purchase are also made from foreign producers and traders through Indian agents. Earlier there was a system of obtaining quotations through secret telex but on an apprehension that there was some leakage it was decided in March, 1980 to revert back to sealed tender system which inevitably brought back the agents. The Committee feel that it is not healthy to purchase through middlemen which would needlessly push up the cost and hence also the precious foreign exchange expenditure. The policy is stated to be under review. The Committee would urge that a foolproof sealed telex system should be introduced without delay and in the mean time the agency commission should be agreed to be paid in rupees.

91. Another area which is relevant to saving foreign exchange expenditure is transportation. Unfortunately despite the operation of TRANSSHART it could not be ensured that the expenditure on transport is kept to the minimum. The imports of petroleum products seem to be largely on C.I.F. basis and wherever there were imports on F.O.B. basis the products were largely transported by Chartering foreign flag vessels. This was stated to be on account of shortage of product tankers in the country till 1981. The Committee trust that SCI would take note of this and augement the capacity of product tankers in order to serve fully India's imports. Incidentally, the chartering of vessels and fixing the rate are entirely left to TRANSSHART a body outside the IOC. The Committee feel that the IOC should be in a position to have an independent commercial satisfaction. If, however, it is not possible, the TRANSSHART should be equipped with all upto date information regarding freight rates. The system followed in this regard, therefore, requires a review.

92. According to the IOC, during 1978-79, the shortfalls in supply of crude against 5 contracts was more than 20% and in one case it was 83%. The Committee have been informed by the Secretary, Department of Petroleum that none of the contracting parties could undertake to maintain the terms for the duration of the contract. Thus, there is no sanctity in the contracts entered into for the purchases. In view of the change situation in the international oil market recently the Committee suggest that the possibility of providing penalty clause in the agreements should be explored.

93. The contracts for crude purchases provide for price escalation during the term of the contract. Normally any price increase can be only prospective but the Committee have found that in the case of certain purchases from Petromin of Saudi Arabia retrospective price revisions were made in 1979 which resulted in additional payments of US \$15.8 millions.

The precise legal position did not appear to have been examined. Even if the payment was inevitable, the Committee feel that the prior approval of the Empowered Committee or at least of the Board of the IOC should have been obtained before the payment was made. The Committee hope that in future this precaution will be taken. Further, it should be ensured as far as possible that the contracts provide for de-escalation also when the prices come down. This is all the more necessary in the current situation of the petroleum prices showing downward trend.



94. In 1976-77, 1.06 lakh tonnes of crude was purchased from Egypt at a cost of Rs. 7.39 crores. But this crude was found to be unfit for processing in any of the refineries and was gradually processed along with other crude over a period of time. The loss incurred was stated to be about Rs. 73 lakhs. The Committee have been informed by the Department of Petroleum that the purchase became inevitable to wipe out the trade gap between Egypt and India and a different variety of crude not covered under the trade agreement was procured. Whatever be the circumstances, the Committee are of the view that at least it should have been ensured that there was no loss. They trust that adequate care will be taken in future.

95. While purchase of HSD on long-term basis was made from SNE, Moscow at US\$ 325.46 per metric ton the price at which 512,155 tonnes of the product was purchased from Kuo Oil, Hong Kong (through Hindustan Monark, New Delhi) in the same period was US\$ 350.65 per M.T. The Committee were informed that the Moscow agreement was signed on 6 February, 1980 on variable price basis whereas the other agreement was signed on 29 February, 1980 on fixed price basis for the whole year. According to the IOC, there was a 'notional'\* loss on the latter contract to the extent of US\$ 9.854 million. 14 tenders were received in response to the enquiry of the IOC 10 were at variable prices and 4 were at fixed price. The tender that was accepted was neither the lowest nor was it initially based on fixed price. The tenders on variable price basis received initially was asked to be treated as on fixed price basis and no negotiation was permitted. Although the Department was of the view that a fixed price for a long-term delivery did not appear to be in the country's interest, this was ruled out on the basis that the price trend indicated that it would be prudent to strike bargain at the lowest possible firm price. Accordingly the IOC was directed by the Ministry to accept the offer of Hindustan Monark Pvt. Ltd for 400/500,000 tonnes@ US\$ 352.65 and, the offer of SITCO, London for 30,000 tonnes@ US\$ 350 per MT. However, it is clear that the subsequent events proved that it was not prudent to have gone in for the purchases. The Committee fail to understand why the normal procedure of processing the purchase proposals through the Empowered Committee was not followed in this case. They would await a further enquiry or an explanation in this regard.

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\*Because no contracts were identical and quantities are different.

## CHAPTER II DISTRIBUTION OF GAS

### *A. Award of Dealerships/distributorships*

Common guidelines applicable to all public sector oil companies were enunciated for the first time by Government on 23 September, 1977. These guidelines were revised by Government from time to time. Changes made in the matter of reservation of dealerships/distributorships in guidelines issued from time to time were as under :

Affective date of guidelines	Reserved categories					
	SC/ST	Physically handicapped persons	Unemployed Graduates	Defence Personnel disabled in war	Social workers/Freedom Fighters	Open category
23-9-1977	25%	—	—	—	—	75%
10-4-1978	25%	*	—	—	—	73%
5-6-1980	25%	10%	25%	10%	—	30%
7-6-1980	25%	10%	25%	10% (including war widows)	—	30%
19-12-1980	25%	(Category merged with reservation for Defence Personnel etc.)	20% (107 for Graduate Engineers)	15% (including physically handicapped persons, war widows & Blind persons)	10%	30%

\*2% of all types of dealerships/distributorship earmarked for handicapped persons.

2. It will be seen from the above Table that while under the Ministry's guidelines of June, 1980, 10% of dealerships/agencies were to be reserved for defence personnel disabled in war (including war widows), and 10% for physically handicapped persons i.e. 20% for both the categories, this percentage for these two categories was brought down to 15% by Government in December, 1980. The Committee desired to know what considerations had weighed with Government in bringing down the percentage of these two categories. In reply, the Secretary, Department of Petroleum explained in evidence:—

“On 18 September, 1980, the Director General of Resettlement, Ministry of Defence, advised that war widows and war disabled defence, personnel had been settled to a large extent. It was in that context that this reduction took place and both the categories were merged into one and on 19 December, 1980, the quota, which was ten percent each, was merged into one of 15 percent.”

3. In pursuance of Guidelines issued by Government on 5 June, 1980 the concept of 'Industry Roster' was introduced for the first time in public

sector oil companies to maintain the category-wise control as per a 100-point roster. The procedure stipulated in this behalf envisaged that :

- (a) No person would be eligible for new dealership/distributorships if he or any of his close relations already hold a dealership/distributorship with any oil company ;
- (b) All appointments should be made after advertisement in the news- papers; and
- (c) The Selection Committee shall consist of a representative of the concerned oil company and of one representative each of the two other major public sector oil companies with an additional representative of the State Government for selection of SC/ST candidates.

4. On 19 December, 1980 the Ministry of Petroleum, Chemicals & Fertilizers (Department of Petroleum) asked the Oil Companies to interview the candidates in reserved categories who applied in response to advertisement, recommend a panel of 8 or 10 persons without grading them, and send the papers to the Ministry. On 5 January 1981 it was clarified that list of all 'Fit' candidates be reported to the Ministry and field investigations may be taken up by the oil companies after the names of the successful candidates are indicated by the Ministry. On 21 September, 1981, these instructions were superseded and oil companies were asked that (i) the Screening Committee will interview all the eligible candidates in the reserved categories and classify them into 'Fit' and 'unfit'; (ii) after interviewing the Fit candidates and marking them on the prescribed basis, the Selection Committee (consisting of senior officers from the Oil Companies and a representative from the Government) will select a panel of four names in order of merit. Appointment letter will be issued in the order of merit subject to the results of the field investigations to be carried out by the respective oil company.

5. The Committee wanted to know the circumstance under which procedural changes were made by the Ministry in December, 1980 and why were these changes with drawn subsequently. In reply, the Secretary Department of Petroleum deposed in evidence that:

"There is a noting of the then Minister dated 21st April, 1980. It reads like this. A large number of representations are being received dealing with the complaints against the award of gas and petroleum product agencies by the Oil Companies. The specific note (of the Minister) is dated 18-12-1980. It states all candidates who applied must be called for interview. If they have furnished the proof of their age, graduation or matriculation certificate, as the case may be, and the certificate as proof of their being resident of the state. Instead of appointing one Committee, two or three Committees may be appointed for the interviews. It is not desirable to give marks. They should select the panels of names, without grading them and send the papers to the Ministry with the information of the person or persons, included in the list as having capacity."

The Secretary further stated:—

"As I see it from the files, some complaints\* that were received, were certainly sent to the Chief Executives. There is reason to believe that some discussion took place, but there is no formal record of meetings on or around 18 December, 1980, where this actual decision was taken."

6. The Committee pointed out that the Telex sent by the Ministry to the Oil Companies on 19, December, 1980 conveying the procedural changes had not referred to any complaints at all having been received by the Ministry against oil companies. Asked if before taking drastic action, or taking away the power of Oil Companies to make selection of candidates in the reserved categories were the Oil Companies apprised of these complaints in writing or in a meeting and asked to take remedial measures. In reply, the witness said "From the file it appears as if some meeting did take place, but there is no formal record\*\*. The discussion might have been there, may be a casual one, may not have related to the specific point.

7. Asked if, in the absence of any record to the contrary, it would be correct to conclude that neither any effort was made by the Ministry to draw the attention of Oil Companies to any complaints nor any attempt made to call a joint meeting of oil companies to discuss the matter, the witness stated "I agree".

8. When the Committee pointed out that award of dealerships by the Oil Companies was a matter of day to day administration and if Government wanted to interfere in it, a formal Govt. Directive should have been issued, the witness conceded.

"The Companies are set up either as Statutory Corporations under a particular Act or are set up under the India Companies Act. Therefore, if there is to be an intervention in what their Articles of Association may entitle them with the approval of the Board to do, you are quite right that any such thing should be a Presidential Directive"†.

9. The Committee wanted to know that having taken over the power to select candidates in reserved categories why did the Ministry restore that power back to the Oil Companies in September, 1981, the witness said; "As a result of the change in the procedure (made in December, 1980) almost 9,200 names of candidates were received for 422 gas dealerships. It was not possible for the Ministry to judge the merits on the basis of the information provided. In September, 1981, it was felt that it was neither

\*At the time of factual verification, Department of Petroleum referred to their Note dated 1-4-82 according to which the Department received over 600 letters from M. Ps and VIPs. 30 out of these case were investigated. In addition 2000 letters received in the Department from the general public were forwarded to oil companies.

\*\*At the time of factual verification, Department of Petroleum referred to their Note dated 1-4-82 according to which though discussions were held with the officers of the Oil Companies both in the Ministry and by the Minister in the month of November, no minutes were kept. It was after discussion held by the Minister on 16-12-80 that he gave written orders on 18-12-80."

†According to the Department of Petroleum there did not appear to be any need to issue a presidential Directive because of close and continuous dialogue between the Ministry and the public sector oil enterprises. Several informal discussions were held by the then Minister with the Oil Industry from October, 1980 to December, 1980.

feasible nor desirable for the Ministry to do the selection. So the procedure was changed.

10. According to the guidelines issued by Government on 21 September, 1981 it was provided that the Selection Committee consisting of senior officers from the Oil Companies for reserved categories shall also have a representative of Govt. on it. The Committee asked how was it that while the Selection Committee which interviewed candidates in the reserved categories had a representative of Government on it, the Committee which decided on cases under open category did not have a Government representative on it. The Secretary, Department of Petroleum explained:

“When this was changed, (in September, 1981) there was a formal meeting with the Chief Executive and these guidelines were issued. The only object of having a Government representative (who is either a Deputy Secretary or Director) in the Selection Committee was to see that the objective of reservation was carried out because this was virtually the first time that such a large number of reserved categories were being interviewed.”

11. Asked whether take over of power of selection for reserved categories by the Ministry during December, 1980 to September, 1981 when no selection was made had resulted in wastage of Goa on the one hand and created consumer dissatisfaction all over the country, the witness said “I have no way of calculating it. But the LPG as such is not wasted. The shortage continues”.

12. As regards complaints of delay in selection of candidates for dealerships/distribution and allegations of favouritism, the witness assured:

“I realise it. The biggest single problem has been that all these things got held up and every body had got suspicion. But we are speeding up the procedures of recruiting them, we are speeding up the interviews and appointments etc. The person who is not selected often feels that it is not done on merit and so such persons will make allegations. But we are attempting to investigate every single allegation, if we definitely find that there is something wrong some where, we will take action.”

#### *B. Distribution of Gas*

13. Currently LPG is being marketed by the industry in 521 towns only. According to the industry Plans for 1980-81 and 1981-82, an additional 193 towns (i.e. 40 under the 1980-81 programme and 153 in 1981-82) were to be covered. As on 30 June, 1981 the Oil Companies are stated to have a back log of 8.04 lakh applications for LPG connections in the four Metropolitan towns—Delhi, Calcutta, Bombay and Madras. The industry expects to open at least one gas agency in majority of towns (with a population of 20,000 and above during 1983-84. Cities with a population of 50,000 are being covered during 1982-83 itself.

14. The Committee desired to know by what year it would be possible to clear the backlog in metropolitan cities, the Secretary, Department of Petroleum stated:

“The total quantity of LPG in 1981-82 is 500000 tonnes. It will be 1.8 million tonnes in 1986-87. Certainly this should enable a

large number of connections to be given. There is always a conflict between metropolitan cities vs. smaller cities. While I certainly see considerable improvement, I cannot frankly say what precisely would be, the tenure. I cannot give time. But I can say that there is and will be rapid improvement in the LPG position."

Asked if there was a proposal to introduce a pipe system for distribution of Gas in Metropolitan cities, the witness said :

"At the request of the Government of India, the Maharashtra State Government had set up a Study Group in September, 1978 to undertake study in Bombay for supply of gas to domestic consumers and textile industries..... The gas can only be supplied through pipelines and these are to be built by the Municipal Corporation. We cannot do that. The Bombay Gas Supply Company has to get the approval of the Maharashtra Government. There are some problems. But we are pressing them (State Government) to hurry up. We spoke to the Chief Secretary last year. In fact, a meeting was convened in Bombay to expedite the proposal."

16. The Committee desired to know whether Industry Plan for new towns was such as would ensure regional balance, Chairman, IOC stated :

"In the beginning, when distribution was started, the regional balance was not there. But now we have taken a definite policy to see that the regional balance is there and LPG should go to the area where it is not available from the area where it is produced."

17. The Committee wanted to know people in rural areas were not been given a Gas connection. In reply, the Chairman, IOC pointed out that "Transporting gas cylinders to rural areas is very costly." He indicated "we will see that kerosene goes to all the villages first. Thereafter we can send LPG".

18. The Secretary, Department of Petroleum, explained in evidence that the real difficulty in allowing the people from rural area to carry cylinders at their own risk and responsibility was that when they took a cylinder they tried to fix it up themselves and this could lead to explosions. These instances, he felt, tarnished the image of the Oil Company concerned. When the Committee asked why could the dealers appointed for towns not take responsibility for safe delivery of cylinders at least to the rural areas located on the outskirts of towns, the witness assured that "we are coming up with a system which should enable some degree of distribution in rural areas and also in some hilly areas and in some remote areas."

19. The marketing of LPG was first started by foreign Oil Companies around 1958. IOC started it only in 1965. So far 40 lakhs Gas consumers have been enrolled by the Industry. It has, however, been reported that Hindustan Petroleum Corporation have regularised 32,954 and Bharat Petroleum Corporation 3,825 (upto 31-8-81) and IOC 60,921 (upto 30-6-81) irregular Gas connections. By regularising these connections, the Companies were able to collect a deposit of Rs. 280/- per cylinder from each customer. The Committee wanted to know if there were any

more irregular as connections in the country. In reply, Secretary Department of Petroleum said:

"We do not know how many irregular gas connections there are. We have tried to find out how these gas connections, irregular gas connections and unauthorised gas cylinders exist. As we understand it, quite a few gas cylinders are available in irregular unauthorised manner. Pilferage and theft is one cause. 607 cylinders were stolen from one of the depots in 1978-79 and 1980-81. Only 59 cylinders have been recovered. 10,000 LPG cylinders are missing from Shakurbasti (Delhi). This was reported in January, 1981. There is a CBI Enquiry going on."

20. When the Committee pointed out that even if empty Gas Cylinders were stolen or pilferaged, they would be of no use unless these were regularly got filled by collusion with the dealers. Asked if Companies were paid for the Gas at least if not the cylinders. The witness assured the Committee: "I will see if, for that matter, any of the Oil Companies distributing gas, are paid for the deliveries by the distributor."

21. Despite periodic inspections of the functioning of distributors/dealers of LPG by the field staff of the Indian Oil Corporation, Hindustan Petroleum Corporation and Bharat Petroleum Corporation and setting up of the complaints cell at various distribution centres. Malpractices like discrepancy in stocks, unauthorised connections, black marketing in connection, over charging, undue delays in supplies of refill cylinders, sale of short filled cylinders are reported to have continued unabated. Cases of spurious cylinders are also stated to have come to the notice of Oil Companies. During January, 1980 to June, 1981 IOC took action against 26 distributors only. This includes 4 cases in which dealerships were terminated and 5 cases in which only supplies were suspended. As far as Hindustan Petroleum Corporation is concerned all that it was to issue warning letters to 7 dealers during 1980-81.

22. The Committee wanted to know why it had not been possible for the Oil Companies to put an end to these malpractices. In reply, the Chairman, IOC confided in evidence:

"We have limited authority and power to stop all the malpractices. We don't have enough authority to stop them. If we have a law enacted that no body can have a LPG cylinder without a licence, most of the problem can be overcome. This should be done for safety reasons. The license fee may be just Re. 1/- on even one paisa. But it would give some authority to some organisation. Then no body can hire all unauthorised cylinders. Because people have unauthorised cylinders, some suppliers use gas on the way to delivery. This results in lesser supply to the customers. This is why for some consumers the cylinder lasts for 25 to 30 days and for some other 40 days. I don't want to hide facts. We hope that when we flood the market with LPG in the next 4 or 5 years, these malpractices will be over."

23. According to the Secretary, Department of Petroleum "There is no limitation on authority arising from any orders given by Government." He pointed out that limitation, if any, could arise from dealership agreements that the Oil Companies had with their dealers. He indicated that Oil

Companies had already been asked by Government to sit together and have a look at the dealership guidelines and see what amendments are required. He added "We found, while investigating one of the complaints, that each Company had a different guidelines for historical reasons."

24. Asked if one of the reasons for such malpractices could be the fact that dealerships were awarded in perpetuity, the witness said:

"I had occasions to discuss this with the Chief Executives (of Oil Companies). Their view is that all dealers have to invest considerable sums of money and because of that they do not feel that a time limit should in fact be put. A review is there. The Oil Companies are inspecting every agency, every retail outlet, at least twice a year and preferably four times in a year."

25. Under the guidelines issued by the Department of Petroleum prior to 1978, 25% of gas dealership/distributorship was reserved for SC/ST candidates only. This was subsequently increased to 70% after May 1980 to cover other categories such as physically handicapped persons, unemployed graduates, Defence personnel disabled in war and war widows/Freedom Fighters. The procedure for selection of reserved categories of persons as laid down in June 1980 envisaged constitution of a selection committee in each oil company concerned. In respect of SC/ST candidates a representative of the State Government was to be associated with it. When the oil companies were in the process of selecting, on 19 December 1980, the Department of Petroleum had asked the oil companies to interview all the candidates of reserved categories, recommend a panel of 8 or 10 persons without grading them as before, and send the papers to the Ministry for taking decisions. After this question came up before the Committee on Public Undertakings, these instructions were superseded on 21 September 1981 and the Selection was left to the oil companies but the selection committee was to associate a representative from the Department. According to the Secretary, cognisance of certain complaints against the award of gas agencies was taken by government in April 1980. There was, however, no record of these complaints having been brought to the notice of the oil companies and their explanations obtained before withdrawing their powers of selection in December 1980. The Committee feel that any intervention by government in the autonomous field of a public undertaking, can only be a formal directive under the relevant provision of the Articles of Association/Statute, as the case may be.

26. The Committee regret that because of the intervention of the Department of Petroleum, the selection has been delayed badly with the result the consumers who could have got the gas connections in the proposed extended areas of operation, suffered. The Committee desire that there should be no further delay.

27. Currently the L. P. gas is being marketed by the industry in 521 towns only. The proposed coverage of 193 additional towns during 1980-81 did not materialise because of the delay in selection referred to in the foregoing paragraph. The oil industry is, however, hopeful of covering the majority of towns with a population of 20,000 and above by 1983-84. The Committee would urge that this should be achieved without fail and in any case that it should be ensured and that there is a regional balance in the matter of supply of LP gas. The Committee do not approve of the rural areas being completely neglected. To begin with attempt should be made at least to



cover the rural areas on the peripheries of towns. The Committee also feel that if consumers undertake to take the gas at their own risk and responsibility there should be some arrangement for supply to even interior rural areas.

28. The Committee regret that even in metropolitan cities demand has not been met fully and there is a backlog of 8·04 lakh applications to be cleared. With the increased availability of gas the Committee hope that this backlog will be cleared early. Incidentally, the Committee suggest that the State Governments and the local authorities should be persuaded to introduce piped gas supply.

29. Undoubtedly there are lot of malpractices in the supply of LP gas to the authorised consumers and unauthorised supplies are made to others. The Committee have been informed that there were thousands of cases of irregular gas connection which were regularised over a period of time. The Committee would urge that there should be some survey to ascertain the extent of still persisting unauthorised connections for taking suitable action. Deterrent action should be taken against the agents who indulge in malpractices. For this purpose there should be adequate provisions under the agreements. Therefore, the Committee suggest that there ought to be a review of the agreements entered into by various oil companies in order to standardise them. Further, there should be a system of surprise inspections and periodical reviews of the working of the agents.

### CHAPTER-III

#### CONTAMINATION OF MOTOR SPIRIT/HIGH SPEED DIESEL

During the period November, 1978 to October, 1981, there were as many as 55 cases of contamination of MS/HSD with water in the retail outlets of one Oil Company alone, namely Indo-Burma Petroleum Company Ltd. No action was taken against the dealers in these cases except issuing a routine warning in 4 cases. The Committee made a case study of one case. The facts of this case are:—

“(1) In this case (M/s. Mohan Service Station) a Sub Divisional Magistrate, Kurukshetra reported to DCP, Rohtak that 23 litres of HSD purchased by his Driver on 19-10-1980 contained water as the jeep stopped after travelling for half a kilometre. The police authorities swung into action, took samples of HSD from that outlet and thereafter sealed the tank as well as the delivery nozzle of the HSD Dispensing Unit. In pursuance of Oil Industry's policy in such cases, IBP suspended supplies to the Outlet on 21-10-80. On the basis of an Application moved by a Partner of the Outlet on 27-10-80 that HSD Pump was wrongly sealed by the Police “on wrong and untenable grounds”, SHO of City Police Station recommended that as the samples had been taken for chemical examination, local police had no objection if the seal was ordered to be removed to enable the owner to run his petrol pump in question is Chief Judicial Magistrate accepted this recommendation and ordered that “the sealed petrol pump is hereby ordered to be run and seal be removed according to rules.” The dealer handed over photostat copies of both his Application and the order dated 27-10-80 of the CJM to the Company's Sales Officer who passed on the same to the Company. The Indo Burma Petroleum Company got the Tank cleaned on 31 October, 1980 and 1 November, 1980 and resumed supplies to the dealer.

(2) Before the Court could give its verdict on this case, the Sales Officer of the Company wrote a letter to the Senior Supdt. of Police, Rohtak on 3-11-80 stating *inter alia* that “our investigation of the case has revealed that Diesel contamination with water (and sludge) has taken place at the lowest level of the storage tank which was sucked by the pump along with Diesel. The sludge has accumulated the tank over a period of 8/9 years since start of the Pump. The tank has never been cleaned in this period. We are convinced that our dealers have not attempted to adulterate the diesel with water as these two do not mix at all.” On 12-11-80 the Company addressed a letter to the dealer asking him to be “more vigilant in future and tighten controls at the Retail Outlet to ensure such things do not happen in future.”

(3) On 31-12-1980, Police SHO, Rohtak gave a Final Report in which it was *inter alia* stated that:

“The investigation thereof was done through Hisan Singh, A.S.I. By the detailed (enquiry) it was found that there

was no fault on the part of Shri Jagmohan Mital, owner of Mohan Service Station, his partners and the company. From the statements made by Jagmohan Mittla and Shri Raghbir Singh Dalal owners of Mohan Service Station, Gohanan road that the water was found (mixed) in diesel afterwards. Water is heavier than diesel and therefore it settles down and diesel (floats) over it. When there is less diesel than the water starts coming out. In this no fault of the owner of Mohan Service Station and the Company was found and under the above-mentioned circumstances no arrest was made in this case. The report of closing (the matter) by the disposal department is prepared and presented. This case is therefore deemed to be closed. In this no person is arrested. The report of closing (the matter) by the disposal department is submitted for approval. The plaintiff is informed regarding the disposal of the report separately by post.

- (4) After this case was recommended for closure by the police authorities, came the Report of the Forensic Science Laboratory dated 8-4-1981, according to which water was present to the extent of 41.3% in the sample of HSD taken from the Jeep and 97.6% in the sample of HSD taken from the outlet.
- (5) On 7-10-81, Chief Judicial Magistrate, Rohtak ordered "Heard in view of the report of SSP, Rohtak, the file is consigned to the record room as cancelled."

2. During examination of representatives of Indo Burma Petroleum Company, the Committee enquired if the company had conducted any investigation into this case. In reply, the CMD of IBP assured "we shall order an enquiry into this." In a Note furnished after evidence the Committee was informed that after this case was cancelled by the Court, Indo Burma Petroleum Co. had constituted a Technical Enquiry Committee under the Chairmanship of Shri M. K. Barooah who in their Report dated 18-12-81 have observed that any of the Pump Attendants with or without collusion of some outsiders, may have been responsible for addition of water, as the probability of dealer himself adding water for such short term and nominal gains is considered to be less likely. The Committee has not been able to pinpoint responsibility on any person. The Committee, however, found that :

- (i) the manner of running the outlet was not of the desired standard, and this apparently created conditions favourable to the commission of such an act;
- (ii) it was incorrect/imprudent on the part of IBP's Sales Officer, Hissar to have written the letter of 3-11-80 in the form in which it was written.

3. The Committee wanted to know whether companies petrol pumps were air tight and if so how any one except the dealer could add water in it to make quick gains, the Chairman and Managing Director of IBP said in evidence on 13 November 1981 :

"Due to rains, there might have been underground seepage. If he (dealer) wanted to adulterate, he would not adulterate with

water because water settles down; he would adulterate with other products like kerosene, etc.

4. The Committee pointed out that Chief Judicial Magistrate's order of 27-10-80 was for removal of seal according to rules to enable the dealer to run the petrol pump. Asked how was this order interpreted to mean that Company should resume supplies to the dealer, the witness stated :

"Once this order had come to us, we had presumed that we could start supplies..... May be, our interpretation was incorrect."

5. Asked whether for interpreting Chief Judicial Magistrate's order in this manner, the Company had consulted their legal call, if any. The witness indicated that they had neither any legal cell nor was any legal opinion obtained by them before resuming supplies.

6. When the Committee enquired how would the company felt itself bound to resume supplies on the basis of an order which was not even addressed to it, the witness disclosed that Dealer had handed over photostat copies of his application and Chief Judicial Magistrate's order thereon to the Company's Sales Officer, Hissar and said "Here are the instructions for you."

7. Asked what was the periodicity at which petrol pumps were inspected to guard against the possibility of Contamination of product with water the witness revealed "there is no set policy on that. We have to flush out and clean the tank to see whether there is any mud or water."

8. Asked when the matter was subjudice how was it that the company wrote a letter to the Dealer on 12-11-80 asking him to be more vigilant in future and which the Committee pointed out, had the effect of exonerating him, the witness pleaded :

"We have not exonerated as such; but resumed supplies. There was no intention on our part to exonerate them."

9. In his letter dated 3-11-80, the Sales Officer had referred to "our investigation of the case." Asked whether during the course of this investigation, the Sales Officer had tried to contact the complainant also, and the witness said "he could have done so but he did not do so."

10. In his letter dated 3-11-80, the Sales Officer had opined, that diesel's contamination with water (and sludge) had taken place at the lowest level of the storage tank. The Committee enquired if sales officer was a technical hand to pronounce his judgement on a technical matter like this, In reply, a Member of the Technical Enquiry Committee replied in the negative.

11. Report of Forensic Science Laboratory dated 7-4-81 had clearly established that the sample of Diesel taken from the tank contained water to the extent of 97%. The Committee, therefore, asked if the Report of FSL was at all taken into consideration, Chairman of Technical Enquiry Committee deposed :

"It appeared to us in the Committee that the Station House Officer (Police) had given their final recommendation to the Magistrate in December, 1980 without getting the Chemical Analysis Report from the FSL Madhuban. So it was not also brought

before us whether the Magistrate had considered the findings of the Chemical analysis report in ultimately cancelling this case.'

12. The Committee asked whether dealership could be terminated in such cases, the Chairman and Managing Director of IBP said:

"We do have clause in our dealership agreement which provides us the facility for termination without giving any reason. We can terminate it (dealership) by giving 30 days' notice."

13. Asked about the Oil industry policy in regard to action to be taken in such cases, IBP intimated in a Note that "There is no specific Oil industry policy\* in regard to action to be taken on detection of water in the tanks of the Retail outlets."

14. The Committee pointed out that looking at the circumstances and facts of this case, the possibility of officers of the Company concerned with this case being in collusion with this dealers could not be ruled out. Asked if the Company propose to refer this case to the CBI for a thorough investigation, the Chairman and Managing Director said :

"No, Sir, we havenot considered referring the case to the CB because the matter is now over a year old and we have taken legal opinion on the subject as to what action should we take."

15. During examination of the representatives of the Department of Petroleum, the Secretary's reaction to this case was :

"I think it is absolutely a disgraceful case. The moment I heard that in December before I got your questionnaire, I immediately set up a group of the oil companies to go into the scandalous case and to prepare some guidelines rightaway and recommend what action can be taken."

16. During November 1978—October 1981 there were as many as 55 cases of contamination of petrol/diesel with water in the retail outlets of one oil company alone viz Indo-Burma Petroleum Co. Ltd. The Committee were surprised that no action was taken against the dealers in all these cases except issuing a routine warning in 4 cases. The Committee went into one of these cases. This pertained to M/s. Mohan Service Station, Rohtak. On a complaint from a Sub-Divisional Magistrate, a case was registered with the police and samples were sent for chemical analysis. Surprisingly, before the results of the analysis were obtained the supplies were resumed by the oil company and a communication was sent to the police (3-11-1980) : that "we were convinced that our dealers have not attempted to adulterate the diesel," and a letter was written (12 November 1980) to the dealer asking him to be more vigilant in future. The case was treated as closed by the police. (December 1980). However, the chemical examination report dated 8 April 1981 showed that water was present to the extent of 41.3% in the sample of diesel taken from SDM's Jeep and 97.6% in the sample taken from the outlet. At the instance of the Committee on Public Undertakings a technical enquiry committee was constituted by the oil company and the enquiry committee reported (December 1981) that "the manner of running the outlet was not of the desired standard

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\*Representatives of oil companies mentioned this policy at the Industry Meeting, held on 29-12-1981 in the Department of Petroleum.

and this apparently created condition favourable to the commission of such an act" and "it was incorrect imprudent on the part of the IBP Sales Officer, Hissar to have written the letter of 3 November 1980 in the form in which it was written." The Committee suspect collusion between some officials of the oil company and the dealer in this case. After the Committee took evidence of the Ministry the CBI has been asked to look into the matter. The Committee would await the outcome.

17. It has been stated that there is no specific oil industry policy in regard to action to be taken on detection of water in the tanks of retail outlets. The Committee desire that suitable guidelines should be laid down immediately.

NEW DELHI  
*April 29, 1982*  
Vaisakha 9, 1904 (S)

BANSI LAL,  
*Chairman,*  
*Committee on Public Undertakings*

## APPENDIX

SUMMARY OF CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE  
ON PUBLIC UNDERTAKINGS CONTAINED IN THE REPORT

S. No.	Reference to Paragraph No. in the Report	Summary of Conclusions/Recommendations
1	2	3
1.	Chapter I Para 86	<p>Indigenous production of petroleum crude in 1980-81 was 19.50 million tonnes. Imports of the crude were of the order of 16.25 million tonnes. In addition petroleum products were imported to the extent of 7.28 million tonnes. The value of the imports of petroleum crude and products was Rs. 5263.47 crores. The Committee have been informed that the indigenous production of crude in 1984-85 is now expected to be 29.46 million tonnes which exceeds the original anticipation by about 8 million tonnes. However, the imports of petroleum crude and products would still be necessary to the extent of about 12.74 and 4.3 million tonnes respectively. The consumption of petroleum products which was 30.89 million tonnes in 1980-81 is expected to go up to 57.9 million tonnes by 1989-90. The Committee note the government's endeavours in the direction of energy conservation, exploration of alternative sources including of synthetic oil and reduction of consumption. They are glad to observe that significant progress has been achieved and is expected to be achieved in the indigenous production of crude. Nevertheless in view of the substantial imports ensailing huge foreign exchange outgo that would still be needed in the years to come these endeavours need to be monitored and coordinated better by institutionalising the present arrangement as in some other countries.</p>
2.	87	<p>The present refining capacity in the country is 31.80 million tonnes (as at the end of 1981). This appears to be inadequate. The Committee suggest that even if it is not possible to attain self-sufficiency in crude production in the foreseeable future, an attempt should be made to make the country self-sufficient in refining so as to eliminate import of petroleum products. The Committee suggest having regard to the need to have some cushion in the refining capacity as an insurance against unforeseen shutdown of the refineries. Additional capacity should be planned and stalled to achieve self-sufficiency within a decade.</p>
3.	88	<p>The imports of petroleum crude and products are made almost entirely by the IOC normally on long term agreements with the producers after acceptance of tenders by an Empowered Standing Committee. Spot purchases sometimes at higher prices are also made to meet unforeseen sudden demands. The Committee desire that the spot purchases should be avoided as far as possible. If it becomes unavoidable care should be taken to see that the price is the lowest prevailing price. In case the lowest tenderer is unable to meet the entire quantity needed negotiations should be held with the second lowest tenderer to get the supply at the lowest price. In any case</p>

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|    |    | the Committee feel acceptance of unsolicited offers should be avoided except in extreme emergency where the circumstances must be reduced to writing and the prior approval of the Empowered Committee obtained. Necessary guidelines in this regard should be laid down by the Empowered Committee.  |
| 4. | 89 | At present the storage capacity for petroleum crude and products is provided to meet 21 to 31 days requirement. It is planned to create additional capacity to meet 45 days requirement by 1985-86. Having regard to the need to purchase larger quantities at a time taking advantage of price situation the Committee feel that the present as well as proposed storage capacity is on the low side. Efforts should be made to provide for a larger storage capacity.   |
| 5. | 90 | The Committee find that at present spot purchase are also made from foreign producers and traders through Indian agents. Earlier there was a system of obtaining quotations through secret telex but on an apprehension that there was some leakage it was decided in March 1980 to revert back to sealed tender system which inevitably brought back the agents. The Committee feel that it is not healthy to purchase through middlemen which would needlessly push up the cost and hence also the precious foreign exchange expenditure. The policy is stated to be under review. The Committee would urge that a foolproof sealed telex system should be introduced without delay and in the meantime the agency commission should be agreed to paid in rupees.   |
| 6. | 91 | Another area which is relevant to saving foreign exchange expenditure is transportation. Unfortunately despite the operation of TRANSCHART it could not be ensured that the expenditure or transport is kept to the minimum. The imports of petroleum products seem to be largely on C.I.F. basis and wherever there were import on F.O.B. basis the products were largely transported by chartering foreign flag vessels. This was stated to be on account of shortage of product tankers in the country till 1981. The Committee<br>that SCI take note of this and<br>the capacity of products therefore in order to share<br>fully Indian imports. Incidentally, the operating of vessels<br>and fixing the rate are entirely left to TRANSCHART<br>a body outside the IOC. The Committee feel that the IOC should be in<br>a position to have an independent commercial satisfaction. If<br>however, it is not possible, the TRANSCHART should be equipped<br>with all up to date information regarding freight rates. The system<br>followed in the this regard, therefore, requires a review. |
| 7. | 92 | According to the IOC, during 1978-80, the shortfalls in supply of crude against a contracts was more than 20% and in one case it was 83%. The Committee have been informed by the Secretary, Department of Petroleum that non of the contracting parties could undertake to maintain the terms for the duration of the contract Thus, there is no<br>in the<br>for the purchases. In<br>view of the changed situation in the international oil market recently the Committee suggest that the possibility of providing penalty clause in the agreements should be explored.   |



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| 8.  | 93 | The contracts for crude purchases provide for price escalation during the term of the contract. Normally any price increase can be only prospective but the Committee have found that in the case of certain purchases from Petromin of Saudi Arabia retrospective price revisions were made in 1979 which resulted in additional payments of US \$15.8 millions.  |
|     |    | The precise legal position did not appear to have been examined. Even if the payment was inevitable, the Committee feel that the prior approval of the Empowerd Committee or at least of the Board of the IOC should have been obtained before the payment was made. The Committee hope that in future this precaution will be taken. Further, it should be ensured as far as possible that the contracts provide for de-escalation also when the prices come down. This is all the more necessary in the current situation of the petroleum prices showing downward trend.  |
| 9.  | 94 | In 1976-77, 1.06 lakh tonnes of crude was purchased from Egypt at a cost of Rs. 7.39 crores. But this crude was found to be unfit for processing in any of the refineries and was gradually processed along-with other crude over a period of time. The loss incurred was stated to be about Rs. 73 lakhs. The Committee have been informed by the Department of Petroleum that the purchase became inevitable to wipe out the trade gap between Egypt and India and a different variety of crude not covered under the trade agreement was procured. Whatever be the circumstances, the Committee are of the view that at least it should have been ensured that there was no loss. They trust that adequate care will be taken in future.  |
| 10. | 95 | While purchase of HSD on long-term basis was made from SNE Moscow at US \$325.46 per metric ton the price at which 512,155 tonnes of the product was purchased from Kuo Oil, Hong Kong (through Hindustan Monark, New Delhi) in the same period was US \$350.65 per M.T. The Committee were informed that the Moscow agreement was signed on 6 February 1980 on variable price basis where as the other agreement was signed on 29 February 1980 on fixed price basis for the whole year. According to the IOC, there was a 'notional'* loss on the latter contract to the extent of US \$9.854 million. 14 tenders were received in response to the enquiry of the IOC 10 were at variable prices and 4 were at fixed—price. The tender that was accepted was neither the lowest nor was it initially based on fixed price. The tenders on variable price basis received initially was asked to be treated as on fixed price basis and no negotiation was permitted. Although the Department was of the view that a fixed price for a long-term delivery did not appear to be in the country's interest, this was ruled out on the basis that the price trend indicated that it would be prudent to strike bargain at the lowest possible firm price. Accordingly the IOC was directed by the Ministry to accept the offer of Hindustan |

\*Because no Contracts were identical and the quantities are different.

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Monark Pvt. Ltd. for 400/500,000 tonnes @US \$352.65 and the offer of SITCO, London for 30,000 tonnes @US \$350 per MT. However, it is clear that the subsequent events proved that it was not prudent to have gone in for the purchases. The Committee fail to understand why the normal procedure of processing the purchase proposals through the Empowered Committee was not followed in this case. They would await a further enquiry or an explanation in this regard.

Chapter II  
11. Para 25

Under the guidelines issued by the Department of Petroleum prior to 1978, 25% of gas dealership/distributorship was reserved for SC/ST candidates only. This was subsequently increased to 70% after May 1980 to cover other categories such as physically handicapped persons, unemployed graduates, Defence personnel disabled in war and war widows/Freedom Fighters. The procedure for selection of reserved categories of persons as laid down in June 1980 envisaged constitution of a selection committee in each oil company concerned. In respect of SC/ST candidates a representative of the State Government was to be associated with it when the oil companies were in the process of selecting, on 19 December 1980, the Department of Petroleum had asked the oil companies to interview all the candidates of reserved categories, recommend a panel of 8 or 10 persons without grading them as before, and send the papers to the Ministry for taking decisions. After this question came up before the Committee on Public Undertakings, these instructions were superseded on 21 September 1981 and the selection was left to the oil companies but the selection committee was to associate a representative from the Department. According to the Secretary, cognisance of certain complaints against the award of gas agencies was taken by government in April 1980. There was, however, no record of these complaints having been brought to the notice of the oil companies and their explanations obtained before withdrawing their powers of selection in December 1980. The Committee feel that any intervention by government in the autonomous field of a public undertaking, can be only be a formal directive under the relevant provision of the Articles of Association/Statute, as the case may be.

12. 26 The Committee regret that because of the intervention of the Department of Petroleum, the selection has been delayed badly with the result the consumers who could have got the gas connections in then proposed extended areas of operation, suffered. The Committee desire that there should be no further delay.
13. 27 Currently the L.P. gas is being marketed by the industry in 521 towns only. The proposed coverage of 193 additional towns during 1980-81 did not materialise because of the delay in selection referred to in the foregoing paragraph. The oil industry is, however, hopeful of covering the majority of towns with a population of 20,000 and above by 1983-84. The Committee would urge that this should be achieved without fail and in any that it should be ensured and that there is regional balance in the matter of supply of LP gas. The Committee

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do not approve of the rural areas being completely neglected. To begin with attempt should be made at least to cover the rural areas on the peripheries of towns. The Committee also feel that if consumers undertake to take the gas at their own risk and responsibility there should be some arrangement for supply to even interior rural areas.

14. 28 The Committee regret that even in metropolitan cities has demand has not been met fully and there is a backlog of 8.04 lakh applications to be cleared. With the increased availability of gas the Committee hope that this backlog will be cleared early. Incidentally, the Committee suggest that the State Governments and the local authorities should be persuaded to introduce piped gas supply.
15. 29 Undoubtedly there are lot of malpractices in the supply of LP gas to the authorised consumers and unauthorised supplies are made to others. The Committee have been informed that there were thousands of cases of irregular gas connections which were regularised over a period of time. The Committee would urge that should be some survey to ascertain the extent of still persisting unauthorised connections for taking suitable action. Deterrent action should be taken against the agents who indulge in malpractices. For this purpose there should be adequate provisions under the agreements. Therefore, the Committee suggest that there ought to be a review of the agreements entered into by various oil companies in order to standardise them. Further, there should be a system of surprise inspections and periodical reviews of the working of the agents.

#### Chapter III

16. Para 16

During November 1978-October 1981 there were as many as 55 cases of contamination of petrol/diesel with water in the retail outlets of one oil company alone viz Indo-Burma Petroleum Co. Ltd. The Committee were surprised that no action was taken against the dealers in all these cases except issuing a routine warning in 4 cases. The Committee went into one of these cases. This pertained to M/s. Mohan Service Station, Rohtak. On a complaint from a Sub-Divisional Magistrate, a case was registered with the police and samples were sent for chemical analysis. Surprisingly, before the results of the analysis were obtained the supplies were resumed by the oil company and a communication was sent to the police (3-11-1980) : that "We were convinced that our dealers have not attempted to adulterate diesel" and a letter was written (12 November 1980) to the dealer asking him to be more vigilant in future. The case was treated as closed by the police (December 1980). However, the chemical examination report dated 8 April 1981 showed that water was present to the extent of 41.3% in the sample of diesel taken from SDM's Jeep and 97.6% in the sample taken from the outlet. At the instance of the Committee on Public Underakings a technical enquiry committee was constituted by the oil company and the enquiry committee reported (December 1981) that "the manner of running the outlet was not of the desired standard and this apparently created condition favourable to the commission of such an act" and "it was incorrect imprudent on the part

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17.	17	<p>of the IBP Sales Officer, Hissar to have written the letter of 3 November 1980 in the form in which it was written." The Committee suspect collusion between some officials of the oil company and the dealer in this case. After the Committee took evidence of the Ministry the CBF has been asked to look into the matter. The Committee would await the outcome.</p> <p>It has been stated that there is no specific oil industry policy in regard to action to be taken on detection of water in the tanks of retail outlets. The Committee desire that suitable guidelines should be laid down immediately.</p>

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