E. C. No. 632

ESTIMATES COMMITTEE
(1969-70)

HUNDRED AND THIRD REPORT

(FOURTH LOK SABHA)

MINISTRY OF PETROLEUM AND CHEMICALS AND MINES AND METALS [DEPARTMENT OF PETROLEUM END CHEMICALS]

[Action taken by Government on the recommendations contained in the Fiftieth Report of the Estimates Committee (Fourth Lok Sabha) on the erstwhile Ministry of Petroleum and Chemicals — Petroleum and Petroleum Products]

LOK SABHA SECRETARIAT
NEW DELHI

February, 1970/Magha, 1891 (S)

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To

Hundred-third Report of Estimates Committee (Fourth Lok Sabha) on Action Taken by Government on recommendations contained in the Fiftieth Report of the Estimates Committee (Fourth Lok Sabha) on the erstwhile Ministry of Petroleum and Chemicals - Petroleum and Petroleum Products.

Page &	Line	
Fro	Cover) 8)	for 'END' read 'AND'.
	19	before '14' insert '*'.
	5 (from bottom)	delete the words '(Paragraph 6.20)'.
	14 (from bottom)	for '6.16_ read '6.20'.
30	21	before 'all' insert 'Government to ensure that the I.O.C. is unable to handle'.
36	1	below 'Reply of Government' insert 'Noted'.
39	3	(i) for 'PRESENT' read 'PURSUE'. (ii) for 'GOVERNMENT' read 'GOVERNMENT'S'.
47	14-15 (from bottom)	delete the entire 2 lines
48	2	after 'approval' insert '[Ministry of Petroleum & Chemicals O.M. No. 31(31)/68-Coord. dt. 12.11.1968]
49	7	for 'through put' read 'output'.
65	2 (from bottom)	for 'not' read 'to'.
66	7	delete the word 'for'.

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(1969-70)

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Shri B. B. Tewari—*Deputy Secretary.*

Shri Y. Sahai—*Under Secretary.*

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*Elected w.e.f. 22-12-69 *vice* Shri G. G. Swell resigned.

STUDY GROUP 'E'

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(1969-70)

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15. Shri Ramesh Chandra Vyas.

SECRETARIAT

Shri B. B. Tewari—*Deputy Secretary.*

Shri Y. Sahai—*Under Secretary.*

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*Resigned w.e.f. 9-12-1969.

INTRODUCTION

I, the Chairman of the Estimates Committee having been authorised by the Committee, present this Hundred and Third Report of the Estimates Committee on the action taken by Government on the recommendations contained in the Fiftieth Report of the Estimates Committee (Fourth Lok Sabha) on the erstwhile Ministry of Petroleum and Chemicals—Petroleum and Petroleum Products.

2. The Fiftieth Report was presented to the Lok Sabha on the 16th April, 1968. Government furnished their replies indicating the action taken on the recommendations contained in that Report between 14th October, 1968 and 30th June, 1969. The replies were examined by the Study Group 'E' of the Estimates Committee at their sitting held on the 15th December, 1969. The Draft Report was adopted by the Estimates Committee on the 26th December, 1969.

3. The Report has been divided into the following Chapters:—

I. Report.

II. Recommendations which have been accepted by the Government.

III. Recommendations which the Committee do not desire to pursue in view of the Government's replies thereto.

IV. Recommendation in respect of which reply of Government has not been accepted by the Committee.

4. An analysis of the action taken by Government on the recommendations contained in the Fiftieth Report of the Estimates Committee (Fourth Lok Sabha) is given in Appendix III. It would be observed thereform that out of 82 recommendations, 59 recommendations, i.e. 73 per cent have been accepted by Government; the Committee do not desire to pursue 22 recommendations, i.e. 26 per cent in view of the Government's replies; while replies of Government in respect of 1 recommendation *i.e.*, one per cent, have not been accepted by the Committee.

NEW DELHI;
February 6th, 1970.
Magha 17th 1891 (*Saka*).

M. THIRUMALA RAO,
Chairman,
Estimates Committee.

CHAPTER I

REPORT

PRICING OF IMPORTED CRUDE

(S. No. 30, Para 5.12)

The Committee in paragraph 5.12 of their 50th Report on the Ministry of Petroleum and Chemicals—Petroleum and Petroleum Products, had noted with concern that though the private sector refineries had started processing of imported crude from 1954 onwards, no discounts on account of purchase of imported crude were allowed by them till June, 1960. According to the agreements with these refineries, the purchases of the crude were to be made by them at world market prices for which foreign exchange was made available by Government. The Committee felt that it was the duty of the Ministry to ensure that the prices charged by these refineries for the import of crude were the real market prices. As the giving of discounts was a normal practice in the oil market, the Committee felt that it was unfortunate that the Ministry did not keep itself posted with the latest price trends in the world oil market and did not press oil refineries to allow the available discounts resulting in avoidable outgo of scarce foreign exchange. As the number of refineries based on imported crude was increasing and there were no immediate prospects of meeting the requirements of the refineries from indigenous crude, the Committee recommended that Government should take immediate measures to collect uptodate information on the trend of oil prices in the world market including the discounts available from time to time and insist on the oil refineries to allow maximum discounts so as to reduce prices. In case the refineries were unwilling to do so, Government should not hesitate to make arrangements to procure their requirements of crude from the cheapest available source.

2. Since the Indian Oil Corporation has already gained experience in importing petroleum products, the Committee felt that it should not be difficult for them to arrange for the import of crude for the coastal refineries and to keep themselves posted with the latest price trends in world market.

3. The Committee further commented that considering the heavy imports of crude oil which are estimated at about Rs. 110 crores per annum by 1970-71, it was necessary to secure the maximum price advantage in the import of crude oil as the price reduction of a few cents per barrel would result in saving considerable foreign exchange.

4. The Government in their reply have stated that the discounts recommended by the Working Group on Oil Prices three years ago and these actually available now on the different types of crude oils compared as under in relation to their f.o.b. costs:—

	WGOP Discounts	Actual Discounts
(i) Aghajari	$ 0.40 per barrel	$ 0.41 per barrel
(ii) Kuwait	$ 0.30 per barrel	$ 0.28 per barrel
(iii) Khursaniya	$ 0.30 per barrel	$ 0.24 per barrel

There has been an increase in world demand for heavier crudes and a relative hardening of the prices for such supplies as compared to the prices of lighter crude. The bulk of the current imports from May-June 1968 are of the Aghajari crude oil for which the discount available is higher than that recommended by WGOP. The discounts are reviewed by discussions with oil companies from time to time and the best possible arrangements are secured.

5. The Government have also stated that they are already keeping in touch with all possible published data regarding the existing discounts. Similar data are also made available, from time to time, by independent suppliers, who make offers for supply of crude oil to new refineries.

6. The Government, however, do not accept the suggestion that imports of crude oil should be made only through the Indian Oil Corporation Ltd., since this does not seem feasible having regard to Government agreements underlying the public sector refineries at Cochin, Madras and Haldia and the other agreements with the private oil companies. The practicability of the suggestion will, however, be considered as opportunity offers in the future.

7. The Committee consider that, in view of the tight foreign exchange position and the necessity to conserve all available foreign exchange, every avenue should be explored by Government to procure imported crude from the cheapest available sources. If the Coastal Oil Refineries are unable to allow maximum discount, the possibility of channelising imports of crude through the Indian Oil Corporation should be seriously explored.

The Committee would like to reiterate their recommendation in **this** regard.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1, Para 1.26)

It will be seen from the figures in para 1.25 that the per capita consumption of Petroleum products in India is much lower than that of its neighbouring countries like Ceylon, Indonesia and Pakistan.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 2, Para 2.5)

While the Committee realise that at the time of adoption of the first Industrial Policy Resolution in 1948, Government lacked adequate technical and financial resources including foreign exchange resources for the import of rigs and other highly sophisticated equipment for survey, prospecting and exploration of oil in the country, they are unable to appreciate why it should have taken the Government more than seven years to set up the Oil and Natural Gas Directorate. In the absence of such organisation whatever efforts were made in this behalf lacked drive and direction. The Committee consider that in any case the efforts initiated in 1955 to arrange for technical and financial assistance for oil exploration could well have been preceded by measures to set up an organisation for oil exploration in 1951 at least when they entered into agreements for setting up coastal refineries in the private sector based on imported crude. The Committee cannot help feeling that till 1955 the programme of exploration and prospecting for oil in the country was not given the serious attention that it deserved. The steps taken by Government for exploring oil through collaborate efforts could only be considered half-hearted. Viewed in the light of the wide gap between the availability of indigenous crude and the requirements thereof for the running of refineries set up in the country and the time taken in exploration and commercial production of oil, the Committee consider that a determined effort was required to push through the programme of exploration and prospecting for oil in the country from the very beginning. The Committee recommended that energetic efforts should now be made by

Government to accelerate the pace of exploration and prospecting of oil in the country so as to meet domestic demand from indigenous production and obviate the necessity for imports as early as possible.

Reply of Government

Government are fully aware of the need to make the country as self-sufficient as possible in the production of Crude oil. Both the ONGC and O.I.L. are endeavouring their best to discover new fields and increase reserves of crude within the limited financial resources including foreign exchange at their disposal.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 5, Para 2.18)

The Committee have examined the working of 'Oil India Limited' and have commented thereon in a separate Report.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 6, Para 2.23 to 2.25)

The Committee regret to note that even after two decades of the attainment of independence and the Industrial Policy Resolution of 1948 the progress made by Government in the exploration and assessment of oil potentialities in the land sedimentary areas of the country has been far from satisfactory. Hitherto out of over 10 lakhs sq. kilometres of land sedimentary area, 4.3 lakh sq. k.m. has been covered by reconnaissance|detailed seismic surveys, 4 lakh sq. k.m. by gravity-cum magnetic seismic surveys and only -.15 lakh sq. kflm. by gravity-detailed/detailed mapping, The Committee are unhappy that about one-third of the structures discovered so far, have not yet been tested by drilling. The Committee realise that there are various stages in petroleum exploration which is beset with many uncertainties and that heavy capital investment is also required for petroleum exploration and prospecting. Nevertheless it is of paramount importance for a country like India which largely depends on imported crude, to develop its own oil resources, failing which there will be an ever-increasing drain on the country's foreign exchange resources. It is therefore, imperative that known sedimentary areas in the country are explored for oil as early as possible. This calls for intensive geophysical and geological surveys and exploratory drilling.

The Committee feel that a determined bid for an accelerated programme of exploration and prospecting in a big way of all the sedimentary areas of the country is called for. Care should also be taken to avoid delay in testing and assessing the oil potentiality of the structure after they have been discovered.

Reply of Government

Subject to the availability of funds and resources, every effort will be made to increase the tempo of the seismic surveys and exploratory drilling as suggested by the Estimates Committee.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 7, Para 2.32 to 2.33)

The Committee feel that the progress of drilling operations in the Gulf of Cambay where interesting structures were located in 1964 is slow. It is unfortunate that the contract with S. N. A. M. for carrying out drilling in that area had to be terminated on account of the destruction of their mobile offshore drilling platform. As there are bright prospects of discovering oil in the Gulf of Cambay area, the Committee strongly urge the negotiations with foreign oil companies for offshore exploration in that area should be expedited. Simultaneously, Government should vigorously pursue the feasibility of undertaking departmentally offshore drilling in shallower areas with Soviet assistance.

The Committee also urge the Government to take expeditious action on the report of the Soviet Team so as to accelerate the pace of off-shore drilling in the country.

Reply of Government

A team of experts visited the Aliabet island recently and the matter is under the active consideration of the Commission. The Commission proposes to start exploratory drilling in that area and in certain other shallow areas as soon as conditions for deploying an exploratory rig are fulfilled. Efforts in this direction have been already set afoot.

The question of drilling in the deeper waters is under active consideration.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 8, Para 2.40)

The Committee are glad to note that Government has looked beyond its own frontiers to explore for oil to meet domestic demand. They are happy that Government are hopeful about obtaining oil from the Persian Gulf operations by 1970. In view of the wide gap between production and requirements of crude in the country, the Committee would urge intensification of exploration activities in the Persian Gulf which is stated to have promising possibilities. They hope that the long experience of the other partners in this venture would be of immense benefit in this regard.

Reply of Government

Government is hopeful of obtaining some oil from our Gulf operation (Iran Offshore) well before the end of year 1969. No new areas with good prospects are available in the Gulf. But Government have approved of ONGC's proposal to negotiate with Iranian authorities for licence to explore in the South of Iran (On shore). ONGC is now in the process of taking necessary action in association with its other partners.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 9, Para 2.44)

The Committee note that the existing proved and indicated oil reserves in the country are capable of giving an annual production of about 9 to 10 million tonnes by 1970-71 as against a demand of about 20 to 22 million tonnes by 1970-71 and 30 million tonnes by 1975-76. Thus there will be a wide gap between indigenous production and demand for oil which is estimated at 11 million tonnes in 1970-71 and 16 million tonnes in 1975-76. This underlines the imperative need to intensify the search for oil in the country so as to increase the quantum of the available reserves as early as possible.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 10, Para 3.5)

The Committee regret to note that there was no production of crude oil in the public sector during the first two Plan periods. This is not a happy reflection on the Government's role in the implementation of the Industrial Policy Resolution 1948 regarding setting up of new undertakings in the field of mineral oil in the public sector. Had the Oil and Natural Gas Commission been set up soon after 1948 or even in early fifties, it would perhaps have been possible to produce crude on a commercial scale in the public sector at least during the Second Plan period.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 11, Paras 3.10, 3.11)

The Committee observed that there has been heavy shortfall in the production of crude oil in the public sector during the Third Five Year Plan. Compared to the original target of 6 million tonnes, the actual production was 3.42 million tonnes *i.e.* about 56 per cent. This achievement fell far short of even the target of 4.68 million tonnes fixed at the time of mid-term appraisal. It is regrettable that this shortall is partly attributed to the delay of about 12 months in the commissioning of the Gujarat refinery on account of which oil at the Ankleshwar field had to be kept underground. The Committee are concerned to note that the shortfall in the production of crude by the Oil India in the private sector was also due to the inablility of the Government refineries at Gauhati and Barauni to lift the stipulated quantities of crude. These failures of the refineries in the public sector to adhere to the scheduled timings of commissioning resulted in non-utilisation of the crude production capacities created at considerable costs. These instances underline the importance of closer coordination between inter-related industries and call for determined efforts by all concerned to adhere to the schedules with a view to avoid idle capacities and consequential losses. The Committee urge that Government should also keep a close watch on the progress of interlinked industires so as to avoid a recurrence of such matters.

The Committee would further like to emphasise that every care should be taken by Government to fix realistic targets and to ensure that once the targets have been fixed, all efforts are made to achieve them.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 15, Para 4.10)

The Committee note the phenomenal increase in the quantity of petroleum products produced in the private sector. From a small beginning of .25 million tonnes at the start of the First Plan, the petroleum products increased to 3.9 million tonnes by the end of the Plan Period and thereafter registered an increase of about 200 per cent by the end of the Third

Plan. Out of the total indigenous production of about 11.5 million tonnes of petroleum products in the country in 1966-67, the share of private sector was about 8 million tonnes *i.e.* about 70 per cent. This has not only helped in meeting the P.O.L. requirements of the country indigenously but has resulted in considerable saving of foreign exchange which would otherwise have to be spent in importing refined products which are costlier than the imported crude.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 16, Para Nos. 4.20 & 4.21)

The Committee regret to observe that there have been shortfalls in production of the public sector refineries since 1962 when the first refinery at Gauhati went on stream. They note that these shortfalls have been attributed to initial delays in the completion of the different units of the refineries as a result of which the main units of the plant could not be operated uninterrupted, and also that there have been teething troubles with all these refineries. The Committee regret that there have been defaults and delays on the part of the foreign collaborators also and that in the case of Gujarat refineries, the shortfalls have been mainly due to the problems of disposal of the by-products of the refinery.

The Committee have no doubt that Government would profit by the experience gained in the setting up of the three refineries at Gauhati, Barauni and Gujarat and would take timely measures to ensure that the Madras and Haldia refineries are commissioned on schedule and start production according to their rated capacity as early as possible.

Reply of Government

Noted.

The experience gained in the setting up of these refineries had been profitably utilised in building the Gujarat Refinery and it is being appiled, wherever practicable in respect of the Madras and Haldia refineries.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 17, Para 4.25)

The Committee would like the Government to take all necessary steps to ensure that the production targets laid down for each refinery in the public sector are adhered to in actual practice.

Reply of Government

Noted. Attention of Indian Oil Corporation is being drawn to this para.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 18) Para 4.32—4.33

The Committee are unhappy about the losses suffered by the Gujarat refinery on account of less offtake of L.S.H.S. by Dhuvaran Power House, which restricted the refinery's crude throughout for a long time resulting in considerable loss. The Committee are surprised to note that there is no penalty clause in the agreement between the refinery and Gujarat State Electricity Board regarding the supply of L.S.H.S. to the Dhuvaran Power House. It may be that the penalty clause would not have been operative in the present case which is stated to be Force Majeure but what is surprising is that in this particular case, the question of insertion of a penalty clause was not at all considered.

The Committee suggest that in such cases Government should consider that feasibility of including a penalty clause for failure of the party to carry out its obligation made in the contract.

Reply of Government

The Committee's recommendation has been noted for future guidance. IOC have always considered the inclusion of a penalty clause at the time of entering into long-term arrangements with its customers. As far as the supply of L.S.H.S. to the Gujarat State Electricity Board is concerned, no formal contract has, as yet been entered in to. It is arguable whether a penalty clause should be insisted upon in contracts between two public sector undertakings like IOC and GSBB. As long as a public utility concern takes its entire *bona fide* requirements from the IOC, even if the total upliftment falls short of any specified quantity due to reasons beyond its control, there is perhaps no alternative for IOC but to accept the situation. In this particular instance, the Committee have themselves observed that the penalty clause would not have been operative in any case, because of *force majeure.*

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October. 1968.]

Recommendation (Serial No. 19) Para 4.39 — 4.41

The Committee learn with concern that expansion of the refineries in the private sector was carried out without the approval of Government inasmuch as Government's permission was not sought for capital investment for the purpose. The Committee are doubtful that the capacity of the refineries can be increased to about two times with minor modifications and improvements only unless the additional capacity was contemplated and built into the original plant and equipment itself.

The Committee cannot help concluding that Government had not taken sufficient care in the beginning to check over-designing of capacities of refineries in the private sector. What the Committee feel more concerned about is that even now the existing machinery and arrangement for exercising check regarding overdesigning of plants are not fool proof as admitted by the Secretary to the Ministry during evidence. This is a serious matter as the very purpose of licensing and regulation of industries is vitiated by such irregular expansions and the Government is at times faced with a *fait accompli.*

The Committee, therefore, strongly recommend that Government should immediately evolve a suitable machinery to ensure that no industrial unit is able to increase its licensed capacity in this manner without prior approval of the Government.

Reply of Government

Noted. The Industries (Development and Regulation) Act, 1951 (Act No. 65 of 1951) contains provisions conferring on Governmental authorities the power to inspect the premises, order the production of documents and examine any person having the control of, or employed in connection with any industrial undertaking. This inspection, in respect of refineries, can be undertaken either by officer of DGTD and/or Technical Officers employed in the Indian Institute of Petroleum or IOC, whenever deemed desirable.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968.]

Further Information called for by the Committee

The machinery evolved by Government to ensure that no industrial unit is able to increase its licensed capacity without Government approval, as done by refineries, may be intimated to the Committee.

[Lok Sabha Secretariat O.M. No. 5/24/ECI/68, dated 22nd November, 1968.]

Reply of Government

Steps will be taken, in future, as far as practicable, through inspection by a team of officers consisting of representatives of Directorate General of Technical Development, the Ministries concerned and the concerned State Director of Industries, to ensure that capacities approved are not exceeded.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., Vol. I, dated 28th April, 1969].

Recommendation (Serial No. 20) Para 4.45

The Committee are constrained to observe that while the private sector refineries appear to have been originally designed with additional inbuilt capacities which were later on expanded with very little cost, no such inbuilt capacities were provided in the public sector refineries with the result that their capacities are now being increased at considerable additional costs. The Committee urge that in designing the Madras and Haldia refineries, this aspect will be kept in view. The Committee, would further suggest that the feasibility of maximising the output from the existing refineries by changes in processes, may be examined. They hope that continuous attention would be paid to explore possibilities of applying new developments in petroleum refining to the existing processes, with a view to increase the refinery throughput as much as possible.

Reply of Government

Noted.

The Gauhati, Barauni and Gujarat Refineries have an immediately available in-built extra capacity of about 15 per cent, which can be substantially increased by minor debottle-necking measures in due course. The Cochin Refinery has a distillation column that can ultimately deal with a throughput of 3.5 million tonnes per annum. This aspect will be kept in view in designing the Madras and Haldia refineries.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 14th October, 1968.]

Reccommendation (Serial No. 21) Para 4.54—4.56

The Committee observe that the refinery capacity in the country is not evenly distributed among the different zones of the country with the result that the products of the refineries are being sent to far off areas at considerable cost. . . . .

The Committee further note that there is heavy concentration of refining capacity in Bombay. They understand that the present trend in other countries is to locate refineries near the consuming centres. With rapid industrialisation in the country, industry will expand from coast to the interior of the country. There is thus a case for locating future refineries in the interior which would give a boost to the industrial development of those areas. The Committee therefore recommend that before selecting the location of a refinery or for allowing expansion, Government should take into account factors like the level of consumption, the need for reducing the disparities in the levels of development between different regions, the strain on the transportation system, avoidance of overcrowding of particular areas etc. They hope that the location of the proposed refinery in the North West region would be decided in accordance with these considerations.

The Committee appreciate Government's decision not to permit expansion of the Bombay refineries. In the opinion of the Committee any further expansion of these refineries is *inter alia* likely to result in:

(i) over-concentration in Bombay area;

(ii) putting greater strain on the transport system of the country in moving the products;

(iii) repatriation of more profits by these refineries in foreign exchange;

(iv) import of more crude from their own sources.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14th October, 1968.]

Further Information called for by the Committee

The Committee may be informed as to whether the criteria indicated in the recommendation for selecting the location of future refineries and for allowing expansion of existing refineries has been accepted by Government and would be applied in future.

[Lok Sabha Secretariat O.M. No. 5/24/ECI/68 dated 22nd Nov., 1968.] 1968.]

Reply of Government

The factors suggested by the Committee for consideration while selecting the location of a refinery or authorising the expansion of an existing refinery, are undoubtedly relevant and each will, as far as practicable, receive due consideration by the Government. Some other factors also require attention, such as the optimum utilisation of indigenous crude oil and the economics of expanding existing capacity or of building new refineries.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 27th January, 1969].

Recommendation Serial No. 24, Paras 4.77—79)

The Committee are happy to note the introduction of INDANE into the market by Indian Oil Corporation. They hope that with the completion of Madras and Haldia refineries, the production of LPG will be adequate to meet the demand for this product to a considerable extent.

While regretting that LPG was not included in the original product pattern of the Cochin refinery, the Committee are happy to note that a project report for the production of LPG at this refinery is also under examination by its Board of Directors. They hope that an early decision will be taken in the matter and no time will be lost in starting its production. Government should also examine the feasibility of producing LPG at Gauhati.

The Committee would like to emphasise that the availability of LPG would minimise the use of kerosene and other fuels which are in short supply in the country. They would urge that Government should give increasing importance to the production of LPG in the refineries and the development of other fuels like town gas which would relieve the pressure on kerosene.

Reply of Government

Every effort continues to be made for increasing the availability of LPG. A scheme for production of LPG at Gauhati Refinery with a capacity of 2,500 tonnes per year initially and 6,000 tonnes ultitmately has been finalised by the Indian Oil Corporation. It is expected that facilities for manufacture of LPG at Gauhati will be established in the first half of 1969.

A decision on the question of production of LPG at Cochin Refinery is expected to be taken shortly.

A proposal to carry out certain techno-economic studies to utilise naphtha for the production of Town Gas was examined some years back, but was not pursued on account of sizeable ependiture of free foreign exchange involved. Increasing importance is being given for the production of LPG in the Refineries to relieve the pressure on Kerosene.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 14th October, 1968.]

Recommendation (Serial No. 25, Paras 4.84—4.85)

The Committee regret to note that almost the entire demand for lubricating oils in the country is being met so far through imports and that it would continue to be so to a considerable extent till 1971. They consider it unfortunate that this item, so essential for the wheels of the industry, was listed as a category 'D' project in the outline of the Third Plan with the result that the preparation of the project reports for this item was not authorised till May, 1961.

Since the setting up of lubricating oil plants in the country has been badly delayed and lubricants continue to be imported at an average cost of more than Rs. 15 crores per year, the Committee cannot too strongly stress upon the Government the necessity for ensuring that all the proposed projects for the production of lubricating oils in the country are completed in time so that valuable foreign exchange, may not be spent on their imports after 1971.

Reply of Government

Noted. Necessary action has already been initiated.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14th October, 1968.]

Recommendation (Serial No. 26, Para 4.86)

The Committee would further like the Government to keep the estimates of demand for lubricants under constant review and take timely measures to set up additional capacity to meet the increased demand.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14th October, 1968.]

Recommendation (Serial No. 27, Para 4.87)

The Committee would also suggest that the feasibility of reducing the number of grades of lubricants to the minimum may be examined as that would help in reducing cost and improving efficiency.

Reply of Government

Noted. It is the constant endeavour of the Oil Industry as a whole to reduce the number of grades of lubricants being marketed to the minimum in order to reduce inventory and accounting costs. It will, however, be appreciated that with the vast increase in the types of machines in use, the need for specialised grades of lubricants will have to be met.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 14th October, 1968.]

Recommendation (Serial No. 29, Para 4.101)

The Committee are happy to note that the Indian Institute of Petroleum, Research, Designs and Standards Organisation, Ministry of Railways and Defence Research Laboratory (Materials), Kanpur, have successfully evolved methods for reclamation of used lubricating oils. Since lubricating oils are a deficit item in the country being imported at an average cost of Rs. 15 crores per year, the Committee strongly urge that the Government should expedite commercial exploitation of the process evolved by the above research organisations so that at least a part of the demand for lubricating oils is met from the used lubricating oils reclaimed in the country. While the Committee agree that cost of collection of used lubricating oils from over a large area tends to make the process uneconomical, they feel that it would not be uneconomical to establish such plants near the major industrial complexes in the country. Apart from saving in freight charges such a step will lead to ready availability of the lubricants so essential for the industrial machinery.

Reply of Government

Noted: The State Governments have been advised to take action accordingly.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 14th October, 1968.]

Further Information called for by the Committee

A copy of the communication addressed to State Governments in this regard may be supplied.

[Lok Sabha Secretariat O.M. No. 5/24/ECI/68, dated 22nd November, 1968.]

Reply of Government

A copy of Ministry of Petroleum and Chemicals letter No. 28(4)/68-Co-ord., dated 5th June, 1968, to the State Governments together with a copy of letter No. 22(2)/66-Coord., dated 26th December, 1967 referred to therein is enclosed. (Appendix I).

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 3rd January 1969.]

Recommendation (Serial No. 32, Para 5.14)

The Committee cannot over-emphasise the need for bringing down the prices of the imported crude as these have a very important effect on the price of petroleum products. The Committee therefore recommend that immediate action should be taken by Government to secure the maximum discounts on imported crude and cheapest tanker freight rates.

Reply of Government

As a result of continued pressure on the Oil Companies, additional discounts of the order of 3 cents per barrel on the f.o.b. prices of each type of crude oil imported into the country have been recently secured. Burmah-Shell and Esso Standard have also agreed to change their basis for charging freight on crude supplies to AFRA rate for large range vessels, even though medium range vessels are used. Similarly, Caltex have, agreed to charge AFRA rate for Medium range vessels instead of G.P. vessels, as hitherto charged. These changes in discounts and freight are expected to yield an annual foreign exchange saving of about Rupees three crores.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 14th October, 1968.]

Recommendation (Serial No. 33, Para 5.24)

The Committee agree that in pricing the indigenous crude a measure of protection is desirable. At the same time, it is necessary that the O.N.G.C. and Oil India should work efficiently and economically so as to keep down the cost of production of indigenous crude to the maximum extent possible. The Committee note that at present the indigenous crude is priced at import parity which includes ocean freight, insurance, ocean losses, wharfage and lending charges. Besides, devaluation has resulted in further increasing the price of imported crude by over 58 per cent. It is therefore a matter for consideration what should be the extent of potection which should be given to the indigenous crude, with particular reference to the conditions prevailing for the exploration and exploitation of oil in the country and the need for efficiency and economy in the working of the O.N.G.C. and Oil India. The Committee therefore recommend that the Government should re-examine the question of linking the price of indigenous crudes with that of the equivalent quality of imported crude. For this purpose a committee consisting of experts in petroleum technology, costing and financial matters should be appointed to review the whole basis of pricing of indigenous crude—*i.e.*, whether it should be import parity or cost plus basis or any other suitable basis. In particular, the question of inclusion of cost elements like ocean freight, ocean loss, insurance, wharfage, etc. which are merely notional for the purpose of computing import parity price, should be fully examined.

Reply of Government

A Committee under the Chairmanship of Shri Shanti Lal Shah, M.P. has been set up recently to examine the pricing of petroleum products. That Committee has been specifically requested to examine whether the prices of products can be fixed on other than import parity basis. If the recommendation of the Committee is in the negative, it would broadly follow that crude oil prices must confirm to the same pattern. If, however, a departure from import parity price is found feasible for petroleum products, then the question of appointing a Committee for the pricing of indigenous crude will be examined on receipt of the report of the Committee referred to above.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 14th October, 1968.]

Recommendation (Serial No. 34, Para 5.25)

The Committee are surprised that no uniform procedure is followed by the O.N.G.C. and Oil India in calculating their production costs. They regret that Government who are also 50 per cent partner in the Oil India Ltd. had not looked to the aspect of laying down a common costing pattern for both the organisations which would have facilitated comparison of their respective performances. The Committee however note that the matter is now under examination of the Government. The Committee recommend that a uniform procedure for collection, analysis and compilation of costs by both these organisations should be laid down without further delay.

Reply of Government

The recommendation has been noted. A Committee has been constituted to evolve a common pattern for working out the cost of production and methods of accounting in both the O.N.G.C. and Oil India Ltd.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 14th October, 1968.]

Further Information called for by the Committee

Please intimate the composition of the Committee constituted to evolve a common pattern for working out of the cost of production etc. and methods of accounting in both the O.N.G.C. & O.I.L. and the work done by the Committee so far.

[L.S.S. O.M. No. 5/24/ECI/68, dated 22nd November, 1968.]

Reply of Government

The composition of the Committee is as under:—

(i) Financial Controller, Oil India Ltd. (Convenor).

(ii) Director of Finance and Accounts, Oil and Natural Gas Commission.

Necessary data concerning the methods and procedures adopted by Oil India Limited and Oil and Natural Gas Commission in calculating the cost of production of crude/gas, compiling the drilling cost and survey cost etc. have been exchanged by the Members of the Committee. These are being studied by them.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 16th, December 1968.]

Recommendation (Serial No. 35, Para 5.48)

The Committee note that Government have made adjustments in the rates of basic (recoverable and additional/non-recoverable duties) consequent on devaluation so as to keep the refinery economics pre and post devaluation on an even keel. They however find that the total net relief given to the refineries as a result of these adjustments to compensate them on account of extra cost, due to increase in the cost of imported and or indigenous crude, imported chemicals and equipment etc. as a result of devaluation, ranges between Rs. 8.19 per kilolitre in the case of motor spirit and Rs. 74.28 per metric tonnes in the case of Bitumen cutbacks. In the case of kerosene superior, the net relief to the refineries is Rs. 36.50 per kilolitre. The Committee are doubtful if the reliefs provided in all these cases are justified. Since the pricing of petroleum products is a complicated matter and has been further complicated by the devaluation of the rupee, the Committee recommend that the question of pricing of refinery products should also be gone into thoroughly by the committee of experts suggested by them in para 5.24.

Reply of Government

The question of determination of ex-refinery prices of refined petroleum products produced by the refineries has already been referred to the Oil Prices Committee *vide* paragraphs 3(i) and (iv) of the Government Resolution No. 101(22)/68-PPD, dated 14th June, 1968 (copy attached) with reply to S. No. 82-Para 11.7.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14th October, 1968.]

Recommendation (Serial No. 36, Para 5.52)

The Committee regret to note that the prices of petroleum products like gasoline and kerosene are much higher in India as compared to other countries like U.S.A., U.K., Pakistan, Japan, Burma, Australia and Ceylon. They are surprised that Government are not aware of the basis of pricing of petroleum products in other countries. The Committee recommend that the Government should study the pricing pattern of petroleum products in other countries particularly neighbouring countries so as to find out the reasons for the high prices of petroleum products in the country and devise measures to reduce the same.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord dated 14th October, 1968.]

Further Information called for by the Committee

Please intimate the specific steps taken in regard to the study of the pricing pattern of Petroleum Products in other countries and to find out the reasons for high prices of petroleum products in the country as well as measures taken to reduce the same.

[Lok Sabha Secretariat O.M. No. 5/24/ECI/68 dated 22nd Nov., 1968.]

Reply of Government

Our Missions abroad have been requested to collect details of the pattern of pricing of petroleum products prevalent in other countries. On receipt of this data, the matter will be studied further.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 3rd January, 1969.]

Recommendation (Serial No. 37, Para 5.56)

The Committee are unhappy to learn about the large scale misuse of kerosene as fuel in lorries and buses because of the price difference between kerosene and H.S.D. on account of a heavier rate of excise duty on the latter. Apart from the loss of revenue to Government caused by its misuse kerosene is also a deficit product being imported at present and is an article of daily use for the common man. The committee, would, therefore, strongly emphasise the need to tak effective measures to stop the misuse of Kerosene as fuel from automotion. They hope that it would soon be possible for the Government to use chemical markers in Kerosene to avoid its adulteration with H.S.D.

Reply of Government

The Government are very much concerned over the problem of prevention of misuse of Kerosene Oil. On 18th March, 1966 the Government of India promulgated the Kerosene (Restriction on Use) order, 1966. The use of Kerosene was thereby restricted to cooking and illumination purposes only, execept with the prior approval of the State Government. The feasibility of introducing a suitable Chemical Marker on the same lines as is prevalent in the U.K. is also under study in consultation with the Indian Institute of Petroleum.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 14th October, 1968.]

Further Information called for by the Committee

Please indicate the final decision taken in regard to introduction of chemical markers in Kerosene to avoid its adulteration with H.S.D.

[Lok Sabha Secretariat O.M. No. 5|2|4|ECI|68, dated 22nd November, 1968.]

Reply of Government

It has been decided to introduce a chemical marker in kerosene on an experimental basis in a limited area. An application for the import of the required chemical has already been made and the trial will start as soon as the import has been made.

[Ministry of Petroleum and Chemicals O.M. No. 31(31) 68-Co-ord., dated 10 February, 1969.]

Recommendation (Serial No. 40, Para 5.78)

The Committee are glad to note that the refinery margins of the public sector refineries compare favourably with the refinery margins/processing fee in the case of private sector refineries.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31) 68-Co-ord., dated dated 14th October, 1968.]

Recommendation (Serial No. 41) Para 5.89

The Committee are not convinced by the reasons advanced by Government for not associating persons acquainted with the petroleum industry with the two committees set up to advise them on petroleum prices in the country. They feel that the appointment of persons having an intimate knowledge of petroleum industry and of its marketing techniques would have been of distinct advantage particularly as the petroleum industry is a very complicated industry and has world wide ramifications. It is well known that international oil cartels operate in this industry and influence product prices. The Committee have recommended the appointment of an expert committee to go into the question of fixation of prices of indigenous crude and petroleum products in paras 5.24 and 5.48 of this report. They hope that earnest consideration would be given to the selection of competent men in appointing this expert committee.

Reply of Government

An Enquiry into the prices of petroleum products is one that the Tariff Commission would ordinarily have conducted and, in that event, while technical opinion may, where necessary, be consulted, there would not necessarily be the presence of a technical Member on the Commission.

It may be noted that the pricing of petroleum products depends upon the interpretation and application of the terms of the Agreements under which refineries have been established in India by the foreign oil companies for the production of petroleum products, the cost of refining, the economics of investment in refining, the cost of marketing of the refined petroleum products and the economics of investment in such marketing operations, and, above all, the determination of fair and reasonable prices payable by the consumer in India. These criteria have essentially a bearing on the financial, costing and economic aspects of the refining of petroleum products and their marketing and have no bearing on the technological aspects of refining or the technique of marketing of the refined products.

2. The personnel of the earlier two committees was appointed keeping in view of aforesaid essential criteria. In terms of the Government of India Resolution No. 101(22)/68-PPD, dated the 14th June, 1968, the Government of India have set up a new Committee to determine the ceiling selling prices ex-companies' storage points of various petroleum products in India to be applied from the date of termination of the existing arrangement. The composition of this Committee is as under:—

(i) Shri Shantilal H. Shah, M.P., Janmabhoomi Bhavan, Ghogha Street, Fort, Bombay-1.—*Chairman.*

(ii) Shri B. N. Adarkar, Dy. Governor, Reserve Bank of India, Central Office, Bombay—*Member.*

(iii) Dr. B. Natarajan, Dy. Director General, National Council of Applied Economic Research, Parisila Bhavan, Indra Prastha Estate, New Delhi.—*Member.*

(iv) Shri N. Krishnan, Chief Cost Accounts Officer, Ministry of Finance, Department of Expenditure, New Delhi-1.—*Member.*

3. A member of Parliament had been selected to be the Chairman in order to invest the Committee with the appropriate status. Shri B. N. Adarkar is a Deputy Governor of the Reserve Bank of India and as such is conversant with economic and foreign exchange matters. He was formerly a member of the Tariff Commission for a number of years and was also its Chairman for some time. As such, he is conversant with pricing procedures in other industries. Dr. B. Natarajan, Deputy Director General of National Council of Applied Economic Research, is an independent economist. Shri N. Krishnan is the Chief Cost Accounts Officer of the Ministry of Finance and has intimate knowledge of the petroleum industry, having been associated with all the similar enquiries of the pricing of petroleum products in the past. It was felt that the composition of the Pricing Committee thus satisfied the requirements of the task before the Committee.

4. The question of setting up a Committee for advising on the determination of crude oil prices is separately under consideration. It appears desirable to take a final view in the matter in the light of the report of the Shantilal Shah Committee and Government's decisions thereon, as the former is related to and would depend on the latter. If a decision is eventually taken to appoint a committee, the present view of the Estimates Committee will be borne in mind.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14th October, 1968.]

Recommendation (Serial No. 44, Para No. 6.16)

The Committee have already commented upon the delay in setting up of lubricating oil plants in the country as a result of which the demand for this product had to be met almost entirely through imports involving huge amounts of foreign exchange. The Committee are unhappy to note that lubricating oils will continue to be imported throughout the Fourth Plan period at an average rate of 3·5 lakh tonnes per year costing over Rs. 25 crores a year. In view of the heavy amounts of foreign exchange involved in the imports the Committee cannot over-emphasise the need to channelise the imports of lubricants through the I. O. C. which as the sole importer of bulk quantities would be in a much better position to purchase them at the most competitive prices.

Reply of Government

The observations of the Committee have been noted. As had already been intimated to the Committee, the import of lubricants from Rupee payment sources is, even now, being channelised through the IOC and the contracts that are entered into by it, from time to time, for the purpose, are finalised after prior approval of the Govt. As for import of lubricants from other sources, they are made mainly under US(AID) funds and have to follow the procedures laid down by US(AID) authorities. According to these, the goods have to be procured after due competitive bidding in USA. However, under a waiver to this condition, applicable for a Sole Agency, the various oil companies have been importing lubricants through their respcetive principals/affiliates in USA at concessional prices, which might not be available to others. Before IOC is asked to channelise all US(AID) imports, it was necessary to see whether the IOC is in a position to handle all these imports, whether it can get the required quantities/grades of various lubricating oils through its principals in USA, M/s. Mobil Oil Corporation, whether this can be done at a lower total cost than that being incurred on other company imports and if not, whether lower prices can be secured through competitive proctirement. These matters have been examined in consultation with IOC, and do not, by and large, appear possible at the present moment.

It would be possible to achieve the objective of channelising the imports from various sources through IOC progressively. By the end of this year, the lube plants of the Lube India Limited at Bombay and of the Madras Refineries Limited at Madras are expected to go on stream and, by 1970, should be producing about 350,000 tonnes of base lubricating oils. This will eliminate a large part of the imports of lubricants. For the quantity that will still have to be imported in the following years, channelisation through the Indian Oil Corporation could be considered at the appropriate time.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 30th June, 1969.]

Recommendation (Serial No. 42, Para 6.6)

The Committee are perturbed at the ever increasing import bill for crude. They note that the gap between the indigenous production of crude and its total requirements would continue to widen in the coming years resulting in an increasing outflow of precious foreign exchange. The Committee realise that import of crude for processing in the country is more economical than the import of finished petroleum products particularly the requirements of petroleum products are ever increasing. The Committee, therefore, re-emphasise the urgent need for increasing the indigenous production of crude at a faster rate to reduce the foreign exchange drain as much as possible.

Reply of Government

Government agrees with the recommendation.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 14th October, 1968.]

Recommendation (Serial No. 45) Para 6.16

While the Committee regret that kerosene will continue to be imported even during the Fourth Plan period, they are happy to note that this product is imported through one organisation only viz. the Indian Oil Corporation. The Committee hope that the Government will make every effort to see that the country attains self-sufficiency in kerosene positively by the end of the Fourth Plan period and that there will not be any need to import this product thereafter. In this connection the Committee would also refer to their earlier recommendation in para 4.72 on this subject.

(Paragraph 6.20)

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord., dated 14th October, 1968.]

Recommendation (Serial No. 46, Para No. 6.30)

The Committee note that the country has at present an exportable surplus of motor spirit/naphtha, high speed diesel, furnace oil. They are glad that paraffin wax produced at the Digboi refinery is being exported to various countries all over the world.

Reply of Government

The observations of the Committee have been noted by the Government.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 16th December, 1968].

Recommendation (Serial No. 47, Para No. 6.31)

The Committee note that there is a glut in motor spirit supplies at Singapore practically blocking the disposal in this market as a result of which the oil companies have been forced to export naphtha and 'unleaded' motor spirit which are stated to fetch much lower price. The Committee therefore, urge the Government to make intensified efforts through the State Trading Corporation and otherwise to explore alternate markets for motor spirit, as the exportable surplus of this product is likely to increase in the coming years with the commissioning of Madras and Haldia refineries and the expansion of Barauni and Gujarat refineries.

Reply of Government

Government is alive to the need to explore fresh markets not only for Motor spirit but for likely surpluses of other products such as Asphalt, Furnace Oil, Kerosene etc. in the future. To this end, the Indian Oil Corporation are organising itself adequately. They have acquired considerable knowledge of marketing conditions in South-East Asian countries and will shortly undertake market studies in African countries.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 48, Para No. 6.33)

The Committee are unable to appreciate why Government have not made any special efforts to increase the export potentialities of petroleum products of the country's refineries. In view of the rapid increase in the refining capacity envisaged in the Fourth Plan period, the Committee strongly stress the need for ascertaining the export potentiality of the surplus items that would be coming out of the refineries. Since Government are stated to be constantly reviewing the product pattern of all the refineries, the Committee would like the Government to keep this aspect also in view so as to suggest such changes in specifications of the products as would help them in finding ready foreign markets.

Reply of Government

Noted. This is already being followed.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 50, Para No. 7.14)

A view can also be taken that the original agreements giving the coastal refineries the right to import crude from their own sources, should appropriately relate to the original capacities of these refineries. For the expanded capacity, it should be possible for Government to make the refineries agree to the imports of crude through Government at the best possible prices. This assumes importance in view of the continuing foreign exchange difficulties experienced by the country and the need to save as such free foreign exchange as possible. The Committee have no doubt that Government should be able to bring about suitable modifications in these agreements with the consent of the oil refineries. They hope that in the larger public interest Government will be able to negotiate the modification of the refinery agreements in respect of import of crude and fixation of prices of petroleum products on import parity.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968.]

Further Information called for by the Committee

Please intimate the specific steps taken in regard to the modification of the refinery agreements with the oil refineries in respect of import of crude and fixation of prices of Petroleum Products on import parity.

[Lok Sabha Secretariat O.M. No. 5/24/ECI/68 dated 22nd Nov., 1968.] 1968.]

Reply of Government

Discussions have been initiated with the Oil Companies aimed at suitable modification/termination of the refinery agreements. The question of the adoption of a pricing basis other than import parity is being considered by a Committee set up by the Government on 14th June, 1968 to go into the pricing of petroleum products in the country.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 27th January, 1969.]

Recommendations (Serial No. 51, Para No. 7.23)

It is unfortunate that the foreign oil companies reduced the production of fuel oil following the closure of Suez Canal which, as has been admitted had caused some difficulties in the country, especially in meeting the requirements of the International Bankers'. While the Committee appreciate the role of IOC which rose to the occasion in meeting the demand for fuel oil in the country, they feel that Government should not have allowed the oil companies to change their production pattern to suit their own business interests to the detriment of the Nation's. The Committee recommend that Government should not hesitate to use their powers regarding determination of the production pattern of the oil companies in the larger public interests in future.

Reply of Government

Noted.

Further Information called for by the Committee

Please intimate as to why the Government allowed the oil companies to change their production pattern.

[Lok Sabha Secretariat O.M. No. 5/24/ECI/68 dated 22nd Nov., 1968.]

Reply of Government

As suitable alternative arrangements were made for indigenous production of fuel oil, it was not considered necessary to insist on M/s. Burmah-Shell and Esso augmenting their production of fuel oil.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated the 10th February, 1969.]

Recommendation (Serial No. 53, Para 7.32 to 7.33)

The Committee regret to observe the steep increase in the cost estimates of the refinery from the original Rs. 19.85 crores to the anticipated Rs. 28 crores. They note that an increase of Rs. 3 crores is directly attributable to the change in the site of the refinery necessitating, in addition to the payment for the land, payments of Rs. 143.86 lakhs for a pipeline from the shore to the Refinery and Rs. 115.57 lakhs for a private railway siding.

The Committee need hardly emphasise that the estimates of cost should be prepared after selection of site and should be more realistic.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14th October, 1968.]

Recommendation (Serial No. 55, Para 7.52 to 7.53)

The Committee are unhappy about the present arrangements for the supply of crude to the Cochin Refinery whereby a minority partner to the contract has been appointed agent for the purchase of imported crude. They feel concerned about the fact that while the Government believe that it is possible to get crude at a cheaper rate they cannot do anything in this matter till 1970, upto when the present contract for the supply of crude is stated to be binding, more so, when it is estimated that every reduction of $ 0.01 per barrel would mean a saving of about Rs. 13.5 lakhs to 15 lakhs in foreign exchange per year to the refinery.

The Committee, therefore, strongly impress upon the Government the need to make an alternate arrangement for the supply of crude as soon as the period of the present contract is over and also in the meanwhile to see through negotiations a reduction in the price of crude supplied to the Cochin Refinery.

Reply of Government

Noted. As for the recommendation of the Committee regarding negotiations for reduction in the price of crude supplied to Cochin Refinery, the aim is served by the provisions of Sec. 3.01 of Crude Oil Supply Contract between Cochin Refineries Limited and SOCAL, to which the attention of the Committee had been drawn earlier. This states that the price of the crude, whether Agha Jari or Arabian oil, supplied to Cochin Refinery shall be the lowest of the f.o.b. Persian Gulf price for the same oil being paid by Burmah Shell, Esso, and Caltex Refineries in India (if the said oil is being delivered to either of them @10,000 bbls/day on a continuing basis) subject to adjustments due to gravity variations, if any. Thus, any reduction in the price of crude by either of the latter refineries as a result of negotiations with Government or otherwise, automatically entitles Cochin Refinery for a similar reduction in price from its suppliers.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 57, Para 7.70 to 7.71)

The Committee also do not appreciate the fact that the process margin has been indicated in terms of the currency of the country of the minority partner because of their insistence for the same.

The Committee, therefore, strongly urge the Government not to accept such unusual terms in their future contracts. Further there should be a provision in the contracts for periodical review of the terms so that the Government may have the option to modify the terms of a contract found to be disadvantageous subsequently. The Committee also recommend that all financial provisions in the contracts should invariably be expressed in Indian currency.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14-10-1968]

Further Information Called for by the Committee

Please intimate whether any specific instructions have been issued by Government in this regard. If so, a copy thereof may please be furnished.

[Lok Sabha Secretariat O.M. No. 5/24/ECI/68 dated 22nd Nov., 1968.]

Reply of Government

As the agreements of this nature are entered into only by Government, no instructions have been issued by the Government to any outside agencies. Government have already noted the recommendations of the Committee. The desirability and feasibility of including a provision for a periodical review of the terms of agreements, will be considered in each case; it may be observed, however, that such a provision, as well as any revision in pursuance of it, can only be made by the consent of the parties.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 27-1-1969.]

Recommendation (Serial No. 58, Para 7.76 to 77)

The Committee are not convinced of the usefulness of the clause 8.2 relating to exports in the contract which, as has been admitted by the Government, is of an abstruse nature. It also appears to the Committee that perhaps M/s. Phillips Petroleum have not made any genuine efforts to find a foreign market for the refinery's surplus products.

The Committee urge that Government should couch the clauses of such contracts in more definite terms. As regards the disposal of the surplus products of this refinery, the Committee are of the opinion that the Cochin Refinery Limited should not bank upon the efforts of M/s. Phillips to find foreign markets and should continue to explore foreign markets for this refinery's surplus products through the agencies of IOC/STC.

Reply of Government

Noted. Action is already being taken as suggested.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14-10-1968].

Recommendation (Serial No. 61, Para 7.94)

While the Committee appreciate that services of the Engineers India Limited have been utilised to some extent for the construction of the Madras refinery they are unhappy to note that services of these Indian Engineers who were associated with the Russians in the construction of Koyali Refinery had not been utilised for the construction of the Cochin Refinery because the circumstances there were stated to be 'different'. This may perhaps be due to the Cochin Refinery having been constructed as a turn key job by M|s. Phillips. The Committee, however, hope that the Government will fully utilise indigenous know-how in all such future projects.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14-10-1968.]

Recommendation (Serial No. 62, Para 7.103)

The Committee are not happy to note that even in the case of Haldia Refinery which is stated to be a wholly Government owned refinery the Government had to commit themselves for the import of crude from French sources, for 50 per cent of the crude requirements of the refinery as the French credit is tied with such a condition. The Committee hope that at the end of the five or six years as stipulated in the agreement the Government will be able to procure all the crude requirements of the refinery themselves.

Reply of Government

Noted. Necessary action will be taken in terms of the crude Oil Sales Agreement dated September 29, 1967 regarding Haldia Refinery. In the event of the oil fields in the country not proving commercially successful, there would be need to make such alternative arrangements as are deemed necessary at the appropriate time.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14-10-1968].

Recommendation (Serial No. 63, Para 7.104)

The Committee are happy to note that the services of the Engineers India Ltd. will be utilised to the fullest extent possible in the design, construction and erection of this refinery and also that the work regarding implementation of this project has been entrusted to the Indian Oil Corporation.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14-10-1968].

Recommendation (Serial No. 64, Para 8-16)

The Committee are glad at the emergence of Indian Oil Corporation (Marketing Division) as a major distributor of petroleum products in the country. Apart from undertaking distribution of petroleum products in difficult and sensitive areas of the country, it has helped in reducing the repatriable profits of the foreign oil distribution companies. Since IOC has to market all the products of the public sector refineries and most of the imported petroleum products, it is necessary that advance plans are made to gear up the Indian Oil Corporation to undertake its responsibility of handling additional products of the public sector refineries in future years. The Committee note that by the end of 1970-71 the refining capacity in the public sector is likely to be of the order of 13-14 million tonnes. Compared to its present operations amounting to about 4 million tonnes of petroleum products in 1966-67 the Indian Oil Corporation would have to be geared to handle about 300 per cent more petroleum products within the next 3-4 years. The Committee would therefore like the all the petroleum products of public sector refineries in future smoothly and efficiently.

Reply of Government

Noted. The Indian Oil Corporation has made plans for discharging its responsibility of handling on a progressively increasing scale and eventually in full production of the public sector refineries in the coming years.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14-10-1968].

Recommendation (Serial No. 65, Para 8.17)

The Committee are unhappy that IOC—the biggest marketing unit for the petroleum products, has not been effective in bringing about a reduction in the prices of petroleum products because of the 'import parity' basis of pricing. While reiterating the need for a change in the present pricing policy, the Committee would like the prices of petroleum products to be made cheaper to the consumers by effecting economy in the marketing and distribution expenses by the marketing companies.

Reply of Government

It is not clear how the import parity principle prevents the IOC from making available products at cheaper prices. However, IOC has been asked to reduce its marketing and distribution expenses so that these are duly taken into account, along with similar expenses incurred by the other companies, in fixing final consumer prices. Whether any reductions in such expenses should be passed on to the consumer or be mopped up in further taxes will naturally need to be considered by the Government. But except in the foregoing ways, it would seem undesirable for IOC to embark on a price-cutting compaign, as the consequences of retaliation by the private companies may be unpredictable.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14-10-1968.]

Further Information called for by the Committee

Please intimate the specific action taken by IOC to reduce their marketing and distributing expenses with a view to reduce consumer prices.

[Lok Sabha Secretariat O.M. No. 5/24/ECI/68 dated 22nd Nov., 1968.]

Reply of Government

As stated in the Ministry's reply sent in October, 1968, IOC has been asked to reduce its marketing and distribution expenses so that these are duly taken into account, along with similar expenses incurred by the other oil companies, in fixing final consumer prices. As any follow-up action to be taken by IOC will be reflected only in their accounts for 1969-70, it is too early to furnish a report on the specific action taken by IOC in this regard. Besides, the Oil Prices Enquiry Committee is also looking into the subject and their report is expected to be available in 1969.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 3rd January, 1969].

Recommendation (Serial No. 66, Para 8.25)

The Committee note that no revision has been made of the various supply areas which were settled when petroleum products were wholly imported. It is surprising that the Government do not envisage any redistribution of these areas as according to them, the present arrangement was there because of certain requirements of the refinery agreements. The Committee feel that the position as regards the indigenous availability of petroleum products has totally changed in the last decade with the setting up of public sector refineries and the country is now self-sufficient in petroleum products except for Kerosene, lubricants and A.T.F. It is time that the benefit of the location of the inland refineries should be felt by the consumers in the adjacent areas also. The Committee, therefore, strongly emphasise that these supply areas should be redemarcated taking into account the location of the refineries and the need to make the products cheaper to the inland areas. The existence of the agreements with the coastal refineries should not be allowed to perpetuate the anomalies inherent in the present system.

Reply of Government

The feasibility of making the Refineries (including the inland Refineries) as the pricing points has been referred, *inter-alia,* to the Oil Pricing Committee set up under the Chairmanship of Shri Shantilal H. Shah, M.P. *vide* Government of India Resolution No. 101(22)/68-PPD dated the 14th June, 1968. The Report of this Committee is expected to be submitted within the next six to nine months. The need for revising supply areas will be considered on receipt of the Report of the Committee.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord dated 14th October, 1968].

Recommendation (Serial No. 69, Para 8.49)

The Committee are happy to note the views of the Government regarding the necessity for regulation of retail outlets for petroleum products. The Committee fully agree with the view of the Retail Outlets Committee that a more equitable relationship between the products availability with the individual oil companies and their access to the retail outlets is to be brought about for decreasing the sales of Indian Oil Corporation's products through the retail outlets of the foreign oil companies which adds to the amounts of profits repatriated by these oil companies. The Committee are happy that Government have decided to accept and adopt all the recommendations made by the Retail Outlets Committee. They hope that Government will take immediate action towards implementation of the recommendations of the Retail Outlets Committee.

Reply of Government

Noted. Action has already been initiated to implement the various recommendations of the Retail Outlets Committee.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 70, Para 8.50)

The Committee would also like the Government to take early measures for splitting up of the agencies where there is a concentration of outlets in their hands, as that would lead to better service to the consumers and a lesser possibility of creating artificial local shortages of essential products like kerosene.

Reply of Government

Noted. The Indian Oil Corporation Limited have decided not to extend the area of operations of their agents who are operating a number of kerosene agencies. Steps will also be taken to reduce their area of operation in a phased manner as may become possible.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 71, Para 8.51)

As regards distribution of products in the interior and remote areas, the Committee suggest that the Government should render all possible help to encourage the farmers' cooperatives to undertake operation of retail outlets, as the investments involved in a retail outlet are beyond the reach of a common man in the rural areas.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 74, Paras 9.21 to 9.23)

The Committee note that there is no direct control by Government over the profit margins of the oil companies as their profits are stated to be regulated through the prices fixed for petroleum products and that there is no ceiling on profits as such.

The Committee note that the profit margins on account of refining are regulated by the procedure of fixing the prices of petroleum products which are based on import parity. In the opinion of the Committee, this system allows a very high margin of profit to the refineries and also stands in the way of reduction in the prices of petroleum products to the consumers. The Committee have in para 5.52 of this report emphasised the need to bring down the prices of petroleum products.

The Committee also note that the profits on amount of marketing by some companies are more than indicated by the Working Group on Oil Prices. The Committee urge that Government should devise measures so as to keep the margins of profit by these companies to a reasonable level. The Committee recommend that both these aspects should also be examined by the expert committee recommended in para 5.48.

Reply of Government

The two aspects mentioned in the recommendation No. 74 are already covered by the terms of reference of the Oil Prices Committee.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14-10-1968].

Recommendation (Serial No. 75, Para 9.29)

The Committee are glad to learn that in pursuance of Government's efforts some foreign companies are making arrangements with Indian Insurance Agencies to cover all major insurance risk. They hope that efforts will continue to be made with other companies also to get all their insurance risk covered by the Indian Insurance Agencies.

Reply of Government

The recommendation has been noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14-10-1968].

Recommendation (Serial No. 76, Para 10.6)

The Committee are concerned to note that the Oil Advisory Committee which was set up in 1960, with very wide and important terms of reference, has not been functioning properly. While the Committee was originally intended to meet at least once in every three months and should have therefore met 32 times since 1960 it has met only 6 times so far. It is surprising that no meeting of this Committee has been held since April, 1966 for want of sufficient material for discussion. They are also unable to understand why the Oil Advisory Committee was at all reconstituted in May, 1967 when no meetings of this Committee were to be held thereafter. The Committee recommend that the whole matter regarding the utility of having an oil advisory committee should be examined thoroughly by Government and if it is considered essential it should be made to function effectively and play its intended role by calling periodical meetings of this Committee.

Reply of Government

The matter has been examined. The Oil Advisory Committee has been found useful and is being continued. In future, the Committee will as far as possible be assembled to meet at least twice a year subject to the quantum of business to be transacted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14-10-1968].

Recommendation (Serial No. 77, Paras 10.11 and 10.12)

The Committee note that there have been heavy imports of drilling equipment and accessories during the Third Plan period. They regret to learn that because of the difficulties in getting free foreign exchange the best available drilling equipment could not be imported. Since the quality of equipment has a direct bearing on the operational efficiency, the Committee feel that the programme of exploration and production of crude are bound to be adversely affected in the absence of the best possible drilling equipment etc.

The Committee feel that for accelerating the programme of exploration and exploitation for oil in the country, it is necessary to manufacture drilling and production equipment indigenously. It need hardly be emphasized that for overall progress in this field as well as for effecting savings in foreign exchange, Government should aim at attainment of self sufficiency in equipment as early as possible. The Committee, therefore, strongly recommend that effective measures should be taken urgently by Government for the manufacture of drilling equipment as well as refinery equipment in the country. This, the Committee feel, should not be difficult as idle capacity may be available in most of the engineering units and particularly in the Heavy Engineering units and particularly in the Heavy Engineering Corporation, Ranchi which is stated to be already designed for the manufacture of heavy oil drilling rigs.

Reply of Government

Government have already taken measures for establishing capacity for the manufacture of drilling equipment, including drilling rigs accessories in the country. Steps are under way to manufacture some further items which are presently imported. As a result of the action taken so far, there is already sufficient capacity in the country to meet the anticipated demand of Drilling Rigs during the Fourth Five Year Plan period.

Similarly, capacity for the production of various items of refinery (& Chemical plant) Equipment hitherto imported is now being established.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14-10-1968].

Recommendation (Serial No. 78, Para 10.18)

The Committee, cannot over emphasise the need to keep to the minimum the capital costs of the refineries as they vitally affect the production costs and ultimately the efficiency of the refineries. They hope that the experience gained in the setting up of the refineries in the public sector would prove of immense benefit in this regard.

Reply of Government

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14-10-1968].

Recommendation (Serial No. 79, Para 10.21)

The Committee are constrained to observe that there is no proper co-ordination between the Oil and Natural Gas Commission and Oil India Limited regarding regular exchange of information about exploration, drilling etc. In the opinion of the Committee the Ministry of Petroleum and Chemicals who are mainly responsible in the matter, should bring about close coordination between these two organisations particularly when the same Joint Secretary of the Ministry is on the Board of Management of both these organisations.

Reply of Government

Close contact and cooperation is maintained between Oil India and Assam Oil Company and between Oil India Limited and the Oil and Natural Gas Commission at the oilfields level. Monthly meetings will now be held between senior technical personnel of the Oil and Natural Gas Commission's Eastern Region Headquarters at Nazira and those of the Oil India Limited about operational problems. To discuss common problems, frequent meetings are also held between the Managing Director and his senior staff in the Delhi Office of Oil India Limited and the Chairman and the other senior officials of the Oil and Natural Gas Commission. Senior personnel of Oil India Limited particularly the Senior Technical Advisor, based in New Delhi, make frequent trips to the Oil and Natural Gas Commission, Dehra Dun, for technical discussions and assist Oil and Natural Gas Commission in the selection of technical personnel etc. The two organisations are utilising the training and research services available with each other. Two members on the Board of Oil India Limited are also members of the Oil and Natural Gas Commission.*

The Indian Petroleum Conference (Exploration & Production) has been recently organised to provide a forum to discuss problems and exchange information relating to exploration, production, transportation and evaluation of crude oil. It has been decided to hold this Conference in alternative years at Duliajan (Assam) and Baroda. The first Indian Petroleum Conference was held at Duliajan from 17-2-1968 to 22-2-1968 at which representatives from the Oil and Natural Gas Commission, Oil India Limited and Assam Oil Company, Indian Institute of Petroleum, Geological

*One of the two members Shri W. B. Mehra has ceased to be a member of the oil and Natural gas commission with effect from 11-11-69.

Survey of India, and Indian School of Mines and Applied Geology participated. The next session will be held in February, 1969 at Baroda.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14-10-1968.]

Recommendation (Serial No. 80, Para 11.5)

The Committee recommend that an all out-effort should be made on exploration of oil in the country particularly in areas which have a promising geological strata. Unless such programme is planned and implemented, the country is likely to be tied eternally to the international market where crude fluctuates from year to year.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14-10-1968.]

Recommendation (Serial No. 81, Para 11.6)

The Committee are glad that a network of refineries have been set up in the country since independence which meet practically all the demands for petroleum products of the country. Except for kerosene and lubricants, India has achieved self-sufficiency in all other types of petroleum products. With the setting up of Haldia Refinery and the various lubricating plants, India will be self-sufficient in these items also. This progress towards self-sufficiency in petroleum refining is heartening as it has resulted in considerable saving of foreign exchange. It is also a matter of satisfaction that the country is now exporting some petroleum products like High Speed Diesel Oil, Furnace Oil, Motor Gasolene and waxes etc.

Reply of Government

Noted.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14-10-1968.]

Recommendation (Serial No. 82, Para 11.7)

One of the disquieting features which has particularly struck the Committee is the policy regarding pricing of crude and petroleum products.

The Committee have noted that the prices of crude and petroleum products are based on the principle of import parity. It has been stated by Government that this principle is the result of the agreement with the private sector coastal refineries. These coastal refineries have been given the right to import crude from their own sources as also to price the petroleum products on the basis of import parity. The Committee have noted that the prices for the imported crude charged by these refineries have not been the most economic prices as no discount was allowed by these refineries till June, 1960 and even there-after the full discount as available in the international oil market is not accounted for by them with the result that there is larger outgo of scarce foreign exchange on this account. This pricing of petroleum products on import parity has also created an anomalous position in that petroleum products are cheaper in the coastal areas than the hinterland where public sector refineries are located. This has naturally given rise to complaints of discrimination especially from States like Assam and Gujarat which produce the crude. While there might have been justification for the adoption of principle of import in 1951 when there was practically no refining capacity in the country, the continuance of this principle is open to question after large refining capacities have been set up in the inland areas. The Committee, have (in paras 5.24 & 5.48) therefore recommended the appointment of a committee consisting of experts in petroleum technology, costing and financial matters to review the whole basis of pricing of crude and petroleum products. They hope that this committee will be able to bring about reduction in the price of crude as well as of petroleum products so that the general public also feels the impact of the birth of the petroleum industry in the country.

Reply of Government

Pricing of Petroleum Products

A Committee under the Chairmanship of Shri Shantilal Shah, M.P. has been set up recently to examine the pricing of petroleum products *vide* Resolution No. 101(22)/68-PPD dated the 14th June, 1968 (Appendix II). The Committee has been specifically requested to examine whether the pricing of petroleum products can be fixed on other than an import parity basis.

Depending upon the recommendations made by this Committee in respect of petroleum products the question of appointing an expert committee on crude price will be considered in due course.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14-10-1968.]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PRESENT IN VIEW OF GOVERNMENT REPLY

Recommendation (Serial No. 3, Para 2.12)

The Committee are unable to appreciate why it was necessary for Government to invite foreign experts from three different countries almost simultaneously to advise on oil exploration in the country. Experts from U.S.A. and West Germany were invited when the Russian Team was already working in the country and had not even submitted the report. According to the Government's own admission the report of Mr. Kalinin of U.S.S.R. was comprehensive enough to form the basis of the oil exploration programme in the Second Plan while the reports of the other two experts were considered too general. Even if second opinion was considered necessary the normal course would have been to await the report of the first expert. The Committee hope that such instances would not be repeated in future.

Reply of Government

Oil exploration in the public sector was a new venture involving huge expenditure and great risk. Before undertaking such a venture, Government thought it more prudent to obtain the advice of more than one expert, in regard to the oil and natural gas prospects in the various areas, the best way to carry out the exploration work, the extent of the risk involved, the more suitable organisation to be set up etc. In such matters, it may not always be safe to rely on the advice of a single expert.

2. The views and recommendations obtained from three independent and eminent experts in this field proved useful for drawing more reliable conclusions. It may be noted that the expenditure incurred on the expert was small, compared to the magnitude of the problems then before the country.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14-10-1968.]

Recommendation (Serial No. 4, Para 2.17)

The Committee regret that Government spent a sum of Rs. 1.84 crores as their share in the Indo-Stanvac Petroleum Project—a joint venture of the Government of India and the Standard Vacuum Oil Company—which proved a failure. It is unfortunate that certain areas in the West Bengal basin where it operated, were not completely evaluated by the Stanvac. In this connection it is significant to note that commercial gas fields have been discovered in East Pakistan which forms part of the greater Bengal basin. The Committee are glad that the Oil and Natural Gas Commission has restarted exploration work in that area. They hope that the exploration programme in that area would be accelerated so as to correctly assess its oil potential as early as possible. This is particularly important as the Haldia refinery which is being set up in that region, would have to depend on imported crude till the domestic supply is ensured.

Reply of Government

Noted.

Before the start of exploration by the SVOC, no sub-surface geological information pertaining to West Bengal was available. And, therefore, nothing was known regarding the oil and gas prospects of this region. Further more, in those early years, no organisation of the Government of India possessed suitable gravity or seismic instruments and equipment or drilling rigs for exploratory oil well drilling. Nor did Government personnel have experience of conducting gravity and seismic surveys and driling operations for exploration for oil and natural gas. In view of this position, going in for a joint venture with the SVOC was an advantage.

In the course of the operations, the entire region of West Bengal was covered by aeromagnetic survey, the more interesting parts were covered by gravity surveys and seismic surveys were carried out extensively, over the whole region. Also, 10 exploratory wells were drilled in the different parts of the Indo-Stanvac concession. All this constituted a very large volume of explaratory work.

Even though the efforts of the Indo-Stanvac Petroleum Project (ISPP) did not lead to the discovery of commercial oil/gas fields, the sub-surface geological data obtained and their value in the assessment of the oil and gas prospects of the Bengal basin were well worth the expenditure of Rs. 1.84 crores on Government account.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated *14th October,* 1968.]

Recommendation (Serial No. 12, Para 3.15)

The Committee are unhappy at the scaling down of the target of cumulative production of crude by 1970-71 in the public sector from 22.50 million tonnes to 19.2 million tonnes and the rate of annual production from 6.50 million tonnes to 6.23 million tonnes in 1970-71. In view of the annual requirements of 20—22 million tonnes of crude for various refineries in the country by 1970-71 and the anticipated gap of about 11 million tonnes between requirements and indigenous supply, they cannot but consider this reduction in the targets as unfortunate. It is hoped that Government would spare no efforts to reduce this gap as much as possible by determined efforts to increase the output of indigenous crude. The Committee would, therefore, strongly emphasise the imperative need of upward revision of targets of crude production in the country by intensifying exploration, prospecting and development efforts in this field.

Reply of Government

The target of production of 22.5 million tonnes of crude oil during 1966-67 to 1970-71 and the establishment of an annual production rate of 6.5 million tonnes during the year 1970-71 were fixed. These targets were later revised by the Commission to 19.12 and 6.38 million tonnes respectively in the light of actual achievements of drilling and production potential during the year 1966-67. The Oil and Natural Gas Commission is constantly endeavouring to intensify its exploratory and development activities in the fields where oil/gas has already been discovered and also to discover more reserves of hydrocarbons in the wild cat area.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14th October, 1968.]

Recommendation (Serial No. 13, Para 3.18)

The Committee note that Government have not prepared any long term perspective plan for the indigenous production of crude. While conceding that there may be difficulties in the preparation of such a plan, it is nevertheless desirable that Government should have a broad idea of the long term objective in this field for which a plan of action should be prepared well in advance. Considering the heavy outgo of foreign exchange on crude imports which is estimated at Rs. 110 crores annually by 1970-71, it is all the more essential for Government to aim at self-sufficiency in crude production which call for long term planning for extensive and intensive geophysical and geological surveys and exploratory drilling etc. The Committee therefore strongly urge that Government should prepare a perspective plan covering a period of 15 to 20 years which should aim at maximising indigenous production of crude so as to reduce crude imports to the minimum. As exploration and production of crude is a long process and is full of uncertainties, the need for a perspective plan becomes all the more greater. The Committee recommend that immediate action should be taken by Government towards this end.

Reply of Government

It is not possible to anticipate the increase in the Oil Reserves on the basis of an exploration programme. Also, the volume of further exploration work to be carried out, at any time, must depend upon the results of the work carried out till then.

In view of the position stated above, it will not be useful to draw up a realistic perspective plan of action for oil exploration and production covering a period longer than five years. A plan of exploration work and the development of, and production from, known reserves covering a period of about 5 years is being drawn up within the general frame work of the Fourth Five Year Plan. However a longer though essentially theoretical, view is also taken an assumed programme of work that may be carried out during such longer period; this would be more a guide to planning rather than for the reasons explained in para 1, a basis for expected oil production in the future.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968].

Recommendation (Serial No. 14, Para 3.25)

The Committee note that while the Oil India Limited and Oil and Natural Gas Commission have established crude reserves of almost the same level in the Eastern Zone their annual rates of production *viz.* 3 million and 1.5 million tonnes respectively vary widely. The Committee are unable to understand why the production of crude per year by the Oil and Natural Gas Commission should be only half of the Oil India Limited. They feel that with more vigorous efforts it should be possible to improve production of crude in the Rudrasagar and Lakwa fields. The Committee understand that the crude requirements of the Haldia refinery and the third million tonne requirements of the Barauni refinery are proposed to be met by imports. The Committee consider that having established sufficient proved and indicated oil reserves in the Eastern Zone of the country, it should be Government's endeavour to meet the full crude requirements not only of the Barauni refinery but of the Haldia refinery also from indigenous sources. They, therefore, emphasise the imperative need to intensify commercial production of crude from the Rudrasagar and Lakwa fields of the Oil and Natural Gas Commission, so as to meet the crude requirements of Barauni and Haldia refineries from these sources, as soon as possible. At the same time the Committee would also like the Government to study and examine the question of transporting this crude to these consuming centres.

Reply of Government

The proved and indicated reserves of crude of Oil India Limited as on 1st January 1968, are estimated at 56.23 million tonnes including 10.69 million tonnes already produced. As against this, the recoverable reserves of O.N.G.C. at Rudrasagar and Lakwa, as on 1st October 1967** are estimated at 15·63 million tonnes in the A+B category and 12;32 million tonnes in C1 category *i.e.* 27;95 million tonnes. The production rate of Oil is 3 million tonnes p.a. and the expected production from ONGC's fields is 1.5 million tonnes p.a. These rates are broadly in proportion to the reserves estimated and present no wide desparity.

The question of transporting Lakwa and Rudrasagar crudes to the consuming centres is already receiving attention of Government.

**(as on 1st March, 1968 in the case of recoverable reserves at Lakwa).

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Co-ord. dated 14th October, 1968.]

Further information called for by the Committee

In reply to point No. 4 of the list of points arising out of oral evidence of the Representatives of the Ministry of Petroleum and Chemicals, the Ministry has stated that the established crude reserves in the Eastern Zone in Assam were as under:—

Oil India Ltd.	46·6 million tonnes.
Assam Oil Company ..	2·077 million tonnes.
Oil and Natural Gas Commission.	42;59 million tonnes.

These figures were reproduced in paras 3·20 of the Report which was factually verified by the Ministry. In reply to the recommendation the Ministry has now given figures of crude reserves as under:—

Oil India.	56·23 Million tonnes.
O.N.G.C.	27·95 Million tonnes.

The discrepancy in the two sets of figures may please be reconciled and the comparative poor performance of O.N.G.C. in the matters of production of crude explained.

[Lok Sabha Secretariat O.M. No. 5/24/ECI|68, dated 22nd November, 1968.]

Reply of Government

The Oil and Natural Gas Commission has since clarified that the figures of 42;59 million tonnes represented the oil in place and not the proved and indicated recoverable oil. The recoverable reserves at Rudrasagar and Lakwa, as on 1st October, 1967 (in the case of the Tipans at Lakwa as on 1st March, 1968) are only 15·63 million tonnes in the A+B category or proved category and 12·32 million tonnes in the CI category or indicated category, *i.e.* 27;95 million tonnes.

The reserves of crude oil of Oil India Limited, of the order of 46·6 million tonnes indicated in Para 3.20 of the 51st Report were as on 1st January, 1967 and did not include the crude already produced upto 1st January, 1967 (about 7 9 million tonnes). The ultimate recoverable reserves as on 1st January, 1967 were 54·50 tonnes. The figures of 56.23 million tonnes indicated in Para 3.25 indicates the ultimate recoverable reserves as on 1st January, 1968 inclusive of crude already produced upto 1st January, 1968.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 27th January, 1969.]

Recommendation (Serial No. 22, Para 4.64 to 4.66)

The Committee are unhappy about the imbalance between the production and consumption of certain petroleum products in the country, necessitating imports and exports of some products.

The Committee realise that the products pattern of a refinery is largely determined by the type of crude used. Even so there is scope for flexibility as is evident by the product pattern of Digboi refinery which uses the same crude as the Gauhati and Barauni refineries but produces a much wider range of products. They recommend that a detailed review of the product pattern of all the refineries in the country may be carried out with a view to assessing the possibilty of reducing imbalance in demand and supply through alternation in the product pattern. The Committee would also like Government to undertake continuous planning to meet the changing market requirements indigenously so as to reduce the imbalance to the minimum in the Fourth Plan period and to eliminate it altogether soon thereafter.

The Committee are also unable to understand why the public sector refineries at Gauhati and Barauni produce fewer items compared to private sector refinery at Digboi although all of them process the same crude. The Committee, therefore stress the need to diversify the product pattern of the public sector refineries which would not only improve their product realisation but increase their refinery margins also. The Committee would also like the Government to keep the flexibility of product pattern in view at the time of designing of the refineries in future.

Reply of Government

The product pattern of a refinery, as intimated to the Estimates Committee earlier, is determined not only by the quality of the crude oil used but also by the technological processes utilised and the demand for the various refined products in the region and country-side. This means that a change in product pattern merely for the sake of diversification at each refinery, may not be possible or desirable having regard to technical and economic considerations. Diversification to the extent desirable is already being done or is planned for the future. It may be noted that a wide measure of diversification in yield pattern has been adopted at Barauni, consistently with the kerosene demand figures. Such diversification has not been introduced at Gauhati because the local demands do not justify it.

Government is in agreement with the recommendations of the Committee about the need for detailed review of the product pattern of the various refineries for continuous planning and for a flexible product pattern in future refineries. Indeed action on these lines is being taken from time to time. Studies of demand and supply of refined products have been undertaken by the Ministry of Petroleum and Chemicals, the Energy Survey Committee of the Government of India and the National Council of Applied Economic Research. The Indian Institute of Petroleum has also been making similar studies periodically; a copy of its last study covering the period 1971—75 has already been submitted to the Estimates Committee. These studies have guided the Government in the formulation of its policies on the question. The changing market requirements and the consequent imbalances, forecast through these studies as well as these occurring in an unforeseen manner, are further sought to be met by the Government through monthly meetings held separately with the public sector refining companies and the whole industry.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated] 14th October, 1968.]

Recommendation (Serial No. 23, Para 4.72)

The Committee are constrained to observe that the country is still deficient in kerosene production and had to import about 20 per cent of its requirements in 1967 at a cost of about Rs. 8 crores. The Committee note that Government expects the country to be self-sufficient in kerosene by 1970-71 when Haldia refinery is scheduled to be commissioned. The Committee would like to point out that with rapidly rising population, increasing rural incomes and urbanisation, the demand for kerosene as an illuminant and cooking fuel is bound to increase. It is, therefore essential that effective steps are taken for increasing the production of this fuel as early as possible. The Committee strongly urge that Government should take concerted measures for timely completion of the Haldia refinery. Simultaneously it is necessary to maximise the recovery of kerosene distillate fractions from crude oil being processed in other refineries to meet the growing demand of the product. The Committee recommend that Government should investigate the possibilities of achieving this objective by introducing advanced technological processes in the refining of crude oil in the existing refineries.

Reply of Government

Although in 1967, kerosene continued to be in deficit supply in the country and had to be imported at substantial foreign exchange cost, it is anticipated that with the commissioning of the Haldia Refinery in 1971 and the total refining capacity reaching 22 million tonnes per year by then the country is likely to become self-sufficient in kerosene. The present plans are for raising the refining capacity to 32 million tonnes by 1975 in stages, when this is implemented the production of straight run kerosene will be surplus to the demand. The demand, as projected, has taken into account various factors such as rapidly rising population, increasing rural incomes and urbanisation leading to increase in demand for kerosene as an illuminant and cooking fuel, etc. If found necessary, the present policy of maximising kerosene production will continue during the 1971—75 period also.

The refineries operated by IOC and the Cochin Refinery are aware of the need to maximise the production of kerosene. In Cochin Refinery during the period September, 1967—May, 1968, there had been a 140 per cent increase over the design capacity, in the production of kerosene. All steps are being taken for the timely completion of the Haldia Refinery.

The Committee's recommendation regarding introduction of advanced technological processes in the refining of crude oil in the existing refineries is understood to mean use of secondary reforming processes such as hydrocracking designed to raise kerosene production. The high cost of such secondary reforming processes precludes their use, except when the demand can not be met by normal means. Since normal production is expected to meet the demand in near future and even lead to surplus production, employment of secondary processes may not be necessary. This question will however be kept under constant review.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated] 14th October, 1968.]

Recommendation (Serial No. 28, Para 4.92 to 4.95)

The Committee are deeply concerned about upward revisions in the cost estimates of the lube project which have gone up from Rs. 5.89 crores to Rs. 14.40 crores. What is more disturbing is that Government are unable to guarantee that there will not be any further upward revision of the cost estimates. The Committee regret that this matter involving about 250 per cent increase in the cost estimates of the project had not even been brought before the Cabinet for their approval.

The Committee note that a number of items were omitted to be included in the original estimates. They recommend that a thorough enquiry by experts should be conducted into the reasons for these omissions so as to fix responsibility therefor. The Committee further recommend that such steep rises in the estimates should be got approved by the Cabinet.

The Committee are also unhappy to note that while more than a million dollars are to be paid by way of interest charges for the pre-start up period, the agreement does not provide for any liability for the delay on the part of the parties concerned. In this connection they note that there has been further increase in expenditure on account of the extension of work schedule and date of the completion (by nine months).

The Committee cannot but conclude that due care in drawing up the agreement, to safeguard the interests of the country which could have been taken was not taken.

Reply of Government

Noted.

2. The proposal to establish a lubricating oil plant was initially approved by the Cabinet in May, 1963 on the broad basis indicated by Government on 3rd May, 1963. The cost indicated in this proposal was about Rs. 7·10 crores (equivalent of $15 million) excluding working capital. In terms of Article 15 of the Formation Agreement dated 15th September, 1965, the estimates were subject to a detailed techno-economic survey being carried out by ESSO. In this survey the foreign collaborator estimated the cost at $15.80 million, which, expressed in rupees, after devaluation, would amount to Rs. 11·96 crores.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated] 12th November, 1968.]

3. In September, 1966, ESSO presented a revised project report and cost estimate. The cost of Rs. 14·53 crores indicated in this estimates reflected (a) the effect of devaluation and (b) certain design and process changes that had been subsequently thought necessary. On the basis of tenders received in regard to construction in April, 1967, the foreign collaborator presented a fresh estimate of about $ 22·32 million.

4. From the estimates as approved in September, 1967, it will be observed that the increase has been about 28 per cent over the one approved by the Cabinet. When the cost estimates are analysed in US dollars as presented by the foreign collaborators, of these increases, 9·7 per cent is due to additions and alterations in acilities, 4.5 per cent due to rupee devaluation, 12.4 per cent due to errors in cost estimation and about 1.4 per cent due to delay in completion date and other minor increases in

costs. The increase in costs has been referred to the Cabinet and has its approval.

Further information called for by the Committee

Please state whether responsibility for errors in cost estimates as well as lack of care in drawing up the agreement to provide for liability for delay in the completion of the refinery by the parties concerned, has been fixed. It may also please be stated whether any remedial measures to avoid recurrence of such omissions in the estimates as well as in the agreements have been taken. If so copies of instructions, if any, issued in the matter may please be furnished.

[Lok Sabha Secretariat O.M. No. 5/24/ECI|68, dated 22nd November, 1968.]

Reply of Government

In terms of the Formation Agreement cost estimation, preparation of techno-economic survey, revised project report, etc., were undertaken by Esso. While revising the cost estimates in 1966, Esso admitted errors in the previous estimates. The errors were committed by Esso, and it is not possible to take any action against them. The experience gained in this case will, no doubt, serve as a guide to the Government in any such agreements to be entered into in future.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 27th January, 1969.]

Recommendation (Serial No. 31, Para 5.13)

The Committee further note that one of the reasons for the cheapness of the crude imported by the Cochin Refinery is that they have made a tanker contract for transportation of crude at more favourable rates. There is a difference of over Rs. 5 per ton in the freight paid by Cochin Refineries which is Rs. 11·12 compared to Rs. 17·6 by Burmah-Shell and about Rs. 17 per ton by the Esso refineries. Calculating on the average saving on the import of over 6 million tonnes of crude by the Bombay refineries would amount to about Rs. 3 crores in foreign exchange. The Committee see no reason why the Bombay refineries cannot be asked to make similar arrangements for the transport of their crude as have been made by the Cochin Refineries.

Reply of Government

The matter relating to the Ocean freights payable on Crude imported has been under discussion with the Private Oil Companies since the beginning of the year. As a result of pursuance, the two oil companies *viz.*, Burmah-Shell and Esso, have agreed to change their basis for charging freight. In lieu of the AFRA rate charged for medium vessels in which the Crude is actually transported these two oil companies have agreed to charge the rates as for large vessels, irrespective of the fact that the Crude is being brought in medium vessels. Similarly the third Private Oil Company *viz.*, Caltex—has agreed to apply the Medium Vessels rates in lieu of the rate for smaller vessels in which their Crude is transported. This has resulted in less incidence of freight charged to Government. The foreign Exchange saving was sizeable and is anticipated to be of the order of about Rs. 1.8 crores.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968.]

Recommendation (Serial No. 38, Para 5.67)

The Committee regret to note that the emergence of the Indian Oil Corporation and the public sector refineries has not been able to make any impact on the price of petroleum products in the country as import parity has been the basis of pricing. According to Government, the position would not change so long as the principle of import parity continues to be applied. In the opinion of the Committee this principle of import parity, apart from standing in the way of bringing down the prices of petroleum products has resulted in under-recoveries of freight to the tune of about Rs. 2.29 crores during the last two years by the Indian Oil Corporation. It appears that the present system of import parity is more disadvantageous to the Indian Oil Corporation than to the private sector refineries as the figures under-recoveries by the private sector refineries were not made available to the Committee presumably because they were not quite comparable with those of the I.O.C. Further the present basis of pricing on import parity is anomalous as the price of petroleum products is more at Barauni *i.e.* the producing centre than at Calcutta as has been forcefully pointed out by the Committee on Public Undertakings in paras 79 and 82 of their 35th Report (Third Lok Sabha) on I.O.C. (Marketing Division). The Committee share the views of the Committee on Public Undertakings in this regard and recommend that Government should expeditiously find a way out of the anomalies pointed out by the Committee on Public Undertakings. The Committee consider that the refinery agreements with the coastal refineries should not stand in the way of any solution to this problem as the through put of the coastal refineries has been more than doubled since the conclusion of these agreements in 1951, and the original clause in this regard could at best be applicable to the original capacity.

Reply of Government

The entire question of the basis for pricing of petroleum products has been referred to a new Oil Prices Committee *vide* paragraphs 3(i) and 3(iv) of the Government Resolution No. 101(22)/68-PPD, dated 14th

June, 1968 (copy annexed with reply to S. No. 82 and Para 11.7) and will be reviewed after the report of the Committee is received. It may incidentally be pointed out that the object in setting up the Indian Oil Corporation was not to bring down the prices of petroleum products, the aim was to organise the refining and marketing of oil products in public sector enterprises. Besides, the reductions that have been effected in the past years in oil company net backs have been covered by correspondingly additional excise duties.

It may be observed that the under-recoveries of the private sector oil companies are also significant and comparable to India Oil Corporation's under-recoveries vide the followng detals:—

Statement showing under-recoveries of freight, etc., by Indian Oil Corporation Limited and other Private Companies

Period	Indian Oil Corporation Limited
	Rs. Lakhs
1964-65	68·92
1965-66	116·13
1966-67	11 .66

	Burma-Shell	Esso
	Rs. Lakhs	*Rs. lakhs*
1964	83·07	..
1965	97·14	143·0
1966	64·68	120·00
1967	124·73	76·00

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated] 14th October, 1968.]

Recommendation (Serial No. 39, Para 5.75)

The Committee are unhappy to note that the refining costs per tonne of the public sector refineries do not compare favourably with the corresponding costs of the private sector refineries. While this may partly be due to the higher capital cost sof the public sector refineries, there is enough scope for improvements in this regard. The Committee, therefore, enphsise upon the Government the need to reduce the operational costs of the refineries in the Punblic Sector and for this purpose they consider it rather essential that a periodical examination of the cost of production of these refineries should be conducted by an outside agency *i.e.* other than Indian Oil Corporation.

Reply of Government

The Refinery Companies in the Public Sector have been fully conscious of the need to reduce to the maximum extent possible the refining costs in these refineries. As a result of increased throughputs in the refineries and certain other economy measures, the refining costs have been reduced further in spite of the increase in the wages of the employees. The provisional figures for the year 1967-68 are given below:—

		Rs.
Gauhati	.. ..	26.66 per M.T.
Barauni	.. ..	39.09 per M.T.
Gujarat	.. ..	17.31 per M.T.

The above figures except for Barauni compare favourably with those of private sector refineries. The main reasons for higher refining cost at Barauni are high capital cost surplus labour and operation of the refiney at less than the designed throughput.

With a view to cutting down the refining costs still further, the Refineries will continue to exercise effective and efficient control on production and finances. If found necessary, experts would be engaged by them to advise them on these matters.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14th October, 1968.]

Recommendation (Serial No. 43, Para 6.7)

The Committee would also like the Government to explore the possibility of importing the entire crude requirements of the country through a single agency *viz.*, the I.O.C. as that would result in substantial economy because of the large scale bulk purchases involved. They hope that in the interest of reducing the drain on the foreign exchange resources of the country Government would make every effort to pursuade the oil companies to agree to the modification of their agreements to give up their rights of importing crude from their own sources.

Reply of Government

It is not possible to cancel or alter the Agreements that the Government of India have concluded for the supply of crude to the Cochin, Madras and Haldia Refineries. Similarly the three private oil companies would wish to stand by their right to import crude oil from their own sources. This recommendation will, however, be kept in view for appropriate action in the future as circumstances may permit.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord., dated 14th October, 1968.]

Recommendation (Serial No. 49, Para 7.13)

The Committee regret to observe that even though Government realise the need to modify the agreements with the oil refineries, particularly with regard to their right to import crude from their own sources, and the right to establish product prices on import parity basis, they have not yet been able to do so. The Committee are unable to understand why the Government did not avail themselves of the opportunity to modify the agreements when the oil companies approached them for permission to operate beyond their original licensed capacities from time to time. It is really surprising that the oil companies could go back from the understanding in regard to the modification of these agreements, particularly when viewed against the following background :—

(i) the refineries expanded their capacities to over 100 per cent., without obtaining any prior approval of Government which enables them to import larger quantities of crude;

(ii) these expansions in the capacities have resulted in large scale coastal movements of petroleum products in foreign tankers involving substantial expenditure of foreign exchange on freight.

Reply of Government

A review of the existing refinery agreements with the private oil companies was undertaken in 1959/1960 in order to obtain such modifications to these agreements as may be feasible. By about this time, the oil companies concerned agreed, as a result of the efforts made by Government, to voluntarily surrender the duty concessions admissible to them in terms of the agreements on petroleum products produced at these refineries. The surrender of these concessions was given effect to by these companies after availing of them for a few years only instead of the maximum period of ten years from the date of the commencement of commercial operation or 31st December, 1965, whichever is earlier, as indicated in the relevant agreements. The duty concessions realized by the refineries druring the period they enjoyed them amounted to Rs. 32·30 crores. But for this surrender, Government revenues would have further been affected to the extent of Rs. 50·57 crores.

2. As a result of a further review conducted in 1961/1962, the Burmah-Shell initially, and the other companies immediately thereafter,

offered to terminate the existing refinery agreements provided a basis acceptable to all concerned could be established. The Burmah-Shell proposal contained *inter alia* the following features:—

(a) Recognition of their then existing refining capacity of 3.5 million tonnes per annum;

(b) Freedom of choice to import crude oil from its own sources provided the company could satisfy the Government that the prices it pays are competitive;

(c) Accept an obligation to purchase at a fair price and to refine its share of any surplus of suitable quality indigenous crude arising after the producers of such crude have fully met their own needs;

(d) Recognition that they should have at all times adequate refining capacity in India to meet the needs of its marketing companies; the company would submit a proposal to expand its refinery from 3.5 million tonnes to 5.5 million tonnes and also a proposal for a lubricating oil manufacturing plant of a capacity of 1000,000 tonnes per annum.

(e) If the import parity pricing concept is not entirely satitsfactory to Government, discuss a suitable provision that, as an alternative, the refinery should be permitted to price its products at a level which would yield to it a return in the range of 8—12 per cent after tax on total capital employed and after recovery of all costs, expenses, duties, etc.;

(f) In the event of any other refinery operating on imported crude being granted terms more favourable than those granted to Burmah-Shell refinery at Bombay, these terms shall be made applicable also to latter;

(g) Subject to resolving certain fiscal difficulties and other complications, Burmah-Shell would like to transfer their existing marketing activities to a rupee company and also offer to Indian public a substantial interest in the equity capital, both of the refining as well as the modified marketing activities.

3. More or less similar proposals were submitted by ESSO and, to some extent, by Caltex. These were discussed with the representatives of the companies. It was decided that, after completion of the discussions with Burmah-Shell, the decision reached could perhaps be extended to cover the activities of the other companies. The discussions with Burmah-Shell were suspended in 1966 because it proposed conditions to govern the use of Government crude that will place Government in a far more difficult position than in enforcing the use of such crude oil

according to the terms stipulated in the refinery agreement. In the context of formulating a proposal for the establishment of a fertilizer project in Bombay, the Burmah-Shell have resumed discussions on matters connected with the termination of the existing refinery agreement as well as expanding the existing refinery. These discussions have not yet been completed. In the meantime, discussions with the other oil companies are also taking place.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated] 14th October, 1968.]

Recommendation (Serial No. 52) Para 7.26

The Committee are surprised that M/s. Duncan Brothers were allowed 2 per cent equity participation simply because they brought M/s. Phillips to the negotiation table and were their associates during the negotiations.

Reply of Government

In view of the offer of a portion of shareholding declared open to the Indian Public, the Government does not consider it objectionable to give a small share of 2 per cent to Duncans who played their part in bringing the collaborator to the negotiation table.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968.]

Recommendation (Serial No. 54) Para 7.41

The Committee are deeply concerned about the foreign exchange outgo during the next fifteen years on account of technical services fee for services and research outside India amounting to about Rs. 4·2 crores. They also note that in addition to this, the payments received in rupees for services in India which would amount to about Rs. 2·36 crores during the nine years may also be converted into foreign currency and can be taken out of the country. The Committee feel that these payments together with the share of M/s. Phillips in the process margin of the refinery will result in a substantial foreign exchange drain.

Reply of Government

A grief recapitulation of the offers leading to the conclusion of the agreement with Phillips Petroleum Company may help towards a fuller understanding of this agreement.

2. The propsal from Phillips Petroleum Company was receved slightly prior to the emergency conditions in India during November, 1962. While this was under examination, the Government decided in

the context of the emergency conditions, that a refinery of a capacity of about 2 to 2·5 million tonnes per annum should be established at a suitable place in South India, if possible, availing of Phillips' proposals. The broad details of the proposals as given by the Company, including the terms of the collaboration, payments for technical services, agency for crude supplies and transportation of crude oil and the broad financing patterns were referred to the Cabinet with an appreciation of the economics of the project. After examining the detailed note submitted by erstwhile Ministry of Mines and Fuel, the Cabinet felt that the comparative costs of the different refineries should be inquired into by the Planning Commission and that further negotiations with Phillips Petroleum Company should be conducted, associating the Cabinet Secretary and the Finance Secretary.

3. A further note prepared jointly by the Planning Commission and the administrative Ministry was thereafter submitted to the Cabinet and, after perusal, the Cabinet decided that the negotiations with Phillips Petroleum Company might be undertaken in accordance with the directive given by the Cabinet previously, *i.e.*, by a Negotiating Team associating the Cabinet Secretary and the Finance Secretary. The Negotiating Team headed by the Cabinet Secretary went into the relevant details of the various draft agreements; further discussions with Phillips Petroleum Company were conducted in such details and manner as indicated by the Negotiating Committee. The draft of these agreements were scrutinized by the Ministries of Finance and Law and thereafter referred to the Government Negotiating Team for concurrence. It was only after obtaining such concurrence that the drafts were submitted to the Cabinet for approval before execution. All these exercises took nearly a period of seven months.

4. It will be observed that technical services fees for services in India and abroad to be rendered by Phillips in terms of the agreement were part of the proposals which they had made and these were accepted after detailed examination. This was done at a stage when technical know-how and knowledge were still not available indigenously. At that stage, the only Government-owned refinery that was in operation was the Gauhati refinery built in collaboration with the Government of Rumania. Phillips' proposal, however, made a departure from the then known concept of Government owning the entire project inasmuch as the Cochin refinery pattern permitted not only major shareholding by the Government of India but also minority shareholding for the foreign collaborator including financial participation by other Indian nationals and institutions. This was the first such agreement in which a foreign oil company had agreed to participate with the Government of India conceding major shareholding rights to the Government and also conceding rights of distribution of products by the Government-owned marketing company. In

this background, the payment of a technical services fee to Phillips Petroleum Company would appear to represent a very small fraction of the capital assets created in the country and other advantages secured in furtherance of technical knowledge and experience.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated] 14th October, 1968.]

Recommendation (Serial No. 56) Para No. 7.69

The Committee consider the provision for the guaranteed process margin payable to Cochin Refinery as a distinctly disadvantageous feature of the Agreement which cannot be justified by the "desire of the Government to reach an agreement." In their opinion the process margin which now works out to about Rs. 80 per ton (post devaluation) and was about Rs. 50 per ton even in 1963 (pre-devaluation) when the agreement was entered into, is very high. The Committee feel that such a high guaranteed process margin will act as a disincentive to the company to make any effort to economise and to reduce their refining costs. This is borne out by the fact that while the refining costs in Gauhati and Gujarat Refineries are below Rs. 30 per ton (which are also higher than those of the private sector refineries), the refining cost of the Cochin Refinery are stated to have been budgetted at Rs. 55 per ton during 1967-68. In fact payment to the tune of Rs. 56,51,000 has to be made to the Cochin Refineries Ltd. on account of the shortfall in process margin in respect of the period from 26th May, 1967 to 31st August, 1967 for 3 months only. Thus the refining costs of this refinery are already higher by 100 per cent compared to the other refineries. The Committee further regret to note that there is no option with the Government to seek any change regarding the provision for process margin as is possible in the case of the supply of crude to the refinery where in 1970 the contract or the same is to be renewed.

Reply of Government

The refining costs at Cochin, budgetted as Rs. 55 per metric ton during 1967-68, included non-recoverable excise duty, which is not treated as a component in the calculation of refining costs by other refining companies including I.O.C. Out of the figure of Rs. 55, excise duty amounted to Rs. 28 per tonne, and thus, for comparative purposes, the refining cost at Cochin would be Rs. 27 per tonne, and compares favourably with other refineries. Results of the working of Cochin Refineries Ltd. during the first seven months on the budget year 1967-68, disclose that this has further come down to Rs. 23 per tonne.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated] 14th October, 1968.]

Recommendation (Serial No. 59) Para 7.79

The Committee have commented on the various clauses of this agreement *viz.* those relating to the import of crude, payments of technical fees to the foreign collaborators and payment of process margin. They feel that notwithstanding the foreign exchange that has been arranged by the foreign collaborators for the Refinery, the agreement is disadvantageous from an overall point of view. In the opinion of the Committee, Government have not been vigilant enough in weighing the advantages and disadvantages of the various clauses in this agreement. They would like that before entering into such agreements, in future Government should scrutinise them very carefully.

Reply of Government

In this connection, attention is invited to the reply to Recommendation No. 54.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)/68-Coord. dated 14th October, 1968.]

Recommendation (Serial No. 60) Paras 7.87—7.88

The Committee consider the Agreement for the setting up of the Madras Refinery as a definite improvement over the Agreement of the setting up of the Cochin Refinery in as much as the price and source of the supply of crude to this refinery has been fixed in definite terms and that the Managing Director of the New Company is a nominee of the Government of India in this case. They are also happy to note that the foreign exchange content of the cost estimates of this project is also much less than that of Cochin Refinery.

The Committee are, however, unable to appreciate why the Indian Oil Corporation which is responsible for running three public sector refineries has not been the Indian partner to this Agreement. They are glad to note that Haldia refinery has now been entrusted to the Indian Oil Corporation. They hope that this trend will be continued in future.

Reply of Government

Noted

One of the main consideration in the Haldia Refinery having been entrusted to the Indian Oil Corporation was that, like other refineries under the control of Indian Oil Corporation *viz.*, Gauhati, Barauni and Gujarat, Haldia Refinery will be owned entirely by the Government of India. Such is not the position in respect of the Madras Refineries where there are two foreign collaborators each having 13 per cent share capital.

It was therefore considered appropriate to form a separate public Company for construction and operation of the Madras Refinery so as not to offend the spirit and terms of the Formation Agreement. It may be noted that this Agreement casts certain obligations on the Government, the proper discharge of which, it was felt, would call for direct Government involvement in the management of the Company.

[Ministry of Petroleum and Chemicals O. M. No. 31(31)/68-Coord. dated 14th October, 1968.]

Recommendation (Serial No. 67) Para 8.34

The Committee note that there has not been any revision in the kerosene quotas for the States since 1st October, 1966 and that the same is proposed to be undertaken in May or June, 1968. From the qutoas allotted to the various States in October, 1966, the Committee note that there are wide disparities between the various States. The allotment to the coastal states, particularly to Maharashtra, West Bengal, Madras are much higher than to the more populous upcountry States or that warranted on their population basis. In the opinion of the Committee this may partly be due to the present system of supply areas and import parity pricing. Since kerosene is an essential commodity for the common man whether in the villages or the cities, the Committee strongly urge the Government to suitably rivise the kerosene quotas of the various States with particular reference to the population factor so that no hardship is experienced by the common man in the interior which is normally the case now.

Reply of Government

It is clarified at the outset that the State-wise allocation of kerosene has not in any way been influenced either by the present system of 'supply areas' or 'import parity pricing'. When kerosene State-wise allocations were fixed for the first time from 1st March, 1966, the basis adopted was the actual State-wise consumption in the year 1964. In that year, the kerosene supplies were freely available and there were no complaints of shortages. The year 1965 was abnormal for many reasons and was not therefore, taken into account. After the allocation had been fixed, some of the State Governments represented that they should receive a larger allocation of kerosene on population basis. The matter was carefully considered in the Ministry and it was felt that areas with an abundant supply of coal and fire-wood, even in periods of free availability of kerosene, have shown a marked preference for fuels other than kerosene. This conclusion was also reached by the field survey undertaken sometimes back by the National Council of Applied Economic Research. Even so, in deference to the wishes of the State Governments, it was decided to give 75 per cent weightage to the past consumption trends and a 25 per cent weightage to the population. In making increased allocations after 1st March, 1966, adjustments as necessary were made on this basis.

When the first State-wise allocations were made, effective from March 66, the total allocations were fixed at 1,90,300 tonnes. These have beer progressively increased to 2,32,460 tonnes, the last increase having been made effective from 1st March, 1968, on account of improved indigenous availability of the product.

It is felt that no purpose will be served by revising the State-wise Kerosene allocations either entirely on the basis of population or by giving a larger weightage than 25 per cent hitherto for this purpose. This conclusion has been arrived at on the basis of actual consumption of the product in the States whose allocations were increased on account of the 25 per cent weightage having been given to the population in 1966. Despite the abundant availability of kerosene it has not been possible for these States to consume the product upto the revised allocation. On the other hand, in the areas where kerosene is the first preference for cookin gand illumination purposes, the demand continues to be ahead of the State-wise allocations.

[Ministry of Petroleum and Chemicals O. M. No. 31(31)/68-Coord. dated 14th October, 1968.]

Recommendation (Serial No. 68) Para 8.35

The Committee note that distribution of kerosene is primarily the responsibility of the State Governments. Nevertheless it is the duty of the distributing companies to ensure that there are no malpractices in the distribution of this commodity by their agents. The Committee urge that the Government in consultation with the State Governments, should ensure that no inconvenience is felt by the people even in the remotest areas of the country is getting their supplies of kerosene which is an essential commodity of daily use.

Comments of the Committee

Adequate care is exercised by the Ministry of Petroleum & Chemicals to see that the kerosene supplies to States are, as far as possible made in accordance with the monthly allocations fixed from time to time. The State Governments have also been requested to sub-allocate their respective allocations as between the various districts within the State so that the product may be distributed equitably to all parts of the State. For this purpose the oil companies have instructions to fully cooperate with the State Governments. The State Governments have adequate statutory powers under the Essential Commodities Act to ensure the storage, transport and sale of kerosene in a fair and equitable manner. However, the

State Governments have once again been requested to review the present arrangements and to indicate such further assistance as they may require.

[Ministry of Petroleum and Chemicals O. M. No. 31(31)/68-Coord. dated 14th October, 1968.]

Recommendation (Serial No. 72, Para 9.6)

The Committee regret to observe that inspite of the recommendations made by the Oil Prices Enquiry Committee in 1961 and the Working Group on Oil Prices in 1965, heavy payments, amounting to approximately Rs. 1:6 crores are being made annually to their overseas offices by the various oil companies on account of services rendered. The payments made by the Burmah Shell and ESSO on this account are very heavy. The Committee see no justification for the payment of such heavy expenses. They are not convinced that such heavy payments are covered by the agreements concluded with these refineries. The Committee recommend that Government should take effective measures to drastically reduce payments on this account which would result in saving of foreign exchange considerably.

Reply of Government

In the information furnished to the Estimates Committee earlier, it had already been reported that during the year 1966, as a result of pressure exercised by Government on the oil companies, there had been a decrease in expenditure on account of payments to overseas offices by the Oil Companies. In 1967, there had been a further reduction of the order of nearly £ 93,000 in payments made by the oil companies on this account.

As in the past, the Oil Prices Committee is expected to look into this matter also in the course of its enquiry. On receipt of this report, Government will examine the feasibility of obtaining further reductions in these payments.

[Ministry of Petroleum and Chemicals O. M. No. 31(31)/68-Coord. dated 14th October, 1968.]

Recommendation (Serial No. 73, Para 9.12 & 9.13)

In the absence of a detailed break up of the total remittances, the Committee are unable to comment on the need or otherwise of the heavy remittances totalling over Rs. 394 crores made by the oil companies since 1962.

The Committee are rather surprised to note that Burmah Shell Refineries Ltd. alone remitted profits to the tune of over Rs. 30 crores upto 1966 while their foreign capital investment is stated to be about Rs. 14.53 crores only. They also note with concern that information regarding profits retained in this country by the foreign companies for further investment is not available with the Government. It clearly indicated that vital statistics regarding the break up of remittances by the oil companies as also amounts of retained profits are not maintained by Government. The Committee recommend that effective steps should be taken with immediate effect to maintain such important statistics and the foreign oil companies should be persuaded to reduce the quantum of remittances and to retain more and more profits earned in this country for further investment.

Reply of Government

According to the figures published by the Reserve Bank of India in Jan., 1967, the amounts of profits earned distributed and retained by foreign companies in the petroleum industry were as follows:—

(Rs. Crores)

	Profits *earned*	Profits *distributed*	Profits *retained*
1961	8·0	5·9	2·1
1962	8·4	8·0	0·4
1963-64	8·3	8·6	—0·3
1964-65	15·5*	6·7	*8·8

*Includes Rs. 6·7 crores representing transfer of excess depreciation to free reserves.

Steps have now been taken to obtain the breakup of remittances and the amount of profits retained by the oil companies.

As regards persuading the foreign companies to reduce the quantum of remittances, it may be pointed out that, in accordance with past assurances given at the highest level, Indian foreign exchange regulations permit unrestricted facilities for the remittance of profits, dividends and interest, Moreover, as a member of the International Monetary Fund, India is committed to permitting free remittance investments in India.

[Ministry of Petroleum and Chemicals O.M. No. 31(31)|68-Coord. Dated 14th October, 1968.]

CHAPTER IV

RECOMMENDATION IN RESPECT OF WHICH REPLY OF GOVERNMENT HAS NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 30, Para 5.12)

The Committee are concerned to note that though the private sector refineries had started processing of imported crude from 1954 onwards, no discounts on account of purchase of imported crude were allowed by them till June, 1960. According to the agreements with these refineries the purchases of the crude are to be made by them at world market prices for which foreign exchange is made available by Government. It was, therefore, the duty of the Ministry to ensure that the prices charged by these refineries for the import of crude were real market prices—as the giving of discounts is a normal market practice in the oil market, it is unfortunate that the Ministry did not keep itself posted with the latest price trends in the world oil market and did not press the refineries to allow the available discounts resulting in avoidable outgo of scarce foreign exchange. The Committee are unable to understand why even now, the rates of discount allowed by the coastal refineries are less than the minimum discounts recommended by the working Group on Oil Prices. It appears that Government are still unaware of the latest price trends in world oil markets and rates of discounts available. As the number of refineries based on imported crude is increasing and there are no immediate prospects of meeting the requirements of the refineries from indigenous crude, the Committee recommend that Government should take immediate measures to collect up-to-date information on the trend of oil prices in the world market including the discounts available from time to time and insist on the oil refineries to allow maximum discounts so as to reduce prices. In case the refineries are unwilling to do so, Government should not hesitate to make arrangements to procure their requirements of crude from the cheapest available source. Since the Indian Oil Corporation has already gained experience in importing petroleum products, it should not be difficult for them to arrange for the import of crude for the coastal refineries and to keep themselves posted with the latest price trends in world market. Considering the heavy imports of crude oil which are estimated at about Rs. 110 crores per annum by 1970-71, it is necessary to secure the maximum price advantage in the import of crude oil as the price reduction of a few cents per barrel would result in saving considerable foreign exchange.

Reply of Government

The discounts recommended by the WGOP three years ago and those actually available now on the different types of crude oils compare as under in relation to their f.o.b. costs:—

	WGOP DISCOUNTS	ACTUAL DISCOUNTS
(i) Aghajari	$ 0.40 per barrel	$ 0.41 per barrel
(ii) Kuwait	$ 0.30 per barrel	$ 0.28 per barrel
(iii) Khursaniya	$ 0.30 per barrel	$ 0.24 per barrel

There has been an increase in world demand for heavier crudes and a relative hardening of the prices for such supplies as compared to the prices of lighter crude. It may be noted that the bulk of the current imports from May-June, 1968 are of the Aghajari crude oil for which the discount available is higher than that recommended by WGOP. The discounts are reviewed by discussions with the Oil companies from time to time and the best possible arrangements are secured.

Government are already keeping in touch with possible published data regarding the existing discounts. Similar data are also made available, from time to time, by independent suppliers, who make offers for supply of crude oil to new refineries.

As for the suggestion that imports of crude oil should be made only through the Indian Oil Corporation Ltd., this does not seem feasible having regard to Govt. agreements underlying the public sector refineries at Cochin, Madras & Haldia and the other agreements with the private oil companies. The practicability of the suggestion will, however, be considered as opportunity offers in the future.

Comments of the Committee

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

APPENDIX I

(*Vide* Reply to Recommendation No. 20 in Chapter II)

No. 28(4)|68-Coord.

GOVERNMENT OF INDIA

MINISTRY OF PETROLEUM AND CHEMICALS

(Department of Petroleum)

New Delhi, the 5th June, 1968.

To

(All State Governments and Administrations of Union Territories)

SUBJECT:—Re-refining and sale of used lubricating and transformer oils.

Sir,

In continuation of this Ministry's letter No. 22(2)/66-Coord. dated 26th December, 1967 (See Enclosure). I am directed to say that the Estimates Committee (Fourth Lok Sabha) in its fiftieth report has made the following recommendation in regard to reclamation of used lubricating oils:—

> The Committee are happy to note that the Indian Institute of Petroleum, Research Designs and Standards Organisation, Ministry of Railways and Defence Research Laboratory (Materials), Kanpur, have successfully evolved methods for reclamation of used lubricating oils. Since lubricating oils are a deficit item in the country being imported at an average cost of Rs. 15 crores per year, the Committee strongly urge that the Government should expedite commercial exploitation of the process evolved by the above research organisations so that at least a part of the demand for lubricating oils is met from the used lubricating oils reclaimed in the country. While the Committee agree that cost of collection of used lubricating oils from over a large area tends to make the process uneconomical, they feel that it would not be uneconomical to establish such plants near the major industrial complexes in the country. Apart from saving in freight charges such a step will lead to ready availability of the lubricants so essential for the industrial machinery.

2. If actions have not already been initiated, the state Governments are requested to encourage the reclamation of used lubricating and transformer oils wherever possible and ensure the prevalent abuses are elminated by suitable legislative and other measures.

Yours faithfully

Sd|-

for S. R. SUNDARAM,

Deputy Secretary to the Govt. of India.

Copy for similar action, to all Ministries of the Govt. of India.

Copy for suitable action to:—

1) Indian Institute of Petroleum, P.O.I.I.P., Dehra Dun

*2) Director, Defence Research Laboratory (Materials), Kanpur—4

*3) Director General (Research), Research Designs and Standards Organisation (Metallurgical and Chemicals Wing), Chittaranjan (Distt. Burdwan).

*4) Secretary, National Research Development Corporation of India Ministry of Education, Mandi House, Lytton Road, New Delhi-1.

*with a copy of this Ministry's letter of 26th December, 1967 referred to above.

for S. R. SUNDARAM,

Sd|-

For Deputy Secretary to the Govt. of India.

Enclosure to Appendix

No. 22(2)/66-Coord.

GOVERNMENT OF INDIA

MINISTRY OF PETROLEUM AND CHEMICALS

(Department of Petroleum)

New Delhi, the 26th December, 1967.

To

(All State Governments and Administrations of Union territories).

SUBJECT:—*Re-refining and Sale of used Lubricating and Transformer Oils.*

Dear Sir,

I am directed to forward herewith a note on the reclamation and sale of used lubricating and transformer oils prepared by the Indian Institute of Petroleum. I am not say that the reclamation of used lubricating and transformer oils may be encouraged wherever possible and the prevalent abuses eliminated by suitable legislative and other measures. In this regard, the State Governments may kindly consider the various suggestions given in the enclosed note.

Please acknowledge receipt.

Yours faithfully,

Sd|-

for S. R. SUNDARAM,

Deputy Secretary to the Govt. of India.

NOTE RE:

RECLAMATION OF USED LUBRICATING AND TRANSFORMER OILS

With the expansion of the industry and the economy in general the consumption of these oils is fast increasing. With this, the quantity of used oils available for sale is also increasing. In some foreign countries where the reclamation of used oils is carried out on a large scale, it is estimated that about 10-15 per cent of used oils can be reclaimed. The importance of reclamation of used motor oils in view of the tight foreign exchange position and the fact that almost all the lubricating oils are being imported as yet is well known. At present India has to import approximately 400,000 tons of lubricants worth about 30 crores of rupees. Even if 10 per cent of these oils could be reclaimed, the saving in the foreign exchange will be of the order of Rs. 3 crores.

(2) The used oils are at present bought for different purposes which can be briefly described as under:—

(1) For use in the same condition by the building industry and for rough lubrication in bullock carts, hand carts, etc.

(2) For re-sale after crude cleaning and adulteration with new lubricating oils in the guise of new/original lubricating oils. The buyers of this type are adulterators who do not have the know how and are not equipped for the real process of re-refining. These people invariably clean these oils by crude process with the help of caustic soda or sulphuric acid which precipitates the sludge from these oils leaving the floating oils along with large quantities of free caustic soda or sulphuric acid as the case may be. Invariably, such alkaline or acidic oils are mixed with genuine new lubricating oils which are marketed as new lubricating oils at the companies' prices which enables them to bid high prices for used oils. Such oils, when used for lubrication will quickly attack and eat up the bearing metals of the engines for the safety of which they are really meant for. Thus, this adulteration of lubricating oils causes a great national waste by damaging new engines in industry and transport. In the

case of transformer oils, the used oils after treatment as above is decolourised and mixed with edible oils. The harm to the health of the population in this case needs no description.

3. To prevent misuse of used lubricating oils the State Government should make it mandatory for the re-refiner to obtain a certificate from the competent authority such as the Indian Institute of Petroleum, Dehra Dun, before he can market his product as an automotive lubricating oil of standard grades. Further, the Government can check adulteration activity by preventing the sale of used oils by big oil consumers to buyers who are not genuine re-refiners recognised by the Indian Institute of Petroleum at Dehra Dun or an equivalent authority. The Government can lay down as a matter of policy that all used oils sold by the Government and semi-government consumers of lubricating and/or transformer oils such as the State Transport, Electricity Board, P.W.D. and Municipalities, etc. are made only to authorised re-refiners who are duly certified by the Indian Institute of Petroleum or similar authority. Unless the used oils are thus channeled only to genuine re-refiners, the cost of re-refining (as compared to the cost of crude cleaning and mixing, to the adulterators) will always place the genuine re-refiners in disadvantageous position in the market for reclaimed used oils.

4. The process of re-refining is a highly technical process requiring specialised equipment and technical know-how and ivolves large capital outlay. Plants of organisations reclaiming used oils should be inspected by a competent authority and suitable parties given certificates as genuine re-refiners. Similar scrutiny may be done for organisations intending to set up reclamation units. Large users of lubricating oils (such as road transports etc.) can themselves set up re-refining units for their own use of reclaimed oils. The Indian Institute of Petroleum can assist such parties with setting up of plant, its commissioning and subsequent periodic checks of reclaimed oils. It may be made obligatory on organisation reclaiming used lube oils to be registered with the State Government after a certificate from the Indian Institute of Petroleum, Dehra Dun, or any other similar qualified body to be specified by the State Government, has been obtained by the re-refiner. Sale of reclaimed used oil for automotive purposes other than that certified by a competent authority should be prohibited and penalised by law. The same authority should also be authorised to make random checks of quality of products sold.

5. By translating the above suggestions into suitable laws and by taking appropriate action the State Government can greatly encourage the reclamation of used oils.

APPENDIX II

[*Vide* Reply to Recommendation No. 82 in Chapter II]

No. 101(22)/68-PPD

GOVERNMENT OF INDIA

MINISTRY OF PETROLEUM AND CHEMICALS

(Department of Petroleum)

New Delhi, the 14th June, 1968

RESOLUTION

The Government of India Resolution No. 101(26)/65-PPD, dated the 1st February, 1966, sets out the pricing arrangement for petroleum products, which is in force up to 31st December, 1968, and, may be extended for such further period as may be decided upon by the Government.

2. The Government of India has now decided to set up a Committee to determine the ceiling selling prices ex-companies' storage points of various petroleum products in India, to be applied from the date of termination of the existing arrangement.

3. The Committee will examine and report upon—

(i) the determination of the ex-refinery prices of refined petroleum products, including bitumens, produced by the refineres, whether on the basis of import parity as hitherto or by the adoption of the cost of production as the basis, or in any other appropriate manner, with due regard to the Government assurances having a bearing on the subject;

(ii) with reference to (1), the feasibility of introducing uniform prices all-India or on a regional basis;

(iii) the determination of landed prices in respect of similar products which may be imported;

(iv) the feasibility of making all refineries (including the inland refineries) as the pricing points and the measures to be adopted to ensure that interests of the inland refineries are not adversely affected in consequence of the adoption of such a principle, regard, in this connection, being had to the basis of pricing indigenous crude;

(v) the determinatin of marketing and distribution charges and profit on the marketing operations and their allocation to the products mentioned in (i) and (iii) above, due account being taken also of the experience of the IOC in this behalf;

(vi) the determination of the ceiling selling prices in respect of lubricating oils, greases and specialities; and

(vii) the determination of the rates of dealers' commission in respect of Motor Spirit and High Speed Diesel Oil, with due regard to the representation of the Federation of the all India Petroleum Traders.

4. The Committee will ascertain and take into consideration the views of the State Governments and other interests concerned as may be found desirable.

5. The composition of the Committee will be as follows:—

Chairman

(i) Shri Shantilal H. Shah, Member, Lok Sabha, Janmabhoomi Bhawan, Ghogha Street, Fort, Bombay-1.

Members

(ii) Shri B. N. Adarkar, Deputy Governor, Reserve Bank of India, Central Office, Bombay-1.

(iii) Dr. B. Natarajan, Dy. Director General, National Council of Applied Economic Research, Parisila Bhavan, 11-Indraprastha Estate, New Delhi-1.

(iv) Shri N. Krishnan, Chief Cost Accounts Officer, Ministry of Finance, (Department of Expenditure), New Delhi-1.

6. Shri N. R. Law of the Ministry of Petroleum and Chemicals will serve as the full-time Secretary to this Committee, with *ex-officio* status of Deputy Secretary to the Government of India. All secretariat assistance, as required by the Committee, will be provided by the Ministry of Petroleum and Chemicals.

7. The Committee's Head quarters will be at New Delhi.

8. The Committee will meet as often as may be considered necessary by the Chairman and shall submit its report to Government by the 31st December, 1968, or as soon as possible thereafter.

MADHAB V. RAJWADE,

Joint Secy. to the Government of India.

ORDER

Ordered that this Resolution be communicated to all the Ministries of the Government of India all the State Governments, Prime Minister's Secretariat, Cabinet Secretariat, Private and Military Secretaries to the President, the Planning Commission, the Comptroller & Auditor General of India, the Accountant General, Commerce, Works and Miscellaneous, and Accountant General Central Revenues.

Ordered also that the Resolution be published in the Gazette of India for general information.

MADHAB V. RAJWADE,

Joint Secy. to the Government of India.

To,

The Manager,

Government of India Press,

FARIDABAD.

APPENDIX III

(*Vide* Introduction)

Analysis of the action taken by the Government on the recommendations contained in the 50th Report of the Estimates Committee (Fourth Lok Sabha)

I.	Total Number of Recommendations.	82
II.	Recommendations which have been accepted by Government (*Vide* recommendations at S. Nos. 1, 2, 5, 6, 7, 8, 9, 10, 11, 15, 16, 17, 18, 19, 20, 21, 24, 25, 26, 27, 29, 32, 33, 34, 35, 36, 37, 40, 41, 42, 44, 45, 46, 47, 48, 50, 51, 53, 55, 57, 58, 61, 62, 63, 64, 65, 66, 69, 70, 71, 74, 75, 76, 77, 78, 79, 80, 81, 82) . .	
	Number	59
	Percentage to total	73
III.	Recommendations which the Committee do not desire to pursue in view of Government's reply (*vide* recommendations at S. Nos. 3, 4, 12, 13, 14, 22, 23, 28, 31, 38, 39, 43, 49, 52, 54, 56, 59, 60, 67, 68, 72, 73).	
	Number	22
	Percentage to total	26
IV.	Recommendation in respect of which replies of Government have not been accepted by the Committee (*vide* recommendation at S. No. 30).	
	Number	1
	Percentage to total	1

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