

**ESTIMATES COMMITTEE  
(1969-70)**

**HUNDRED AND FIFTH REPORT**

**(FOURTH LOK SABHA)**

**MINISTRY OF PETROLEUM AND CHEMICALS  
AND MINES AND METALS**

**(DEPARTMENT OF PETROLEUM & CHEMICALS)**

**Action taken by Government on the recommendations  
contained in the Fifty-First Report of the Estimates  
Committee (Fourth Lok Sabha) on the erstwhile  
Ministry of Petroleum and Chemicals  
Oil India Limited**



**LOK SABHA SECRETARIAT  
NEW DELHI**

*February, 1970/Magha, 1891 (Saka)*

*Price : Re. 0.75*

17051

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			23.	M/s. Mukherji Book House, 8B, Duff Lane, Calcutta-6.	4

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(iv)

SECRETARIAT

Shri B.B. Tewari—*Deputy Secretary*

Shri Y. Sahai—*Under Secretary*.

STUDY GROUP 'E'  
ESTIMATES COMMITTEE)  
1969-70

CONVENER

Shri Arangil Sreedharan

MEMBERS

2. Shri S.A. Agadi
3. Shri R.S. Arumugam
4. Shri Bedabrata Barua
5. Shri Brijraj Singh Kotah
6. Shri Bhanudas Ramchandra Kavade
7. Shri Samarendra Kundu
8. Mahindra Bahadur Raja Kamakhya Prasad Singh Deo
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14. Shri Tula Ram
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.

# CHAPTER I

## REPORT

### LIMITATION OF SUBSIDY

#### Recommendation (Sl. No. 24, Para 3.67)

The Committee had, in para 367 of their 51st Report on the Ministry of Petroleum and Chemicals—Oil India Limited, noted the assurance given by the Secretary of the Ministry that Government would start recouping the subsidy paid by them to Oil India Limited from 1969 onwards. The Committee considered that since Government had already paid heavy subsidies amounting to Rs. 18 crores under the pricing formula, it would appear to be appropriate that the recoupment of the amount paid was made as early as possible. The Committee had, therefore, suggested that the feasibility of limiting the net return to the Oil India Limited to 9% till the full recovery of subsidy, might be examined. In the opinion of the Committee this course was reasonable as the net return of investment in oil industry even in Middle-East where oil potential was large was stated to be a little over 11% during recent years.

2. In their reply, Government have stated that under Clause 9 of the Second Supplemental Agreement, Oil India is entitled to declare a net dividend ranging from a minimum of 9% to a maximum of 13% after payment of all taxes. According to them, if the net return from Oil India Limited to be restricted to 9% till the subsidy is fully recovered, it will require an amendment of the Second Supplemental Agreement which can be done only with the approval of the Burmah Oil Company Limited. Government feel that as the Burmah Oil Company has also paid subsidies to Oil India Limited during the initial years when the price of crude purchased by Assam Oil Company was high, the Burmah Oil Company are unlikely to agree to any such proposal.

3. Explaining further, Government have stated that as a result of devaluation of rupee, the return to the Burmah Oil Company Limited in terms of sterling has gone down considerably, *e.g.*, before devaluation, the minimum return of 9% would have yielded 9.45 lakhs to the Burmah Oil Company Limited whereas at the present rate of exchange, the return of 13% will yield only £10.11 lakhs to the Burmah Oil Company Limited. Taking all these factors into account Government have come to the conclusion that the above recommendation of the Committee is not a feasible proposition.

4. The Committee are not convinced with the pleas put forward by the Government against limiting the net return to the Oil India Limited to 9% till the recovery of heavy subsidies already paid. While reiterating their recommendation, the Committee feel that Government should take the initiative in this regard and, if necessary, get the relevant clause of the Second Supplemental Agreement suitably amended after a dialogue with the Burmah Oil Company Limited.

### **Recommendation (Serial No. 10, Para 2·40)**

The Committee are glad that the Oil India Ltd. has been in a position to supply crude at the stipulated quantity to the Gauhati and Barauni refineries. They regret that the shortfall in production has been due to the inability of these refineries to operate at their rated capacities.

#### **Reply of Government**

The recommendation/observation made by the the Estimates Committee has been noted.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### **Recommendation (Serial No. 11, Para 2·52)**

The Committee regret to note that on account of the teething troubles of the Gauhati Refinery and the inordinate delay in the commissioning of the Barauni Refinery, the offtake of crude from Oil India Ltd. was reduced considerably during the years 1962 to 1966 which resulted in the payment of heavy subsidies to the Oil India Limited. It is unfortunate that the initial difficulties in the commissioning of the refineries which were new industries in the public sector, were not anticipated by Government at the time of entering into the Second Supplemental Agreement. The Committee are surprised that neither the Indian Refineries Limited which was responsible for the Commissioning of the Barauni Refinery nor the Administrative Ministry concerned became aware of the delays of about 2 years in the commissioning of the first phase of the Barauni Refinery, in July, 1961 when the Second Supplemental Agreement was entered into. Considering that practically all public sector projects have experienced delays in commissioning and suffered from teething troubles, the optimism of the Government that the public sector refineries at Gauhati and Barauni would start functioning and achieve their rated capacity on schedule, was hardly justified. The Committee feel that this is no hindsight. It has been the general experience of Government that delays occur in the setting up of public sector projects. Government could have been more careful in assuming that the refineries would be commissioned in time and would be in a position to take supplies of crude at the stipulated rates. This aspect has assumed particular importance in this case as the delays in commissioning of the refineries have resulted in payment of heavy subsidies to the Oil India Limited, which could have been avoided.

#### **Reply of Government**

The recommendation/observation made by the Estimates Committee has been noted.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### **Recommendation (Serial No. 12, Para 2·55)**

The Committee have already recommended intensification of exploration work in Dum Duma and Ningru areas in Assam and NEFA where the prospects of finding oil are considered to be bright. They hope that with determined efforts it would be possible to find reserves of oil in these

areas which would enable additional crude supplies to be made to the Barauni refinery. The Committee urge in the meantime Oil India Ltd. and Oil & Natural Gas Commission together should make concerted efforts to increase their output of crude so as to meet the full requirements of 3 million tonnes of crude for Barauni refinery by indigenous supplies.

### **Reply of Government**

The recommendation has been noted and attention of both the Oil & Natural Gas Commission and Oil India Limited has been drawn to the Para.

[Ministry of Petroleum and Chemicals O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### **Further information called for by the Committee**

The specific steps taken pursuant to the recommendation and the progress made so far may please be intimated to the Committee.

[LSS O.M. No. 4/24 (c) ECI/67 dated 9.12.68]

### **Further Reply of Government**

Oil India Limited is in a position to supply 2 million tonnes of crude per annum to the Barauni Refinery. On the basis of techno-economic schemes drawn up by the Oil & Natural Gas Commission for the development of Rudrasagar and Lakwa fields and the exploratory work undertaken by it in other areas of Assam, the optimum production by the Commission is expected to be of the order of 1.45 million tonnes per annum which can be made available to the Barauni/Gauhati Refineries. Out of this quantity of 1.45 million tonnes per annum, Oil and Natural Gas Commission have already been enabled to transport @ 0.25 million tonnes per annum of their crude through the extra marginal capacity of Oil India Limited's pipeline. The pipeline capacity has to be further stepped up and suitable action has been initiated in that direction. For transporting the waxy Oil and Natural Gas Commission's crude, it will have to be conditioned before it is pumped from Moran and Oil India Limited has been asked to consider expanding the capacity of its present crude oil conditioning plant. This process has also been initiated.

[Ministry of Petroleum and Chemicals and Mines and Metals, (Department of Petroleum) D.O. No. 2/20/68-Prod. dated the 24th March, 1969.]

### **Recommendation (Serial No. 13, Para 2-62)**

The Committee are happy to note that the Crude Conditioning Plants of the Oil India Ltd. are the first of their kind in the World and have been in operation for the last four successive cold weather period without giving any trouble.

### **Reply of Government**

The recommendation/observation made by the Estimates Committee has been noted.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]



### **Further Reply of Government**

As already stated in paras 2·84, 2·86 and 2·87 of the Estimates Committee Report (51st Report) there would be little or no surplus high pressure gas available with Oil India Ltd. when the projects/industries to which the available gas has been committed start lifting their full quota and the proposed expansion of the Namrup Fertiliser plant is completed in 1972-73. The utilisation of gas has since increased appreciably from 12·5 m. cft./day reported earlier to 22·78 m. cft/day.

[Ministry of Petroleum & Chemicals O.M. No. 2/20/68-Prod. dated the 15th January, 1969.]

### **Recommendation (Serial No. 27, Para 3·85)**

The Committee note that the payments on account of the services rendered by Assam Oil Company to Oil India Limited have come down from Rs. 95·71 lakhs in 1960 to Rs. 7·38 lakhs in 1966. They hope that these payments will be kept to the absolute minimum.

### **Reply of Government**

The recommendation/observation made by the Estimates Committee has been noted.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### **Recommendation (Serial No. 28, Para 3·88)**

The Committee note that the Oil India Limited has paid over Rs. 6 crores to the Assam State Government on account of Mining lease and Exploration licence fees and royalty.

### **Reply of Government**

The recommendation/observation made by the Estimates Committee has been noted.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20 68-Prod. dated the 7th November, 1968.]

### **Recommendation (Serial No. 30, Para 3·96)**

The Committee note that under the Companies Act, 1956, the Comptroller and Auditor General (C. & A.G.) is not responsible for the audit of the accounts of the companies which are not Government companies. Oil India Limited is not a Government company as defined in the Companies Act, 1956 and hence its accounts are not audited by the Comptroller and Auditor General of India. The Committee feel that as Government holds 50 per cent shares in Oil India Limited and has invested Rs.14 crores in the share capital of this company and has paid over Rs. 18 crores as subsidy, it would have been appropriate for Government to have the accounts of the company audited by the C. & A.G. before the payment of subsidies. The Committee have already recommended that the accounts of the company since 1962 may be examined by Government auditors. The Committee

further feel that Government should consider the advisability of getting the accounts of companies where they hold 25 per cent or more shares and where the investment exceeds one crore, test audited by the C. & A.G.

### **Reply of Government**

The general question of the audit by the Comptroller and Auditor General of the accounts of companies in which Government have less than 51 per cent share holding is under consideration of Government.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### **Recommendation (Serial No. 31, Para 4.6)**

The Committee note that except the Chairman and the Financial Director, the other nominees of the Government on the Board of Directors of Oil India Ltd. have held office for short periods. The Committee consider that it would be advantageous if the Directors hold office for minimum of three years. They, therefore, urge that at the time of appointing their nominees on the Board of Oil India Ltd., Government should keep this aspect in view.

### **Reply of Government**

The suggestion made by the Estimates Committee has been noted.

[Ministry of Petroleum and Chemicals O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### **Further information called for by the Committee**

Please state specifically whether the Government has accepted the recommendation of the Committee in principle and if so, whether the recommendation made has been kept in view at the time of appointment of Government's nominees on the Board of Directors appointed after the submission of the Committee's report.

[LSS O.M. No. 4/24/(c) ECI/67 dated 9-12-1968]

### **Further Reply of Government**

The recommendation is acceptable in principle to Government subject to administrative convenience. After the submission of the Estimates Committee Report, no new nomination to the Board of Directors of Oil India Ltd. has been made by Government.

[Ministry of Petroleum and Chemicals O.M. No. 2/20/68-Prod. dated the 15th January, 1969.]

### **Recommendation (Serial No. 32, Para 4.7)**

The Committee further suggest that it would be advisable if a technical member of the Oil and Natural Gas Commission is also represented on the

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Board of Directors of Oil India Ltd. as a Government nominee so that both the organisations may benefit from each others' experience in the field of exploration and production of oil.

### Reply of Government

The recommendation made by the Estimates Committee has been noted.

[Ministry of Petroleum and Chemicals O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### Further information called for by the Committee

Please state specifically whether the Government have accepted the recommendation of the Committee in principle and if so when it would be possible to nominate a technical member of the Oil and Natural Gas Commission on the Board of Directors of the Oil India Limited.

[LSS O.M. No. 4/24(c)ECI/67 dated 9-12-1968.]

### Further Reply of Government

Government have accepted the recommendation of the Committee and have nominated Shri B.S. Negi, Member (Exploration) of Oil and Natural Gas Commission on the Board of Directors of Oil India Limited.

[Ministry of Petroleum and Chemicals and Mines and Metals, Department of Petroleum, D.O. No. 2/20/68-Prod. dated the 24th March, 1969.]

### Recommendation (Serial No. 33, Paras 4·9 and 4·10)

The Committee consider that the presence of most of the Directors of the Company at Delhi, particularly the Managing Director and Financial Director, is the main reason for holding the meetings of the Board here. This has naturally resulted in the setting up of a big office at Delhi to provide secretarial assistance to these functionaries. The appropriate place for a Managing Director and Financial Director is the headquarters of the Company. The holding of meetings of the Board at Duliajan will not only eliminate the avoidable visits of persons from Assam to Delhi in connection with such meetings but will also provide opportunities to the Directors to be in touch with what goes on actually in the field.

The Committee, therefore, consider it desirable that normally meetings of the Board of Directors of Oil India Ltd. should be held at the registered office where full assistance of the personnel concerned of the Company will be available readily. Meetings at places outside the registered office should be held only in exceptional circumstances.

### Reply of Government

The need to continue to have the offices of both the Managing Director and Financial Director at New Delhi has been explained in the reply to Recommendation No. 42.

¶ 2. The question regarding the venue of the Board meetings was referred to the Board of Directors of Oil India Limited. After careful consi-

deration of the various aspects of the question, the Board has decided that in future one third of the meetings of the Board would be held at the registered office of the Company *i.e.* Duliajan.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968].

**Recommendation (Serial No. 34 & 42 Paras 4.20 & 4.49)**

*Recommendation No. 34*

The Committee consider that the duties of the Financial Director are onerous and very responsible. These are more so in this Company which is a joint venture and where Government have invested Rs. 14 crores in equity capital and has given heavy loans. The Committee are unable to appreciate how a part-time Financial Director operating from Delhi, could devote the time and attention, required for the proper and closer supervision over the financial matters of this Company. They note that the Financial Director could not visit the Company's headquarters since June, 1963. The Committee are not convinced by the contention of Government that they appointed part-time Financial Director because the Burmah Oil Company had also appointed a part-time Managing Director. In the opinion of the Committee, a whole-time Financial Director alone can effectively discharge the onerous functions expected of him. The Committee recommend that early action should now be taken by Government to appoint a whole-time Financial Director at the headquarters of the Company.

**Reply of Government**

The recommendation of the Estimates Committee has been noted. Reply to Recommendation No. 42 may also kindly be seen in this connection.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

*Recommendation No. 42*

The Committee also feel that the location of the office of the Managing Director and Financial Director of the Company at a place different from its Headquarter is not conducive to efficiency and economy and is contrary to normal industrial practice. Such an arrangement leads to duplication of technical and other staff at Delhi. The Committee have already recommended the stationing of these officers at the Headquarters of the Company in the interest of effective supervision and economy.

**Reply of Government**

The view expressed by the Estimates Committee that the offices of the Managing Director and Financial Director should be in Duliajan has been considered carefully.

The Managing Director is mainly concerned with deciding policy in respect of all the aspects of the Company's operations. This process necessitates regular consultations with representatives of the shareholders of the Company (*viz.* the Government of India and the Burmah Oil Company)

who are located at Delhi as well as with the Chairman and the Board of Directors. Government is able to exercise the requisite control over the operations of Oil India Limited through these regular contacts and discussions. On the basis of past experience, the stationing of the Managing Director at Delhi is considered useful. As there is an experienced Resident Director at the field Headquarters *viz.* Duliajan, who implements the decisions of the Board, the stationing of Managing Director at Delhi does not affect the day to day operations of the Company at the field. Besides the Managing Director is in constant touch with the Headquarters at Duliajan and this has proved effective during the last ten years.

2. As regards the Financial Director, who is Government of India's nominee and is a Joint Secretary in the Ministry of Finance, he is necessarily involved in each and every decision of the Company, and, therefore, of the Managing Director, and hence it is considered necessary that he should be in Delhi to be fully effective. From the Government's side also, the existing arrangement has proved, during the last ten years, to be a satisfactory one. Under the system in force, the financial control of the day-to-day expenditure of the Company and preparation of the accounts etc. has been delegated to the Financial Controller, who is at Duliajan.

3. The shareholders have agreed that the appointment of the Managing Director and Financial Director as whole-time functionaries would be considered at an appropriate time in the near future.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O. M. No. 2 20 68-Prod. dated the 7th November, 1968.]

#### **Further information called for by the Committee**

It has been stated that "the shareholders have agreed that the appointment of the Managing Director and Financial Director as whole-time functionaries would be considered at an appropriate time in the near future." Please indicate the progress made in this regard so far.

(LSS O.M. No. 4/24(c) ECI '67 dated 6.12.1969)

#### **Further reply of Government**

Both the Managing Director and Financial Director of Oil India Limited have since been appointed as whole-time functionaries in pursuance of the recommendations of the Estimates Committee.

[Ministry of Petroleum and Chemicals and Mines and Metals (Department of Petroleum) O.M. No. 2 20 68-Prod. dated 23rd March, 1969.]

#### **Recommendation (Serial No. 35, Para 4 21)**

The Committee suggest that when the next review regarding provisions relating to the appointment of Managing Director and Financial Director is made in 1968, the Managing Director, if appointed by Government, should be a whole-time employee, located at the Headquarters of the Company in Assam.

### Reply of Government

Noted. Reply to Recommendation No. 42 may kindly be seen in this connection.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### Recommendation (Serial No. 38, Para 4-31)

The Committee realise that Government have no authority to issue any directions to Oil India Limited regarding its administrative and management affairs as it is joint venture. The Committee, however, feel that since Government are equal partner in this venture, it is necessary that policies of Government particularly with regard to scales of pay to the employees, scales of amenities etc. are reflected in the working of such companies. To ensure this apart from appointing whole-time Directors, Government should also consider the advisability deputing some Government officers in top positions in the managerial and financial cadres of such companies. The Committee feel that this arrangement would be to the mutual benefit of both the parties.

### Reply of Government

The recommendation observation made by the Estimates Committee has been noted.

[Ministry of Petroleum and Chemicals O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### Further information called for by the Committee

Please indicate precisely the steps taken by the Government pursuant to the Recommendation of the Committee (LSS O.M. No. 4/24/(c) ECI/67 dated 9-12-68).

### Further reply of Government

There are at present no vacancies in the top management financial posts in Oil India Limited. The question of deputing suitable officials from Government will be considered when a vacancy arises. As regards scale of pay etc. of the employees of Oil India Limited, the position has been fully explained in this Ministry's reply to point No. 34 in the list of points arising out of oral evidence given before the Estimates Committee.

[Ministry of Petroleum and Chemicals O.M. No. 2/20/68-Prod. dated the 15th January, 1969.]

### Further information called for by the Committee

It has been stated that "there are at present no vacancies in the top management/financial posts in Oil India Limited. The question of deputing suitable officials from Government will be considered when a vacancy arises. As regards scales of pay etc. of the employees of Oil India Limited,

the position has been fully explained in this Ministry's reply to point No. 34 in the list of points arising out of oral evidence given before the Estimates Committee." Please indicate the latest position in this regard.

(LSS C. M. No. 4/24 (c) ECI/67 dated 6.12.69)

### **Further reply of Government**

The posts of the whole time Financial Director and Secretary of OIL have since been filled by deputing Government officials. Another Government official has been deputed as Financial Adviser of the Company.

[Ministry of Petroleum and Chemicals and Mines and Metals (Deptt. of Petroleum) O.M. No. 2/20/68-Prod. dated 23-12-1969.]

### **Recommendation (Serial No. 41, Para 4 48)**

The Committee note that the share of Oil India Ltd. in the expenditure on outside offices in New Delhi and Calcutta worked out to Rs. 8.40 lakhs and Rs. 5.86 lakhs respectively during the year 1966. The Committee are not convinced of the need for the Oil India Limited to have big offices at New Delhi and Calcutta with such heavy expenditure. One of the main reasons given in support of having an office in New Delhi is that Board meetings of the Oil India Limited are generally held in Delhi and that the Managing Director and Financial Director are stationed at Delhi. The Committee have already recommended that the Board meetings should invariably be held at the Headquarter of the Company in Assam.

### **Reply of Government**

Reply to Recommendations No. 33 and 44 may kindly be seen in this connection.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### **Recommendation (Serial No. 44, Para 4.51)**

Similarly the reasons given for having a big office of the Oil India Limited at Calcutta are not convincing. The Committee feel that there is considerable scope for economy in the expenditure of Calcutta office as many of its functions can be performed through specialised agencies. The Committee therefore recommend that the organisational set-up and the staff strength of the Calcutta office need to be reviewed with a view to effect economy.

### **Reply of Government**

The Calcutta office performs the undermentioned functions :

- (1) It arranges all local purchases, inspection of material before despatch, customs clearance, warehousing and despatch to up-country destinations.
- (2) It keeps abreast of the manufacturing facilities available from the point of view of import substitution and quality control.

- (3) It handles all imports, their clearance, documentation and transportation, liaison with the Port Commissioners, and Railways, to ensure prompt despatches.
- (4) It makes travel arrangements for company personnel and families (average 9 persons a day). All teleprinter and telex traffic between Assam/Delhi is routed through the Calcutta office.

The peculiar feature of oilfield requirements needs specialised knowledge. Roughly material worth Rs. 2 crores is purchased annually from the Calcutta market. It is not considered desirable by Oil India Limited to entrust such large business to any outside agency which will not have the same interest as Oil India Limited in effecting economy or in expeditious disposal/despatch. The existing arrangement is considered efficient. However, the question whether any further economy can be effected in the Calcutta office without affecting its efficiency will be examined by Oil India Limited.

[Ministry of Petroleum and Chemicals O.M. No. 2/20/68-Prod. dated 7-11-1968.]

#### **Further information called for by the Committee**

Please state precisely whether any action to review the organisational set up and the staff strength of the Calcutta office with the object of affecting economy has been initiated

[LSS O.M. No. 4/24 (C) ECI/76 Dated 9-12-1968.]

#### **Further reply of Government**

The feasibility of effecting further economy in the Calcutta Office of OIL was taken up with Oil India Ltd. In reply, OIL has advised that a decision has been taken to arrange an O&M type of study of the Calcutta Office by a suitable consultant shortly.

[Ministry of Petroleum and Chemicals and Mines and Metals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated 13-6-68]

#### **Recommendation (Serial No. 47, Para 4.62)**

The Committee are happy at the progress as achieved in the matter of Indianisation of the Oil India Limited. They hope that complete Indianisation of the posts in Oil India Limited will be achieved as early as possible.

#### **Reply of Government**

The recommendation has been noted.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]



**Recommendation (Serial No. 48, Para 4.64)**

The Committee agree that there is need for providing housing facilities to its employees by Oil India Limited. They feel that in the construction of houses utmost economy should have been observed. They hope that this aspect will be kept in view in future.

**Reply of Government**

Oil India Limited has been advised to keep this recommendation in view when sanctioning expenditure for future constructions.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

## CHAPTER III

### RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

#### Recommendation (Serial No. 1, Para 1.18)

The Committee note that Government secured equity participation of 33½% in Oil India in 1958 which was subsequently increased to 50% in 1961 at the time of granting Petroleum Exploration Licences over an additional area of 1886 sq. miles to that Company. The Committee consider that in terms of Industrial Policy Resolutions of 1948 and 1956, Government should have insisted upon securing majority participation with private enterprise in Oil India *i.e.* 51% instead of the existing 50% share as 'Mineral Oil' are included in Schedule 'A' industries in the Industrial Policy Resolution, 1956.

#### Reply of Government

As already stated before the Estimates Committee (kindly refer to Para 1.16 of the Report), the Government of India had invited various international oil companies to submit proposals for collaboration and co-operation in intensifying the search for oil in the country. In response thereto specific proposals from eight International Companies were received. The maximum equity participation offered to Government was only 50%.

In spite of the known aversion of 'major' companies to sharing the right of management with Government, an attempt was made by the Government to acquire majority share holding in the new areas offered to Burmah Oil Company for exploration but The Burmah Oil Company did not agree to this proposal. However, as a result of negotiations, the Government of India was able to secure 50:50 participation with Burmah Oil Company in Oil India Limited *in the new areas* (1886 sq. miles as well as in the areas (Nahorkatiya, Nahorkatiya Extension Moran and Hoogrija) already Lensed/Licensed earlier to Oil India Limited. The Industrial Policy Resolution of 1956 provides that the State will ensure either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking. Accordingly while agreeing to equal share holding, the Government of India ensured that the following stipulations which gave Government the powers to guide the policy and control the operations, were provided in the Second Supplemental Agreement :—

- (i) The Financial Director is nominated by Government of India.
- (ii) The Chairman is nominated in alternate years by Government of India and The Burmah Oil Company.

- (iii) The decisions of the Board of Directors (which consists of 8 directors—four nominated by Government of India and four by The Burmah Oil Company) are taken on the basis of unanimity.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20 68-Prod. dated the 7th November, 1968.]

#### **Recommendation (Serial No. 2, Para 1.19)**

In the opinion of the Committee, a geophysical licence held by the Assam Oil Company in pre-independence days did not automatically entitle them to a prospecting licence. After the attainment of Independence such licensing or change in type of licence was subject to the provisions of the Industrial Policy Resolutions, 1948 and 1956, which enjoined majority participation by Government or other measures so that Government had the requisite powers to guide the policy and control the operations of undertakings in such ventures. The Committee are unable to find any justification for the grant of exploratory licence over an additional area of 1886 sq. miles in Assam and NEFA which is stated to be a promising area—to Oil India Ltd. in 1961 merely on the ground that it secured 50% participation in the Company. This is all the more regrettable as the Oil and Natural Gas Commission had been set up by then and had acquired sufficient know-how and experience in exploration and had even struck oil at Ankleshwar. The area in question should have been earmarked for exploration by O.N.G.C. rather than given to Oil India Ltd. Further the oil produced in that area was meant to be used by the public sector refineries at Gauhati and Barauni. It was therefore only appropriate that production of this crude should have been in the public sector. If the cooperation of private enterprise was still considered necessary it should have been on the basis of majority participation and control of the undertaking by Government as specifically required in the Industrial Policy Resolution, 1956. The Committee suggest that even now Government should examine the possibilities of securing majority participation in Oil India Ltd.

#### **Reply of Government**

The Burmah Oil Company, which has been consulted in the matter, is unwilling to accept the position of a minority shareholder in Oil India Limited.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20 68-Prod. dated the 7th November, 1968.]

#### **Recommendation (Serial No. 6, Para 2.14)**

According to the Second Supplemental Agreement the Oil India Limited should have surrendered by 16th January, 1967, 968 sq. miles in the Dum Duma area and by 27th November, 1967, 446 sq. miles in the Ningru area leaving a balance of 323 sq. miles in the Dum Duma area and 149 sq. miles in the Ningru area *i.e.* a total of only 472 sq. miles. Against this the area held by the Oil India Ltd., is still 761 sq. miles. It indicates that Government has not been vigilant in getting the terms of the Second Supplemental Agreement implemented in this regard. Viewed against the

slow progress in the work of exploration and prospecting in these areas by Oil India Ltd. and the need to establish large reserves of petroleum in the country, the Committee would like the Government to keep a close watch over the progress of exploration and prospecting by Oil India Ltd. in the areas and to have them relinquished in accordance with the agreement so that these "promising areas" could be explored by O.N.G.C. or other suitable organisations, to meet the country's needs.

### Reply of Government

Under Clause 5 of the Second Supplemental Agreement, the exploration licences cover an area of 1886 sq. miles (referred to as "Area A"). In the Agreement this area is not divided into Dum Duma and Ningru areas, but is referred to as 'Area A' of 1886 sq. miles 75 per cent of this area is to be surrendered within "4 years from the commencement of the term of the last licence issued". The last licence was issued for the Ningru areas, which forms a part of this area, on 27-11-1963. Oil India Ltd., was required under this Agreement to surrender an area of 1414 sq. miles by 27-11-1967. The area surrendered by Oil India Ltd. up to 27-11-1967 actually comes to 1415 sq. miles as indicated below :—

Area	Area relinquished	Date of relinquishment
Dum Duma	469 sq. miles.	16-1-1966
	274 sq. miles	16-1-1967
	290 sq. miles	26-11-1967
	<u>1033 sq. miles</u>	
Ningru	248 sq. miles	27-11-1965
	134 sq. miles	27-11-1966
	<u>382 sq. miles</u>	
Grand Total :	1415 sq. miles	

The terms of the Second Supplemental Agreement have, therefore, been implemented.

A close watch is being kept over the progress of exploration and prospecting of Oil India Limited in these areas. Recently an extension of 2 years in the P.E.L. in Ningru area has been sanctioned with effect from 26-11-1967 keeping in view the arrangements to be made for drilling and the time required for completion of one or more deep exploratory wells.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### Recommendation (Serial No. 7, Paras 2.23 and 2.24)

The Committee observe that even after seven years of the signing of the Second Supplemental Agreement and five years after the giving of letters of grant for prospecting, no reserves of oil have been found in the Dum Duma and Ningru areas which were stated to be very "promising areas" and for which Burmah Oil Company was very anxious to take prospecting licences. The drilling of 8½ wells in these areas during these years speak for itself and is by no means a satisfactory achievement particularly for an experienced organisation like Oil India Ltd. It thus appears that the Oil India Ltd., have mainly concentrated their efforts in the proved areas for the production of crude. It leaves one with the impression that no serious efforts to explore oil in these new areas have been made. Clause 18 of the Second Supplemental Agreement (1961) gives the impression that at that time the prospecting programme in this area was considered as urgent. The Burmah Oil Company was required under its terms to submit an immediate programme costing approximately Rs. 2 crores covering 2 years for prospecting in these areas. But when it came to action, this immediate programme was delayed by about 2 years on account of the delay in giving the letters of grant for exploration licences. Even thereafter, the progress of exploration in these new areas has been very slow. Due to various factors only one rig was deployed by Oil India Ltd., in these two areas. It may be that Oil India Ltd., is in no hurry to prove more reserves of oil in this area as they are already in a position to meet their commitment to supply 3 million tonnes of oil annually to the Gauhati, Barauni and Digboi refineries from their proved reserves. When a company is assured a guaranteed return of 9 to 13 per cent on their equity capital there is no incentive left to intensify exploration efforts immediately.

The Committee consider that in order to reduce the wide gap between the demand and supply of crude in the country as well as the need to meet the additional requirements of the Barauni and Haldia refineries, it is imperative that oil potentiality of these areas is assessed urgently by accelerating and intensifying the exploration programme. If Oil India Ltd., is unable to step up their exploration programme on account of their various limitations, Government should seek the relinquishment of these areas so that the exploration work in these promising areas may be entrusted to the Oil and Natural Gas Commission.

### Reply of Government

Within the resources available and taking into account the cash position of the company during the years when Government and The Burmah Oil Company had to pay "Subsidy" on their crude purchases the progress made by Oil India Limited in the exploration programme appears to be satisfactory. It may be noted that between 1963 and June, 1968, a sum of Rs. 4.45 crores had been spent on the exploration programme, as against an expenditure of Rs. 32.48 crores incurred on the Oilfield development and Production during the same period. During these initial years of the formation of this Company, priority had necessarily to be given to production in order to be able to produce the committed quantity of 3 million tonnes per annum. Any sizeable increase in the expenditure on exploration would have resulted in an added strain on the cash resources of the company and a possible increase in "Subsidy" payments.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### Recommendation (Serial No. 18, Para 3.13)

The Committee note that the equity and loan ratio in the Oil India Ltd. is 1:2. They understand that for public undertakings, Government in 1960, decided on the equity loan ratio as 1:1. The Committee consider that the question of deciding equity and loan ratio in Oil India Limited is very important as among other things, it has a bearing on the payment of guaranteed return of 9 to 13% on the equity capital. Since the increase in the loan capital also involves payment of interest and repayment of loan instalments which are also charged to revenue account and since most of the loan capital of Oil India Ltd. has been provided by Government or governmental agencies, the Committee would urge that the economics of increasing loan capital or equity capital of this company, a proper ratio between the two and their long-term and short-term impact on the price of crude oil as well as on the payment of guaranteed dividend should be thoroughly examined by Government and a suitable equity loan ratio determined in consultation with the Burmah Oil Company at an early date.

### Reply of Government

The question has been examined by Government. The position is that the equity: loan ratio in companies in the private sector is generally kept at 1:2 and even at 1:3. In public sector undertakings with foreign collaboration, such as the Cochin and Madras Refineries, the equity: loan ratio has been kept at approximately 1:3.

In the case of Oil India Ltd., the present contributions of equity and loan are Rs. 28 crores and Rs. 56.78 crores respectively. As under the S.S.A., a net profit of 9 to 13% on the paid-up share-capital has been assured to the share-holders, any increase in the present equity capital of this company will result in increased profits which would result in greater outgo of foreign exchange (BOC's share) and probably a higher price of crude. Government, therefore, consider that for the present there is no need to change the equity loan ratio.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### Recommendation (Serial No. 19, Para 3.26)

The Committee note that while the cost of production of crude has been estimated by Oil India Ltd. on a discounted basis over a period of 15 years, the same in ONGC has been worked out on an annual basis. The Committee have in their 50th Report (Fourth Lok Sabha) recommended the adoption of a uniform procedure for the collection, analysis and compilation of costs by these two organisations.

The Committee regret to observe that the breakup of the assumed cost of finding, production and transport of crude oil in Oil India Ltd. which was taken as Rs. 48 for the purpose of the Formula given in Clause 9(B)(c) of the Second Supplemental Agreement, is not officially available in any document with the Government of India. The breakup, given by Oil India Limited includes the additional element of royalty which was not included in the original assumptions. Further against the assumed cost of Rs. 48 included in the Formula in 1961, the estimated cost of production of Oil consisting of 7 elements has now been worked out at Rs. 40

It appears to the Committee that at the time of working out the complicated pricing formula in 1961, the details of the various elements had not been carefully worked out and considered by Government. The Committee would like to be informed of the reasons why the assumed cost of production of crude in 1961 was taken as Rs. 48 and what were its financial implications when the same works out to about Rs. 40 per tonne now.

### Reply of Government

The average provisional cost of crude up to the year 1983 has been given as Rs. 40 per tonne by Oil India Ltd. This is necessarily an approximate figure, it is the average estimated cost of production over a period of 15 years, *i.e.* from 1968—1983 and hence cannot be made applicable to the year 1961 when the Second Supplemental Agreement was signed. It has already been explained in the notes furnished earlier to the Estimates Committee that this figure of Rs. 40 per tonne has no connection with the notional figure of Rs. 48 per tonne which is used only for the purpose of calculating the discount under Clause 9(B) of the Second Supplemental Agreement. The figure of Rs. 48 has no financial implication in as far as the final price of Oil India Limited crude is concerned.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20 68-Prod. dated the 7th November, 1968.]

### Recommendation (Serial No. 20, Para 3.28)

The Committee are unable to appreciate why the price of crude charged by the Oil India Ltd. from the Gauhati, Barauni and Digboi refineries during the years 1962 to 1966 was worked out at abnormally high rates ranging from 100.96 to Rs. 152.42 per tonne when the cost of production of the crude on a discounted basis has been estimated at Rs. 40 per ton only. As the increase in the sale price of crude has resulted in the payment of heavy subsidies by the Government on account of the low offtake of the crude by the refineries at Gauhati and Barauni, the Committee would like to be informed whether feasibility of keeping sale price of crude low by spreading the development and exploration expenditure over a longer period consistent with the life of oil-fields, was examined by Government specially when the crude oil remained under ground and the life of the oil-field got prolonged by the lower offtake of crude by the public sector refineries.

### Reply of Government

The cost of crude, *viz.*, Rs. 40 per tonne represented a very rough estimate of the overall cost of crude over a period of 16 years from 1967 to 1983. The calculations did not include the expenditure on the conditioning and transportation of crude. The main factor which was responsible for the increase in the final sale price of crude during the years 1962-65 was the quantum of retrospective price adjustments made by the Government of India and the Assam Oil Company to make up the guaranteed dividend of 9% to the two shareholders. As is known, this was necessitated by the low offtake of crude by the Government refineries.

2. Oil India limited had constantly reviewed the question of spreading over its drilling and exploration expenditure keeping in view the requirements of the Government refineries, as shown below :—

- (a) *Drilling expenditure*: The number of wells drilled each year was kept to the minimum required to meet the latest available estimates of the refineries offtake each year. By this readjustment the number of wells to be drilled annually was reduced considerably thus reducing cash requirements, interest, depreciation and operating costs as well as foreign exchange expenditure on drilling equipment and spares.
- (b) *Exploration expenditure*: The exploration programme was also kept to the minimum keeping in view the requirements of the oil-fields. Another important factor that regulated the pace of drilling was the time limit laid down for the completion of exploratory drilling in the Petroleum Exploration Licences issued to the Company.
- (c) *Amortisation of Drilling Expenditure and Straight line method of depreciation*: Considerable savings had also been effected by making adjustments in the method of amortisation of drilling expenditure and adopting the method of straight line depreciation. Moreover, the capital expenditure of the Company was also rephased in such a way as to only undertake a minimum capital expenditure programme.

3. All the above measures of reduction of expenditure have resulted in a substantial saving of approximately Rs. 600 lakhs over the period 1962 to 1965.

4. Oil India Limited, had, therefore, taken necessary steps to spread the development and exploration expenditure and to reduce the resultant cost of crude.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### ■ Recommendation (Serial No. 21, Paras 3.61 to 3.64)

The Committee are unable to find any justification for replacing the original pricing formula given in Clause 13 of the Promotion Agreement 1958, by the complicated pricing formula given in Clause 9 of the Second Supplemental Agreement, 1961 which guaranteed a net return of 9 to 13% to the Oil India Limited on the paid up capital. The changing of the original pricing formula has resulted in the following :

- (i) Government had to pay a subsidy of over Rs. 18 crores upto the year 1966-67 to ensure the minimum guaranteed dividend to the Oil India Limited. If the Government's share of dividend from Oil India Limited is also taken into account, the net outgo would still be over Rs. 10 crores during this period. Against this, BOC/AOC have received dividend amounting to Rs. 8



crores during the same period and have paid subsidy of about Rs. 5.7 crores, thereby giving them a net benefit of about Rs. 2.3 crores.

- 4 5 Government/Indian Refineries have been made responsible for the payment of Sales Tax on the sale of crude by Oil India Limited to the Gauhati and Barauni Refineries which at the rate of Rs. 12 per tonne would amount to a recurring liability of over Rs. 3 crores per year on the supply of 2.75 million tonnes of oil. Sales Tax liability was not to be borne by the refineries in the original pricing formula but was to have been included in its sale price by Oil India Limited.
- (iii) The guaranteeing of net return on paid-up capital has tended to slow down exploration work in the Exploration Licence Area as all expenditure on exploration work is also treated as revenue expenditure and increases the price of crude. The net return on share capital has been guaranteed from 1962 onwards *i.e.* the very first year of the starting of supply of crude to Gauhati refinery which was not provided for in the original Promotion Agreement.
- (iv) Since Oil India Limited has been assured a minimum guaranteed return of 9 to 13% on the supply of 3 million tonnes of crude per annum, there appears to be no incentive to Oil India Limited to effect economy and to accelerate exploration efforts for additional crude.

Government have advanced the following reasons for changing the pricing formula as laid down in the Promotion Agreement of 1958 to the existing formula incorporated in the Second Supplemental Agreement of 1961.

The original formula provided for two alternative methods for fixing price of crude *viz* import parity price or cost plus basis. The import parity basis was not considered suitable as the indigenous crude would have to be paid for at import parity even if it could be produced at a cheaper rate. It has also been stated by Government that India was importing crude at that time at full posted price as no discounts were available. The cost plus basis might have meant enormous profits to Oil India Limited in case they found a prolific field in the new areas. So it was felt that the price which would give a certain discount on import parity and at the same time not allow profits of Oil India Limited to exceed a certain limit, was considered the best solution. It was also expected that the price of crude based on the new formula would be lower than import parity when the offtake reaches 3 million tonnes per annum. It has been contended that the payment of subsidy is almost entirely due to delays in commissioning of Gauhati and Barauni refineries.

The Committee have considered these reasons. They feel that the original pricing formula laid down in Clause 13 of the Promotion Agreement 1958 was quite comprehensive and was advantageous to the Government as under that formula Government had option either to fix the price of crude at the import parity or cost plus the reasonable commercial return. This gave adequate powers to Government to peg the profits of the Company to any figure considered reasonable by them and therefore could well have been used by Government to keep the profits upto 13% or even lower. Under this formula Government was also to examine the costs, as well as to determine the quantum of costs and elements to be taken into account in calculating such costs in agreement with the Oil India Limited. Moreover Government had guaranteed neither any net return to the Oil India Limited nor assured offtake of specific quantities of crude by the Barauni and Gauhati refineries from any specific year. There was therefore no question of payment of any subsidy under the Promotion Agreement of 1958. The Committee have already commented on the optimism shown by Government in assuming that the refineries would be commissioned on schedule and would be able to process the agreed quantities of crude. The net return if at all could have been related to the production and supply of specific quantity of oil to the refineries rather than to the year 1962 irrespective of the quantity of crude supplied. Further discounts begun to be made available by the costal refineries on the imported crude with effect from June, 1960 and Government was aware of the availability of discounts in the world oil market at the time of entering into the Second Supplemental Agreement in 1961.

Having regard to these factors, the Committee feel that the change made in the pricing formula in 1961 was uncalled for and unbusiness-like. The Committee recommend that the circumstances leading to the change in the pricing formula in 1961 which has proved disadvantageous to the Government and public sector refineries should be thoroughly examined with a view to fix responsibility. They would also like the Government to ensure that before such agreements are entered into in future the advantages and disadvantages thereof should be carefully examined.

### **Reply of Government**

It may be stated at the outset that the need for paying "subsidy" to Oil India Ltd. arose not as a result of the provisions of the Second Supplemental Agreement, but due to delay in the commissioning of the Government refineries and their consequent inability to take their rated throughput (particularly in the case of Barauni) for some time. The assumption made by the Estimates Committee that the sales tax liability was not to be borne by the Refineries under the Promotion Agreement is not correct. In fact, Assam Oil Company had paid sales tax on the crude oil purchased by them under the Promotion Agreement. Hence the Second Supplemental Agreement did not make any difference on this score.

2. Data showing the comparative returns to Government under the Promotion Agreement and the Second Supplemental Agreement have already been submitted to the Estimates Committee. These showed that, on the whole, the Second Supplemental Agreement was more favourable to Government than the Promotion Agreement, even after taking into account the subsidies paid.

3. Government, therefore, feel that the changing of the Price Formula in 1961 was justified. It may be added that Second Supplemental Agreement was made with the prior approval of the Cabinet.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968].

#### **Recommendation (Serial No. 22, Para 3.65)**

The Committee are concerned to note that Government paid subsidies to the Oil India Ltd. amounting to over Rs. 18 crores without getting the accounts examined by their own auditors. They note that Clause 13 of the Promotion Agreement regarding the pricing of crude provided for the examination of the cost of crude including the element of cost by the Government. The Committee would like that the accounts of the Company for the years when subsidy had to be paid may be examined by Government through its own auditors.

#### **Reply of Government**

This question has been examined by the Government carefully. There being no provision in the Companies Act for the audit of private sector undertakings by the Auditor General of India, it does not appear feasible to ask Oil India Limited to have their accounts examined through Government auditors. However, the accounts of Oil India Limited are audited by a reputable firm of auditors viz. M/s Price Waterhouse Peat & Co. in accordance with the provisions of the Companies Act.

2. It may be added that payments made to Oil India Ltd. are in the nature of contractual obligations under Clause 9-C of the Second Supplemental Agreement and not "subsidies" to Oil India Limited.

3. Clause 13 of the Promotion Agreement was abrogated and superseded by virtue of Clause 1 of the Second Supplemental Agreement dated 27-7-1961. It is, therefore, no longer in force.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 13th December, 1968].

#### **Recommendation (Serial No. 25 Para 3.68)**

The Committee also consider that the liability for the payment of over Rs. 3 crores per year by Government on account of sales Tax on the crude supplied to public sector refineries is an unconscionable and inequitable burden on the Government which was not payable under clause 13 of the Promotions Agreement. They would therefore suggest that the feasibility of including sales tax in the sale price of crude by Oil India Limited as is done by ONGC, may be examined.

### Reply of Government

The observation of the Committee is noted. It may, however, be pointed out that the total burden of sales tax comes to around Rs. 1.5 crores only and not Rs. 3 crores as stated by the Committee. Further, the inclusion of sales tax in the price of crude oil is not likely to improve matters because the final price arrived at after adjusting the retrospective discount is much below the formula price and, therefore, the payment of sales tax by OIL would only result in reducing the amount available as a retrospective discount.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968].

### Recommendation (Serial No. 26, Para 3.82)

The Committee note that the total benefit to the Assam Oil Company on account of the concessional supply of crude oil and gas under Clause 20 of the Promotion Agreement, 1958 is estimated at about Rs. 9 crores. This benefit is stated to be in consideration of the Assam Oil Company placing at the disposal of the Oil India Limited the geological and geophysical data accumulated in the past in the course of exploration and development of Naharkatiya etc. areas, the advantages of its past research relating to the interpretation of this data etc. Considering that the Assam Oil Company has been reimbursed fully on account of the costs of the surveys and explorations, costs of prospecting and exploring operations in the said areas as well as the costs of assets and properties transferred to Oil India Ltd. for which over Rs. 13 crores were paid to the AOC as also the fact that the employees of the AOC connected with this work have all been taken over by the Oil India Limited. The Committee feel that the benefit of this magnitude for the supply of data alone does not appear to be contemplated or justified under Clause 20 of the Promotion Agreement. The Committee are unable to agree with the contention of the Ministry that this benefit is in the nature of an 'overriding royalty' which is a normal practice in the Oil Industry, for a payment to be made for the discovery value when a new partner is taken in to a new producing oil venture. This analogy does not appear to apply in this case as participation of Government in this venture cannot be compared to the taking of a new partner. The giving of mining lease and prospecting licences to the Assam Oil Company in these areas was subject to the provisions of the Industrial Policy Resolutions and was conditional on the participation of Government in this venture. The Committee consider that the concessions sought to be given to the Assam Oil Company under Clause 20 of the Promotion Agreement perhaps related to the supply of the specified quantities of crude and gas on cost basis only *i.e.* without charging any profit thereon. The Committee are not convinced that out of the five elements of cost *i.e.* exploration costs, development costs, production costs, royalty and transportation costs, which are normally taken into account for calculation of cost of production of crude, the AOC was required to pay only for the two elements *i.e.* production costs and royalty. The Committee would therefore urge that the original papers leading to the finalisation of this Clause may be examined in detail to see whether all the five elements of cost which make up the cost of crude were clearly spelt at that time and whether the Government had specifically agreed to the charging of the two elements only. Further the Committee would also like to know whether the financial implications of this concessional supply were fully worked out at the time of finalisation

of this Clause. The Committee recommend that since this matter relates to the interpretation of the Clause of the agreement which as far-reaching financial implications the whole matter may be examined in consultation with the Ministry of Finance, Ministry of Law and the Comptroller and Auditor General at an early date so as to find out the exact implications of this Clause in the Agreement and to determine the price payable by Assam Oil Company on account of the concessional supply of crude and gas from 1959 onwards.

### **Reply of Government**

The recommendation has been noted and further necessary action is being taken.

(Ministry of Petroleum and Chemicals O.M. 2/20/68-Prod. dated the 7th December, 1968.).

### **Further information called for by the Committee**

Please indicate precisely the details of action proposed to be taken or which has been taken in pursuance of the said recommendation of the Committee.

[LSS O. M. No. 4/24/(c) ECI/67 dated 9.12.1968]

### **Further Reply of Government**

All the papers relating to the period 1954 to 1958 on the negotiations preceding the signing of the Promotion Agreement are being scrutinised carefully. Thereafter a comprehensive note will be prepared to facilitate consultation with the Ministries concerned as suggested by the Estimates Committee.

(Ministry of Petroleum and Chemicals O.M. No. 2/20/68-Prod. dated the 15th January, 1969.).

### **Further information called for by the Committee**

It has been stated that "all the papers relating to the period 1954—1958 on the negotiations preceding the signing of the Promotion Agreement are being scrutinised carefully. Thereafter a comprehensive note will be prepared to facilitate consultation with the Ministries concerned as suggested by the Estimates Committee." Please indicate the progress made in this regard so far.

[LSS O. M. No. 4/24/(c) ECI/67 dated 6.12.1969]

### **Further Reply of Government**

A comprehensive note was prepared on the subject and circulated to the Ministries concerned. Subsequently the note along with the views of these Ministries was sent to the office of Comptroller and Auditor General. Their reply is awaited.

[Ministry of Petroleum and Chemicals and Mines and Metals (Department of Petroleum) O.M.No. 2/20/68-Prod. dated 23rd December, 1969.].

### Recommendation (Serial No. 29 Para 3.92)

The Committee note that devaluation of the rupee in June, 1966, has resulted in increasing the formula price of crude from Rs. 70·81 to Rs. 114·75 per tonne. They also note that devaluation has also resulted in increasing the liabilities of Oil India Limited in respect of repayment of loan taken from Bank of Scotland and interest thereon, the cost of maintenance imports and replacements etc. The devaluation of Sterling in November, 1967 has, however, resulted in reducing these liabilities to some extent. The Committee feel that the net effect of devaluation of the rupee and the subsequent devaluation of Sterling has been that the formula price of crude has gone up much more than warranted by the increase in the liabilities of the Company on account of devaluation. According to the representative of the Ministry, the overall increase in crude price on account of devaluation alone is estimated at Rs. 5/- per tonne. The Committee would therefore like the Government to work out the full details of the impact of both the devaluations (*i.e.*, rupee and sterling) on the operations of the Oil India Ltd. so as to determine the overall benefit to Oil India Ltd. as a result of increase in the formula price of crude. As this increase in crude price is unconscionable the feasibility of mopping up the same by suitable measures may be examined by Government.]

### Reply of Government

It may be stated at the outset that the approximate figures of Rs. 16 and 11 per tonne mentioned in Para 3.91 of the 51st Report of the Estimates Committee do not relate to the "overall increase in crude price on account of devaluation alone" as stated in Para 3.92 thereof. These figures relate to the difference between the import parity price and formula price crude as calculated under Clause 9(A) of the Second Supplemental Agreement immediately before devaluation of the rupee in June, 1966 and at the time oral evidence was given. As explained earlier, the formula price under Clause 9(A) of Second Supplemental Agreement is not the final price of Oil India Limited crude in any year and is subject to variation as per other provisions of that Agreement.

2. The increase in the selling price of crude after devaluation is a natural corollary to the pricing of indigenous crude on the basis of Middle East crude, the price of which is quoted in dollars. As there is a ceiling of 13% on the net dividend that can be declared by Oil India Limited in any year, any profits above that rate, irrespective of the cause thereof, are automatically denied to Oil India Limited and the benefit is passed on to the buyers by making corresponding reductions in the formula price of crude. It would, therefore, be seen that the Second Supplemental Agreement already contains a mechanism to mop up excess profits and no separate action is necessary for this purpose.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### Recommendation (Serial No. 36 Para 4.25)

The Committee note that there is wide disparity between the remuneration paid to the Managing Director, a nominee of the Burmah Oil Company

and the Financial Director, a nominee of the Government of India inasmuch as the former is paid about Rs. 9,000 per month and the latter Rs. 2,000 per month only. The Committee consider that as the two functionaries are the nominees of the two equal partners their remunerations should be uniform. The Committee note that the remuneration etc. payable to Government servants are governed by Government Rules and Regulations. The Committee therefore suggest that the feasibility of restricting the remuneration of these functionaries in such a manner as to be within Government Rules and Regulations, may be examined. Any other remuneration which may be justified, should in fairness be borne by the sponsoring partner.

The Committee would also suggest that the feasibility of recovering the difference between the remuneration of the Managing Director and the Financial Director which approximates to a lakh of rupees per year, since 1961 onwards, and crediting the same to the Government account, may be examined.

### **Reply of Government**

Government have examined the suggestion made by the Estimates Committee regarding the feasibility of restricting the remuneration of the Managing Director of Oil India Ltd. to that prevailing in Government companies. Under Clause 16(C) of the Second Supplement Agreement, the remuneration of the Managing Director and the Financial Director of Oil India Ltd. are to be settled between Government and the Burmah Oil Company. Accordingly, Government agreed to pay half the salary of the present incumbent, Mr. J.C. Finlay, to which he is entitled under the Burmah Oil Company pay-scales. It would not be proper or desirable to go back on this agreement. Even in an Indian employee of Oil India is appointed subsequently as Managing Director of Oil India Ltd., his pay will be governed by the pay-scales of Oil India Ltd. which are higher than those of public sector undertakings for historical reasons.

2. In view of the fact that the pay of the present Managing Director of Oil India Ltd. was fixed with the agreement of the Government of India, it is not feasible to recover any sum paid in the past from the Burmah Oil Company as suggested by the Estimates Committee.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### **Recommendation (Serial No. 37, Para 4.27)**

The Committee are unable to appreciate the appointment of a part-time Technical Consultant to Oil India Limited on a monthly retainer fee of Rs. 2,500/- plus Rs.1,000/- as house rent. They consider that the advisability of doing away with such retainer needs examination.

### **Reply of Government**

On 27-7-1966 Shri W.B. Metre was appointed as a part-time technical consultant to Oil India Ltd. on a monthly retainer. Oil India bears only half the expenses on account of Shri Metre. Shri Metre has to his credit a long and meritorious record of service with the Oil Industry, particularly

in the field of oil exploration and production. Since 1930 he has been associated with all major developments concerning oil exploration and production, both before and after the discovery of the Nahorkatiya and Moran oilfield in Assam. He has been a Director on the Board of Oil India Ltd. since 26-6-1959, is a past president of the Indian Science Congress, Geology Section and represented India at several international conferences on the oil industry. He has also been appointed a Part-time member of the Oil & Natural Gas Commission. He was awarded the "Padma Bhushan" in recognition of his services to the oil industry the first to receive this high award from the President of India, in this field. His expert advice has been of a great advantage to Oil India Ltd. especially when they were carrying on exploration involving an expenditure of several crores in Dum Duma and Ningru areas. The services rendered by Mr. Metre as a Technical Consultant to the Company are an integral part of the workings of the present technical cell in the New Delhi office. It is the advice given by this cell as a whole that enables the Managing Director to give proper consideration to matters of technical policy and arrive at decisions. Mr. Metre's particular function is to examine specific geological data and problems in depth.

Mr. Metre will reach the age of 63 on 14th February, 1969. It is the Board's intention to discontinue the present Technical Consultancy arrangement from that date.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

#### **Recommendation (Serial No. 39, Para 4.36)**

The Committee note that the Oil India Limited are paying \$38,000 per annum to Messrs DeGolyer & MacNaughton on account of their services as Consultants while similar work in the Oil and Natural Gas Commission is being done by the Officers of the Research and Training Institute, Dehra Dun. The Committee feel that in view of the tight foreign exchange position of the country as also with a view to encourage Indian talent, the question of utilising the services of Indian experts by the Oil India Limited for this purpose may be examined.

#### **Reply of Government**

It is not correct to say that Oil India are paying \$38,000 per annum to M/s. DeGolyer & MacNaughton on account of their services as Consultants. For a special task given to these Consultants, the fee payable was \$38,000 under one contract. This was expected to last for one year only but actually lasted for two approximately. At present, Oil India has no contract with M/s. DeGolyer and MacNaughton.

2. The advice sought by the Oil India from M/s. DeGolyer and MacNaughton was in respect of certain specific technical problems for which Indian expertise is not available. The problems referred to under this contract included the stimulation of the multiple variables of a group of reservoirs containing nearly 40 per cent of Oil India's total crude oil resources and studying the behaviour of this group on the conditions of varying controllable parameters with a view to finding out the optimum conditions of production and crude oil recovery from these reservoirs.



3. It is customary for international oil companies also to refer special problems to outside consultants. Even the Oil and Natural Gas Commission has had to refer its own special problems to a firm of seismic consultants in the U.S.A. with the assistance of the U.N.

4. The restricted territorial area within which Oil India Limited operates makes it impracticable for its personnel to have an extensive experience of every type of petroleum activity as Consultants would have. It becomes, therefore, inevitable to have a certain amount of consultation with parties having a larger background or experience, to maintain operations on efficient lines. Even the Oil and Natural Gas Commission has need for such advice. To the extent the R and T Institute has foreign advisers, this expert advice is more readily available to the Oil and Natural Gas Commission. To some extent Oil India Ltd's requirements are covered by occasional consultation with The Burmah Oil Company Headquarters in London but periodic consultation with the firm of M/s. DeGolyer and MacNaughton becomes necessary when specific problems of a complicated nature arise.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

#### **Recommendation (Serial No. 40, Para 4.38)**

The Committee note that, apart from the payments made to M/s DeGolyer & MacNaughton regular payments are also being made in foreign currency to M/s Schlumberger Sea Co. Inc., M/s Seismograph Services Limited, M/s Burmah Oil Company, London and M/s AB Osterman Overseas Aviation Limited, Sweden on account of various services rendered by them to Oil India Limited. The Committee need hardly stress the need to save as much foreign exchange as possible. They consider that since Oil and Natural Gas Commission has developed expertise for some of the services referred to above, the feasibility of doing away with foreign consultants by Oil India Limited and replacing them by the Indian experts of the Oil and Natural Gas Commission, may be considered.

#### **Reply of Government**

The contract with M/s DeGolyer & MacNaughton has expired. Any future consultation will be related to specific problems.

No payments are now being made to Messers A.B. Osterman Overseas Aviation Limited, Sweden and Messers Seismograph Services Limited. Oil India Limited, however, continue to utilise the services of Schlumberger Sea Company. This party provides essential specialised services in well-logging, perforation of casing for production, setting of sub-surface tools etc. They are probably the world's foremost experts in such matters. Oil and Natural Gas Commission also use their services.

The services provided by the Burmah Oil Company are of a continuous nature affecting all important aspects of the Company's operations. Oil India Limited needs these services for some time to come. However, the utilisation of such services is being reduced progressively from year to year and consequently payments made to them have been reduced from £90,287 in 1962 to £28,582 in 1966.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### Recommendation (Serial No. 43, Para 4-50)

The Committee are also not satisfied with the justification given for the setting up of a Technical Cell of the Company in Delhi. Since the matters looked after by the Cell relate to oilfield operations of the Oil India Limited, it is all the more necessary that such a Cell should be organised at Duliajan. The Committee note that there is already a technical manager at Duliajan to look after all such matters. Further there appears to be little justification for a highly paid Public Relations Officer at Delhi, particularly when the crude produced by Oil India Limited is sold to public sector refineries.

Such an officer if at all considered necessary is required at the headquarters at Duliajan. The Committee feel that with the shifting of the venue of Board meetings and the offices of Managing Director and Financial Director to Duliajan, there will not be any need for a big office at Delhi which will result in considerable economy.

### Reply of Government

Attention is invited to reply to Recommendation No. 42 wherein the reasons for stationing Managing Director and Financial Director at New Delhi have already been explained. On this question of the location of the Technical Cell and the Public Relations Officer the Company has intimated that for its proper and efficient functioning it is necessary to have the Technical Cell and the Public Relations Officer stationed at the same place as the Managing Director *i.e.* at Delhi for the following reasons:-

- (a) *Technical Cell* : Development of complex oilfields, maintenance of production at 3 million tonnes per annum and exploration of additional oil resources, all require a continuous sequence of technological forward planning and implementation. The basic plans made in the oilfields have to be independently scrutinized by the Technical Cell so as to advise the Managing Director on policy decisions and to present to the Financial Director for financial implications of the schemes. This Cell has also to liaise with the Ministry of Petroleum and Chemicals in this context and thus help in policy decisions being taken expeditiously.
- (b) *Public Relations Officer* : This officer was recruited by and was in the establishment of Assam Oil Company before his transfer to Oil India Ltd. along with other similarly recruited staff. At the time of his recruitment he was stationed in New Delhi where he has continued. The public Relations Officer is responsible for the entire public relations and publicity of the company including press relations both at New Delhi as well as at Duliajan.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod. dated the 7th November, 1968.]

### Recommendation (Serial No. 45 Para 4.52)

The Committee further suggest that with the shrinkage of the work at New Delhi and reorganisation of Calcutta office, as recommended by them, the need of having common offices with Assam Oil Company at New Delhi, Calcutta may be reviewed.

### Reply of Government

The question of common offices for oil India Limited and Assam Oil Company in New Delhi and Calcutta has been reviewed by Oil India Limited. It is considered that the present arrangement is advantageous to the Company for the following reasons :

- (a) Rents, rates etc. in New Delhi and Calcutta are shared between Oil India Limited and Assam Oil Company and this is advantageous to both the Companies.
- (b) Talex and teleprinter services are common to the two organisations.
- (c) The two organizations have many common problems and having joint offices in New Delhi and Calcutta is beneficial.
- (d) The Chief Representative of The Burmah Oil Group of Companies is also the Managing Director of Oil India Limited. A separation of the Offices of the two Companies would not be advantageous.

[Ministry of Petroleum and Chemicals (Department of Petroleum)  
O.M.No. 2/20/68-Prod. dated the 7th November, 1968.]

### Recommendation (Serial No. 46, Para 4.57)

Oil India Limited is incurring an annual expenditure of Rs. 12 lakhs on account of payment of bonus to its employees though it was not payable under the Payment of Bonus Act, 1965. It is unfortunate that this liability has been incurred by Oil India Limited even when heavy subsidies were paid to it by Government to make up the guaranteed return of 9% during this period.

### Reply of Government

Under the Payment of Bonus Act, 1965, the minimum bonus payable to employees is 4% and the maximum 20% of their salary or wage (basic plus D.A.). Oil India Limited workmen are being paid 3 months' basic pay (without D.A. being added) per annum as bonus which works out to 12% of their wages (basic plus D.A.).

As already explained to the Estimates Committee [*vide* paras 4.54, 4.55 and 4.56 (pages 86) of their 51st Report] the question of payment of bonus to Oil India Limited's workmen equivalent to their three months' basic wages was considered by Government at the highest level in 1963 and it was decided to agree to the payment of bonus. The main reasons which weighed with the Government were:—

- (a) Most of the Labour and clerical staff employed by Oil India Limited originally came from the Assam Oil Company where they had been receiving three months' basic wages as bonus for many years.
- (b) Assam Oil Company having areas contiguous to Oil India Limited was paying bonus to its workmen at the same rate.

- (c) It was considered essential that labour troubles in a company engaged in the production of oil, which is of vital importance to the nation, should be avoided.
- (d) Since Oil India had declared a dividend, an Industrial Tribunal would certainly have awarded at least 3 months bonus, if the matter were to form the subject of a dispute referred to an Industrial Tribunal.

It may be added that while announcing the decisions of the Government on the Bonus Commission's Report in the Lok Sabha on 18-9-1964, the Union Minister of Labour and Employment had clarified that it was not the intention of Government that benefits which labour might have been enjoying in the matter of bonus in any establishment or industry should in any way be curtailed by the adoption of the new formula and that labour would get in respect of bonus the benefits "on the existing basis or on the basis of the new formula, whichever is higher." From the above, it will be seen that the payment of 3 months basic wage per annum to Oil India Limited's workmen was unavoidable and any decision to reduce the bonus would not only have been contrary to the declared wishes of the Government of India but would also have jeopardised the production of crude oil by Oil India Limited.

{Ministry of Petroleum and Chemicals (Department of Petroleum)  
O.M. No. 2/20/68-Prod., dated the 7th November, 1968}

## CHAPTER IV

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

#### Recommendation (Serial No. 24, Para 3-67)

The Committee note the assurance given by the Secretary of the Ministry that Government will start recouping the subsidy paid by them to Oil India Limited from 1969 onwards. The Committee consider that as Government has paid heavy subsidies amounting to Rs. 18 crores under the new pricing formula, it would appear to be appropriate that the recoupment of the amount paid is made as early as possible. They would therefore suggest that the feasibility of limiting the net return of the Oil India Ltd. to 9 per cent till the subsidy is fully recovered may be examined. This would appear to be reasonable as the net return on investment in oil industry even in Middle East where oil potential is large, is stated to be a little over 11 per cent during recent years.

#### Reply of Government

Under Clause 9 of the Second Supplemental Agreement, Oil India Limited is entitled to declare a net dividend ranging from a minimum of 9% to a maximum of 13% after payment of all taxes. If the net return from Oil India Limited is to be restricted to 9% till the subsidy is fully recovered as suggested by the Estimates Committee, it will require an amendment of the Second Supplemental Agreement which can be done only with the approval of the Burmah Oil Company Ltd. As The Burmah Oil Company Ltd. has also paid subsidies to Oil India Ltd. during the initial years when the price of crude purchased by Assam Oil Company was high, The Burmah Oil Company is unlikely to agree to any such proposal.

2. It may also be mentioned that, as a result of devaluation of the rupee/ the return to the Burmah Oil Company Ltd. in terms of Sterling has gone down considerably, e.g., before devaluation, the minimum return of 9% would have yielded £9.45 lakhs to The Burmah Oil Company Ltd. whereas at the present rate, of exchange, the return of 13% will yield only £ 10.11 lakhs to the Burmah Oil Company Ltd. Taking all these factors into account, Government consider that it is not a feasible proposition to limit the net return to 9% as suggested by the Estimates Committee.

[Ministry of Petroleum and Chemicals (Department of Petroleum) O.M. No. 2/20/68-Prod., dated the 7th November, 1968].

#### Comments of the Committee

Please see comments in paragraphs 1 to 4 of Chapter I of the Report.

## CHAPTER V

### RECOMMENDATION IN RESPECT OF WHICH FINAL REPLY OF GOVERNMENT IS STILL AWAITED

#### Recommendation. (Sl. No. 23, Para No. 3-66)

The Committee note that according to the calculations made by Government under the new pricing formula, Government will get a total return of approximately Rs. 64 crores during the period 1962 to 1980 while the return to the BOC/AOC has been estimated at Rs. 26 crores for the same period. Under Clause 13 of the Promotion Agreement, 1958, as the basis, the return to Government has been estimated at Rs. 40 crores against the BOC/AOC Rs. 24 crores. The Committee are not satisfied with the details contained in these statements as the assumptions on which these have been based have not been fully enumerated therein. It appears that while making these assumptions neither the liability of Sales Tax amounting to over Rs. 3 crores a year (amounting to about Rs. 40 crores up to 1980) which has become the responsibility of the Government/public sector refineries, has been taken into account nor the interest on the amount of Rs. 18 crores paid as subsidy by Government has been considered. The Committee would therefore like that these assumptions also should be thoroughly got examined by Government through the Comptroller & Auditor General of India so as to come to a correct assessment of the position.

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## APPENDIX

(Vide Introduction)

*Analysis of the action taken by the Government on the 51st Report  
of the Estimates Committee (Fourth Lok Sabha)*

I.	Total Number of Recommendations. . . . .	48
II.	Recommendations which have been accepted by Government ( <i>Vide</i> recommendations at Sl. Nos. 3, 4, 5, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 27, 28, 30, 31, 32, 33, 34, 35, 38, 41, 42, 44, 47, and 48)	
	Number . . . . .	27
	Percentage to total . . . . .	56%
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies thereto ( <i>Vide</i> recommendations at Sl. Nos. 1, 2, 6.7, 18, 19, 20, 21, 22, 25, 26, 29, 36, 37, 39, 40, 43, 45 and 46)	
	Number . . . . .	19
	Percentage to total	40%
IV.	Recommendation in respect of which reply of Government has not been accepted by the Committee ( <i>Vide</i> recommendation at Sl. No. 24)	
	Number . . . . .	1
	Percentage to total . . . . .	2%
V.	Recommendation in respect of which reply of Government is still awaited ( <i>Vide</i> recommendation at Sl. No. 23)	1
	Number . . . . .	1
	Percentage to total . . . . .	2%