

COCHIN REFINERIES LIMITED

MINISTRY OF PETROLEUM AND CHEMICALS

(Department of Petroleum and Natural Gas)

COMMITTEE ON PUBLIC UNDERTAKINGS 1990-91

NINTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

ELEVENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1990—91)

(NINTH LOK SABHA)

COCHIN REFINERIES LIMITED

(MINISTRY OF PETROLEUM AND CHEMICALS
DEPARTMENT OF PETROLEUM AND NATURAL
GAS)

[Action Taken by Government on the recommendations
contained in the 63rd Report of the Committee on
Public Undertakings (Eighth Lok Sabha)]



Presented to Lok Sabha on 11 March, 1991

Laid in Rajya Sabha on 11 March, 1991

**LOK SABHA SECRETARIAT
NEW DELHI**

March, 1991/Phalguna, 1912 (Saka)

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Corrigenda to the 11th Action Taken
 Report of Committee on Public
 Undertakings(1990-91) on Cochin
 Refineries Limited.

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COMMITTEE ON PUBLIC UNDERTAKINGS

(1990-91)

CHAIRMAN

Shri Basudeb Acharia

MEMBERS

Lok Sabha

2. Shri Manoranjan Bhakta
3. Shri Narsingh Rao Dixit
4. Shri Bal Gopal Mishra
5. Shri R. Muthiah
6. Shri Harpal Singh Panwar
7. Dr. A. K. Patel
8. Shri V. Sreenivasa Prasad
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11. Shri Surender Reddy
12. Prof. Saif-ud-din Soz
13. Shri Piyus Tiraky
- *14. Prof. (Dr.) S. P. Yadav
- *15. Shri Yuvraj

Rajya Sabha

- **16. Shrimati Renuka Chowdhury
17. Shri Dipen Ghosh
18. Shri Ajit P. K. Jogi
- **19. Shri Mohinder Singh Lather
20. Shri Pramod Mahajan

* Elected w.e.f. 10-1-1991 in the vacancies caused by the appointment of Sarvasbri Daulat Ram Saran and Hukumdeo Narayan Yadav as Ministers.

** Elected w.e.f. 31-8-1990 in the vacancies caused by resignation of Shri Virendra Verma from Rajya Sabha on 14-6-1990 and of Dr. G. Vijaya Mohan Reddy from the Membership of the Committee w.e.f. 9-8-1990.

21. Shri Syed Sibtey Razi

22. Prof. Chandresh P. Thakur

SECRETARIAT

1. Shri S. C. Gupta—*Joint Secretary*

2. Shri K. K. Sharma—*Director*

3. Smt. P. K. Sandhu—*Under Secretary*

**ACTION TAKEN SUB-COMMITTEE OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS**

(1990-91)

- 1. Shri Basudeb Acharia—*Chairman***
- 2. Shri Dipen Ghosh—*Convener***
- 3. Shri Narsingh Rao Dixit**
- 4. Prof. Saif-ud-din Soz**
- 5. Prof. Chandresh P. Thakur**

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 11th Report on Action Taken by Government on the recommendations contained in the 63rd Report of the Committee on Public Undertakings (Eighth Lok Sabha) on Cochin Refineries Limited.

2. The 63rd Report of the Committee on Public Undertakings was presented to Lok Sabha on 2nd August, 1989. Replies of Government to all the recommendations contained in the Report were received by 24th December, 1990. The Committee considered and adopted this draft Report at their sitting held on 6th March, 1991.

3. An analysis of the action taken by Government on the recommendations contained in the 63rd Report (1989-90) of the Committee is given in Appendix II.

NEW DELHI;

3 March, 1991

Phalguna 17, 1912 (S)

BASUDEB ACHARIA

Chairman,

Committee on Public Undertakings

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Sixty-third Report (Eighth Lok Sabha) of the Committee on Public Undertakings on Cochin Refineries Limited which was presented to Lok Sabha on 2nd August, 1989.

2. Action Taken Notes have been received from Government in respect of all the 27 recommendations contained in the Report. These have been categorised as follows:

(i) *Recommendations/observations that have been accepted by Government.*

Sl. Nos. 1, 2, 4, 5, 7 to 11, 13, 14, 15, 16, 22, 25, 26 and 27.

(ii) *Recommendations/observations which the Committee do not desire to pursue in view of Government's replies.*

Sl. Nos. 17, 18, 19, 20, 21, 23 and 24.

(iii) *Recommendations/observations in respect of which replies of Government have not been accepted by the Committee.*

Sl. No. 12.

(iv) *Recommendations/observations in respect of which final replies of Government are still awaited.*

Sl. Nos. 3 and 6.

3. The Committee desire that the final replies in respect of recommendations for which only interim replies has been given by Government should be furnished to the Committee expeditiously.

Contract of Affreightment (COA)

Recommendation Sl. No. 12 (Paragraph No. 2.75)

4. The Committee observed that CRL entered into a Contract of Affreightment with M/s. Norse Shipping Company in October, 1973 for a period of 4 years from 1st March, 1974 to 28 February, 1978. During the contract, disputes arose mainly concerning the shortfall in the quantity lifted, ocean loss and demurrage. Norse was prepared to offer several concessions and settle all claims provided the contract was extended beyond December, 1978. The COA was not extended by Government of India beyond 28th February, 1978 despite the recommendation of Board of Directors of CRL in its favour.

Arbitration proceedings were initiated by Norse (May, 1978) for their claims which was awarded in their favour for an amount of US \$ 4,725 million (Rs. 5.67 crores approximately). Keeping in view the local legal opinion, Government of India reached an out of court settlement for an amount of \$ 2.9 million on 5th August, 1988. As regards the reasons for not extending the contract with Norse beyond February, 1978, the Secretary of the Ministry informed the Committee during evidence that the Government took a policy decision to indigenise their own fleet and use Shipping Corporation of India instead of giving it to a foreign company. The Committee were constrained to observe that Government did not properly evaluate the Norse's offer for extension of COA on account of which Government of India had to incur an infructuous expenditure of \$ 2.9 million as out-of-court settlement for the claims of Norse.

5. The Government have *inter alia* stated in their reply that on the question of not granting extension of contract to M/s. Norse beyond 28-3-1979, they would submit that this was a conscious policy decision taken, keeping in view the need for indigenisation. M/s. Shipping Corporation of India had by then acquired the large crude tankers and it was felt that instead of giving the contract to a foreign line, it would be better to give it to the national company. Further, the freight paid to SCI and other tankers used for crude transportation was much lower than what would have been payable to Norse to by extension of the contract.

6. The Committee regret to note that no new facts have been brought to their notice to show that proper evaluation was made of Norse's offer for extension of COA. The Government should have examined in detail the offer taking into consideration all the consequences in terms of claims payable to the Company vis-a-vis the benefits arising out of giving the contract to SCI due to lower freight rate. They, therefore, reiterate their recommendation and would like to be informed about the details of evaluation, if any done in this regard within three months of the presentation of this Report to Parliament.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Serial No. 1 and 2 (Paragraph No. 1.22 and 1.23)

The Committee note that in pursuance of the recommendations of the Administrative Reforms Commission (ARC) the Bureau of Public Enterprises (BPE) had asked the administrative Ministries as far back as in November, 1970, to initiate action for having both financial and economic objectives and obligations of the Public Undertakings under them laid down in consultation with the Ministry of Finance. Again in 1979, BPE issued further instructions to the Ministries asking them to advise their public undertakings to formulate micro objectives consistent with the broad objectives spelt out in Industrial Policy Statement of December, 1977. The Committee, however, regret to find that despite these instructions, the Cochin Refineries Ltd. got the bare outlines of objectives and obligations approved by the Board as late as in September, 1983 and by Government of India in May 1984 only. The statement of the Chairman, CRL before the Committee that the letter containing such instructions was received in CRL only in July 1983, is simply astonishing especially when the Secretary, Ministry of Petroleum & Natural Gas confirmed before the Committee that these instructions were issued by the Ministry in the year 1979 itself. The Committee wonder as to how the Company had been functioning in the absence of any clearly spelt out objectives and obligations duly approved by the Government for so many years. It is also equally surprising as to how the Ministry was able to assess the performance of the Company all these years.

What further dismays the Committee is that the Objectives and obligations approved by the Ministry in May 1984 are in general terms and have yet to be quantified further to guide the detailed functioning of the Company. The Secretary, Ministry of Petroleum & Natural Gas was, however, candid enough to admit during the evidence that though the objectives and obligations as formulated by CRL broadly conformed to BPE guidelines; still it was necessary to spell out some of the objectives in greater detail. The Committee can not but take a serious note of the inordinate delay which had taken

place in framing the objectives and obligations of the Company and of the fact that no need was felt by the CRL as well as the Ministry for quantifying these during all these years. The Committee, therefore, desire that in order to facilitate the realistic and meaningful evaluation of the working of CRL, the micro objective of CRL should be spelt out clearly in greater detail without any further loss of time and the Committee informed within 6 months of the presentation of this Report.

Reply of the Government

The micro-objectives of CRL were approved by the Ministry in May, 1984. In addition to the Annual Plans, CRL had also formulated a Long Term Corporate Plan for the period 1986—90 spelling out the objectives in quantitative terms in relation to the physical, financial and human resource areas. The corporate plan formulated by CRL for the period 1986—90 was approved by the Ministry in January, 1987. Briefly speaking the following major objectives were set out in the aforesaid Corporate Plan :—

S. No.	Item	Objective/target (1986—90)
1.	Capacity Utilisation	4.5 M.T.
2.	Turn over (Rs. crores)	1100
3.	Improvement of the product pattern by increasing the middle distillate yield from FCCU (percent)	51
4.	Reduction in fuel and loss: (percent)	5
5.	Safety record (million/accident free manhour)	2.5
6.	Human resource development (value added per employee/ Rs. lakhs)	10

Detailed programmes were also formulated by CRL for the period 1986—90. These includes the following:

- (i) Expansion of refining capacity from the present 4.5 MTPA to 6.5 MTPA;
- (ii) Diversification to petrochemicals sector by way of setting up projects for production of Benzene (87,200 TPA), Toluene (12,000 TPA) and Polypropylene (7,000 TPA)
- (iii) Setting up of a crude test distillation unit as a part of developmental activities in the R & D sector, for generation of thermodynamic and Hydraulic data.

- (iv) **Setting up of a Captive Power Plant of 20 MW capacity.** CRL have also prepared a perspective plan covering the period upto 1995 reflecting the major goals enunciated in the micro-objectives, adequately quantifying the capacity utilisation turn-over, value addition, R&D, Human Resources, Internal Resources Generation, Profitability, etc. The major objectives set out in the perspective plan covering the period upto 1995 are the following:
- (i) Stepping up of primary crude processing capacity to 6.5 MTPA and Secondary Processing capacity to 1.34 MTPA.
 - (ii) Implementation of Aromatics Phase II (Benzene 79,200 TPA, O-xylene 42,000 TPA and P-xylene 210,000 TPA) and setting up of Gas Cracker facility (Ethylene 300,000 TPA and Propylene 100,000 TPA);
 - (iii) 100 per cent capacity utilisation;
 - (iv) Increase in the turn over to Rs. 1900 crores.
 - (v) Achievement of a safety record of 5.0 million accident free man-hours;
 - (vi) Increase in the value addition per employee to Rs. 20 lakhs.
 - (vii) Setting up of a Reformer Pilot Plant in the R&D sector.

While the 5-year Corporate Plan deals with the medium term planning, the near-term performance targets for various items enunciated in the micro-objectives are set out every year in the performance budget prepared by the Ministry. Some of the important targets set out therein in respect of CRL for the year 1989-90 are mentioned below:

- (i) Production of Benzene and Toluene to the extent of 0.09 TPA and 0.01 TPA respectively.
- (ii) Restriction of fuel and loss percentage to 6.51.
- (iii) Increase in the value added per employee to Rs. 8.06 lakhs and in the total value added to Rs. 102.78 lakhs.

[Ministry of Petroleum & Chemicals (Deptt. of Petroleum & Natural Gas) O.M. No. R-38018/1/90 OR-II dated 24-12-1990]

Recommendation Serial No. 4 and 5 (Paragraph Nos. 2.66 and 2.67)

The Committee note that Government entered into a Tripartite Agreement known as the Formation Agreement on 27th April, 1963 with Phillips Petroleum Company, USA and Duncan Brothers, Calcutta for the formation of a new company for constructing and establishing Petroleum Refinery in Cochin, Kerala. The agreement provided that in case during any year the process margin was less than the stipulated margin, the Govt. was to make arrangements to ensure that minimum process margin was made available and the company was to refund the same whenever surpluses became available. The Government, however, realised later on that agreement was heavily loaded in favour of PPC, so a Modified Formation Agreement was entered into on 26 February, 1969. It provided that w.e.f. the financial year 1967-68, Govt. would ensure that CRL would declare and pay dividends out of its profits and free reserves, so that it resulted in a net after tax dividend to PPC for a period of 15 years i.e. upto 1981-82. Any short-fall was to be made up in the subsequent years. In the eventuality of CRL not being able to declare the dividends, the Govt. was required to make up the income. During the course of evidence it was, however, conceded by the representative of the Ministry that the contract with PPC was entered into on direct discussions and no global tenders were invited. The Committee note that PPC were neither process licensors nor construction contractors for petroleum refineries, but were engaged in production, distribution and sale of oil and gas only. They, therefore, engaged M/s Universal Oil Products, USA (UOP) who were process licensors for Petroleum refineries as process engineers/contractors. The representatives of both the Ministry and CRL stated during the evidence that the overall responsibility to execute the project was given to PPC which had to go to several licencees for special processes and in a refinery it is not uncommon to go to different processors for updating technology advancements. Several parties are reported to be involved in the construction of the refineries. The Committee, are not convinced by the argument adduced by the Ministry and the Company. They are distressed to note that PPC were selected as consultant after discussing the contract with them directly without inviting global tenders. The Committee are of the view that since PPC had to pay M/s Procon for their services and the latter were not a party to the contract PPC had to ensure favourable terms in the contract.

The Committee were further informed that direct contract was entered into with UOP in 1978-79 for implementation of secondary processing facility and capacity expansion, because CRL had acquired

the adequate technical know-how and managerial skills and EIL were also equipped with sufficient technical expertise. In view of this, the arrangement which was found necessary with M/s PPC at the time of establishment of refinery in 1963-64 was not considered necessary in 1978-79. The Committee sincerely hope that with the development of adequate technical as well as managerial skills by CRL and also acquiring of technical expertise by M/s EIL in the field, the necessity of entering into such contracts as was done with M/s Phillips Petroleum Co. of USA will not arise in future. They also hope that the existing oil refineries in the public sector as well as EIL would strive hard to achieve self-reliance in establishment of new oil refineries besides under-taking modification, expansion etc. in the existing oil refineries. This will also reduce a large chunk of precious foreign exchange outgo, paid to the foreign consultants/contractors as process margin/licence fee/dividend, etc.

Reply of the Government

The recommendations of the Committee have been noted. It may be stated that the Public Section Oil refineries in the country as well as the Engineers India Ltd. have since built up sufficient in-house capabilities and would be in a position to take up grass root refinery and other expansion projects on their own. This Ministry has also set up a centre for High Technology to assess futuristic requirements and to acquire, develop and adapt technologies in the field of refineries etc. The refining companies have been advised to associate the Centre for High Technology in all major projects right from the initial stages.

However, to avoid technological obsolescence, foreign technical back up would be necessary to some extent to acquire the state of the art technology. It would also be necessary to acquire foreign licenses for some of the patented processes.

[Ministry of Petroleum and Chemicals (Dept. of Petroleum and Natural Gas) OM No. R-38018/1/90-OR. II Dated 20-11-90]

OM No. R-380/1/80-OR. II Dated 20-11-90]

Recommendation Sl. No. 7 and 8 (Paragraph Nos. 2.69 and 2.70)

A Technical Services Agreement was entered into between CRL and PPC for providing technical services, both outside India and in India for a period of 15 years from 26th May, 1987 to 25th May, 1982 in consideration of a technical services fee. The Company is reported to have remitted for the above period to PPC as fees an amount of

US \$6 million (equivalent to Rs. 4.83 crores) for technical services outside India and Rs. 2.65 crores for technical services within India. Audit has also reported that with the concurrence of Govt. of India, the Company finalised in June 1983 a fresh Technical Services Agreement with PPC providing a retainer fee of US\$ 75000 per annum without spelling out the specific items of work on which consultation would be required and assessing the value thereof. On an enquiry by the Committee about the justification for continuance of Technical Services Agreement with PPC beyond 1982 and also having a fresh agreement with PPC for a period of 5 years from June, 1983, the Secretary of the Ministry during his evidence before the Committee stated that they examined it and since it was felt that there was an expansion of the Refinery going on and PPC had considerable experience in this whole field; it was in the interest of Cochin Refineries to continue the technical services agreement with PPC for further period. The Committee do not appreciate the justification given for signing the fresh agreement for technical services as it exempted PPC from liability for all losses, damage, claims etc. on the contrary, CRL had to protect PPC against such events. The usefulness of such an agreement is not clear to the Committee.

The Committee were, however, informed that the Technical Services Agreement with PPC terminated on June, 1983, but PPC still continued to make available their engineering standards to CRL. It was also stated that CRL have a centre for high technology which is getting in touch with major oil companies like Chevron etc. In this connection, Secretary, Ministry of Petroleum and Natural gas informed the Committee during evidence that CRL was collecting the technology and helping various units to obtain the latest and the best technology. The Committee hope that the centre for high technology of CRL would be able to procure the best and latest technology available in the field world over and act as a window for providing a panacea to all technically oriented ills of oil refineries in the country.

Reply of the Government

The Ministry of Petroleum & Natural Gas has set up a Centre for High Technology to assess futuristic requirements, acquire, develop and adapt technologies in the field of refinery processes, petroleum products, their applications, storage, etc. The centre is headed by an Executive Director and consists of experts drawn from the oil industry on tenure basis. It functions under the overall guidance and supervision of a Governing Council headed by Secretary of the Ministry of Petroleum. A copy of the resolution constituting the Centre for High Technology is at Annexure I.

A note on the performance of the centre during the last two years is at Annexure-II.

[Ministry of Petroleum & Chemicals (Deptt. of Petroleum & Natural Gas) OM No. R-28018/1/90-OR. II Dated 20-11-90]

ANNEXURE I

GOVERNMENT OF INDIA

MINISTRY OF PETROLEUM AND NATURAL GAS

No. O-31012/1/87-ORI

May 27, 1987

RESOLUTION

The Government of India in the Ministry of Petroleum and Natural Gas have had under consideration for some time the need to create a "Centre for High Technology" to assess futuristic requirements, acquire, develop and adopt technologies in the field of refinery processes, petroleum products including lubricants and additives and their application, storage handling and transportation of crude oil, products and gas, and work relating to modernisation of the technologies. To accomplish the aforesaid tasks, Government have since decided to set up a "Centre for High Technology" which shall be a specialised agency of the oil industry including the engineering and consultancy organisations. This Centre will be headed by an Executive Director and will consist of experts/officers and staff drawn from the oil industry, etc. who will be appointed on tenure basis. It will function under the over-all guidance and supervision of a Governing Council.

2. The Governing Council will be headed by Secretary, Ministry of Petroleum and Natural Gas as Chairman, and will include all the Joint Secretaries and Advisers in the Ministry of Petroleum and Natural Gas as well as the Chief Executives of IOC, BPC, HPC, MRL, CRL, IBP, EIL, LIL and GAIL. Suitable technical persons can be invited by the council as special invitees for particular meetings. The Executive Director of the Centre will be the Member-Secretary of the Governing Council.

3. The objectives of the Centre for High Technology are:

- (i) To assess futuristic requirements, acquire develop and adopt technologies in fields of refinery process, all petroleum products including lubricants and additives and their

application, storage, handling and transportation of crude oil, products and gas through:

- (a) its own direct efforts at the national level.
 - (b) consultancy, advice, technology procurement, etc. from within the country and abroad.
 - (c) following up, assisting, working with the co-operation and making use of activities in the related fields in the oil companies, institutes, R&D laboratories and consultancy organisations, universities and industries in the country and abroad.
 - (d) analysis of the current operations of the constituent units, evaluate the new technologies or the purpose of technology updating and planning.
 - (e) identification, funding and monitoring Mission Status Projects.
 - (f) Co-ordination with Scientific Advisory Committee and other Government bodies/agencies and pursue the programmes.
 - (g) outlining research directions and sponsoring new research programmes.
 - (h) implementation of the change process including technology unpackaging and monitoring effectiveness of technology absorption and further development.
- (ii) To pool/develop expertise in specific fields including:
- (a) materials and corrossions,
 - (b) operation and safety practices,
 - (c) inspection and maintenance practices,
 - (d) environmental and effluent control,
 - (e) energy and conservation,
 - (f) product quality and testing and applications,
 - (g) instrumentation and control,
 - (h) storage handling and transportation,

- (i) processes,
 - (j) standards,
 - (k) research and development programmes, etc., for extending services to the industry.
- (iii) To attain the aforesaid objectives the Centre may—
- (a) examine and work in frontiers of technologies of hydrocarbon processes, products, conservation, safety, instrumentation, etc. taking into account futuristic trend, and to conduct specific basic research as is considered necessary.
 - (b) attain technological competence and self-reliance for providing information and advice,
 - (c) disseminate information and promote relevant technologies,
 - (d) develop and transfer technology utilising resources within the country and abroad,
 - (e) undertake contract services relevant to its business in India and abroad,
 - (f) assist in developing man-power keeping in view the plans for acquiring/adopting new technologies,
 - (g) assist, work and share experience and knowledge with other countries.

4. The Centre for High Technology will have, in addition, the following functions and responsibilities:

- (a) it shall advise and implement the scientific and technological programmes of the Ministry of Petroleum & Natural Gas and shall be the Executive Wing of the Ministry/industry for co-ordination, import, acquisition and upgradation of technology and its utilisation,
- (b) shall be associated with the industry right from the beginning in import of technology and develop programmes for their absorption, adaptation and implementation,
- (c) shall identify the development programmes in association with Scientific Advisory Committee, fund them, review and monitor their progress,

- (d) acquisition of technology, technical services and information on a centralised basis for use by the industry,
- (e) acquisition of processes and technology and funding of pilot plants in addition to laboratory scale investigation for developing process design data for scale up purposes thereof and its utilisation. Underwrite the task capital whenever necessary,
- (f) shall monitor all programmes earlier funded through OIDB.

5. The Executive Director, technical and other officers and supporting staff shall be drawn from the industry and Government on tenure/deputation basis. Specialists from outside the oil companies, as considered necessary, may also be appointed as consultants/advisers on contractual basis.

6. The Centre will be an organisation with a separate Secretariat. The expenditure of the Centre will be funded by grants from the Oil Industry Development Board. These grants may be transferred to the Indian Oil Corporation (R&P Division) in connection with expenditure for the Centre.

7. The Oil Industry Development Board will also provide grants to meet the developmental expenditure, funding of technology acquisition, project studies, investigations, laboratory/pilot and semi-commercial plants/field programmes etc. as recommended by the Centre. An amount of Rs. 20 crores shall be earmarked for such grants during the year 1987-88.

8. The Centre for High Technology will be located in New Delhi and will initially be serviced with administrative, accounts support, etc. by the Indian Oil Corporation (R&P) Division.

Sd/-

(T. N. R. RAO)

Joint Secretary to the Government of India

Tel No. 381052

ORDER

Ordered that a copy of this Resolution be communicated to:

- (i) The Chief Executives of all the Public Sector Undertakings under the administrative control of the Ministry of Petroleum and Natural Gas

- (ii) Director (R&P), Indian Oil Corporation (R&P Div.)
New Delhi
- (iii) Secretary, Oil Industry Development Board, 210, Ansal
Bhavan, Kasturba Gandhi Marg, New Delhi
- (iv) Executive Director, Oil Coordination Committee, Kailash
Building, Kasturba Gandhi Marg, New Delhi
- (v) All Officers/Desk/Sections in the Ministry of Petroleum
and Natural Gas.

Sd./-

(T. N. R. RAO)

Joint Secretary to the Government of India.

Tel No. 381052

ANNEXURE II

Centre for High Technology (CHT) has been constituted by the Ministry of Petroleum & Chemicals, Government of India to assess the futuristic requirements and acquire, absorb and develop technologies to meet our needs. CHT is also to co-ordinate and disseminate the information on technological developments taking place in our refineries.

During the course of its existence for the last two and a half years CHT had created a forum, by setting up a number of activity committees on different refinery processes, for sharing the experiences and expertise and technological improvements in the refineries. A quarterly journal "Hydrocarbon Technology" is also published to present the developments and innovation in operations, maintenance and research in a documented form.

Pilot plants for proving/absorbing the technology and developing data for design on some of the processes like middle distillates from natural gas, reformer catalyst, hydrocracking, bitumen production from waxy crude oils were planned.

To keep the industry aware of the trends in development taking place abroad and update our technologies, it is proposed to have, on a centralised basis, Technical Assistance Agreements with major multi-national oil companies. Negotiations for this have been

completed and proposals are being submitted to Government for approval.

Recommendations S. No. 9 and 10 (paragraph Nos. 2.71, 2.72, and 2.73)

The Formation Agreement envisaged that M/s. Phillips Petroleum Company, U.S.A. would act as agent in making arrangements for chartering tankers to transport the imported crude oil. A Contract of Affreightment (COA) was entered into between PPC 'acting as an agent' for CRL and Triton acting as 'agent for owners' whose identity was not disclosed. The COA was for a period of 5 years from October 1966, extendable for five periods of one year each. The Committee were also informed that despite the shortfall in performance by Triton from October 1969, onwards the COA was extended upto 9th October, 1976. However, Triton unilaterally withdrew from the contract in May 1973 on the plea that the freight due on shipments was not paid by CRL on delivery of cargo which resulted in breach of contract while CRL contended that their obligations were duly met as per terms and conditions of the contract. CRL claimed damages for US \$43 million only excluding the interest charges upto 31st March 1978 of US \$10 million in arbitration proceedings initiated by CRL in June 1975. The award was given in favour of CRL, but the GOI apprehending that effecting the recovery of the amount would be a long drawn process involving protracted litigation decided to accept a final offer of payment of US \$10 million made by Triton on 31st January, 1981. In this connection the Committee were informed by CRL during evidence that when the arbitration proceeding was initiated against Triton it was not known that his company had no assets to fall back upon. It was found out only later that there were no assets for which Triton could be held up. A representative of CRL further added that "this is the normal practice in the shipping industry. There are certain people who do not have assets to own ships by themselves. They hire the ships on charter basis or what is called hire system. So, they make arrangements. Only the owner will have appropriate assets. Further, our judgement was that if we go into arbitration and execution of the orders etc., the amount of money that we would have spent would have been more".

The Committee are astonished at the reply given by CRL. They strongly feel that before entering into a Contract of Affreightment (COA) with Triton, the CRL should have fully ascertained the financial position of M/s. Triton Shipping Company. It is also not commercially prudent to have entered into a contract with a party which has no assets to fall back upon.

The Committee regret to not that the responsibility of PPC in the event of default by Triton had not been spelt out in the formation agreement. They consider it a serious lapse on the part of CRL and Government of India on account of which CRL had to settle a claim of US \$ 53 million plus legal expenses of Rs. 53.22 lakhs for US \$ 10 million only. They, therefore, desire that to avoid recurrence of a smiliar situation, GOI should ensure that in future agreements, a clause be inserted spelling out he responsibility of transportation agents in case of defaults by contractors engaged by them for transportation of imported crude.

Reply of the Government

The recommendation of the Commitee has been noted. At present Cochin Refineries Limited does not engage transporting agent for crude transportation and this is being coordinated by the Oil Co-ordination Committee set up under this Ministry. The recommendation of the Committee has been brought to the notice of OCC for suitable action.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR-II dated 20.11.90]

Recommendation S. No. 11 (Paragraph No. 2.74)

The Committee also note with deep concern that PPC received from Triton a transportation Commission of US \$688,000 during currency of the contract i.e. upto March, 1972. The representative of CRL informed the Committee during evidence that CRL was first informed to this effect by PPC in June, 1975 only and contended that since such payments were normal practice in the Shipping industry and in view of the efficient services rendered at reduced rates of contract by PPC, the acceptance of commission was not unwarranted. The representative was, however, can did enough to admit during the evidence that it was only after protracted negotiations and persuasion that PPC agreed in July, 1976 to refund the entire commission with interest at 9 per cent per annum from 24 June, 1975. The Committee cannot but conclude that PPC refunded the commission only when the fact pertaining to the payment of commission came to the notice of CRL and that too after protracted negotiations and adopting persuasive techniques. The Committee feel that this dubious act of PPC in availing the commission from Triton while acting as an agent of CRL without assuming any degree of responsibility for Triton's action undoubtedly, casts doubts on their commitment to CRL and their interest as shareholder.

Reply of the Government

The Recommendation of the Committee has been noted. However, this Ministry is of the view that since Phillips petroleum Company has already disinvested their shares in CRL, it may not be necessary to take in further action in the matter.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR-II dated 20.11.90]

Recommendation No. 13, (Paragraph No. 2.76)

The Committee note that after the COA with Norse came to an end on 28th Feb., 1978. Shipping Corporation of India (SCI) was entrusted by Oil Co-ordination Committee (OCC) with the transportation of crude oil for CRL from 1st March, 1978. The COA with SCI contained provision for deduction of ocean loss in excess of 0.5 per cent of the bill of lading quantity from the bills of SCI. Subsequently, in January, 1981 GOI issued a directive which *inter alia*, provided that ocean loss recoverable from SCI should be on the basis of actual loadings as per ship's ullage at loading port and the actual discharge as per ullage at discharging port and recovery should be effected for the quantity of loss in excess of 0.5 per cent on the basis of OCC' advice in this respect. Prior to the January, 1981 directive of GOI, CRL had recovered a total sum of Rs. 486.96 lakhs towards ocean loss in excess of 0.5 percent of bill of lading quantity from the freight bills of SCI for the period from 1st January 1978 to 31st March, 1981. OCC reworked the ocean loss as per GOI's directive at Rs. 155.54 lakhs for the above period and recovered the balance of Rs. 331.42 lakhs from the amount due to CRL from pool account in Dec., 1982, as CRL did not agree for refund of this amount. The change in the method of ocean loss computation was stated to have been agreed to by GOI in the light of 'strong representation' from SCI. The Committee regret to note that due to this change in method of computation of ocean loss as against the extant practice in the shipping industry of computation of ocean loss in excess of 0.5 per cent of bill of lading quantity, the CRL had to refund Rs. 331.42 lakhs for the period from 1st Jan., 1978 to 31st March, 1981. The Committee feel that the Govt. did not evaluate in depth the consequences arising out of the change in the method of ocean loss computation and acted in undue haste. In reply to the Committee's suggestion about the review of January, 1981 direction of GOI in view of the prevailing practice in the shipping industry, the Secretary of the Ministry informed the Committee during evidence that based on actual experience they had modified the ocean loss limit in April 1984 to 0.3.

per cent on account of which there would not be any loss to the industry as well as the Shipping Corporation of India. While appreciating the reduction in the percentage of the ocean loss from 0.5 per cent to 0.3 per cent, the Committee hope, that this decision adequately safeguards the interests of industry and also conforms to the extent practice in shipping industry.

Reply of the Government

The observations of the Committee have been noted. It is hereby confirmed that the method adopted under the SCI/OCC COA is in accordance with the prevalent international practice.

Actual experience has clearly borne out that the present permissible allowance of 0.3 per cent based on ship tank measurement is justifiable and equitable to both Shipping Corporation of India and Oil Industry. This arrangement is continuing satisfactorily.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR. II dated 24-12-90]

Recommendation No. 14, (Paragraph No. 3.43)

The Committee note that for the implementation of Secondary Processing Facility (SPF) and Capacity Expansion Projects, the Company entered into agreements with Universal Oil Products Inc., Chicago (UOP) as process licensors and with Engineers India Ltd. (EIL) as engineering contractors. An Agreement with (EIL) was also entered into in Dec. 1981 for process design, Head Mass Transfer Division (HMTD) services, detailed engg. purchases, inspection, expediting, transportation, customs clearance, project management, construction supervision and commissioning services for the project at a lump sum amount of Rs. 7 crores (including fees for the project of capacity expansion of 4.5 (MTPA), based on the total project schedule of 36 months from 1st March, 1981, date of order for reactor/regenerator). It has been informed that in the event of the project schedule extending beyond 36 months due to any 'force majeure' or for any other reasons not attributable to EIL, the project completion schedule and the additional amount to be paid to EIL were to be suitably revised by mutual negotiations. The Committee are unhappy to find that while the agreement protected EIL and UOP in case the scheme was extended beyond scheduled date of completion but there was no corresponding provision to safeguard the interests of CRL by way of penalty clause for failure attributable to EIL/UOP to complete the project by the scheduled date. The agreements did not also provide for any motivation on the part

of EIL/UOP to complete the work within 36 months, as any delay had the effect of further pushing up the fees payable to EIL. The Committee are also unhappy to find that apart from a payment of Rs. 700 lakhs made to EIL as engineering fees, the Company had to pay Rs. 25.46 lakhs to them towards reimburseable cost of extra work. In this connection, the Committee were informed by Audit that circumstances which warranted this extra expenditure and the reasons as to why they could not be provided in the main work were not available. On the question of non-inclusion of penalty clause for delay in completion of work as per schedule in the agreements with the contractors, the Chairman and Managing Director, CRL during his evidence before the Committee inter alia stated that ".....in the last contract we have tried to incorporate it. Now we are taking Ministry's intervention. Hopefully, in the next contract, we will be able to cover that." It was also assured by CMD, CRL that they would include such a penalty clause in future agreements. The Committee are pained to observe that due to this lacunae in the agreement with EIL, the Company had to incur an infructuous expenditure of Rs. 25.46 lakhs towards reimburseable cost of extra work paid to EIL. The Committee recommended that in all future contracts, a penalty clause should be invariably included for the delay in completion of the projects by contractors as per schedule and it should also be ensured that this clause is strictly enforced.

Reply of the Government

This recommendation of the Committee has been taken note of and in the case of Benzene project, penalty clause to the extent possible has been included by CRL and in the future agreements also a suitable clause will be considered for inclusion.

A copy of the recommendation has also been furnished to Bureau of Public Enterprises for considering the question of issuing suitable instructions to all the Public sector undertakings.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural gas) O.M. No. R-38018/1/90-OR-II dated 20-11-90]

Recommendation Sl. No. 15, (Paragraph Nos. 3.44 & 3.45)

The Committee note that the project estimates of the Secondary Processing Facilities (SPF) increased from Rs. 30.90 crores in Sept., 1976 to Rs. 116.66 crores in Sept., 1981. The percentage increase of project estimates was as high as 278.8 per cent. It was stated to be due to non-inclusion of financing cost of Rs. 24.19 crores, time gap between the initial cost estimates and the period of implementation

and non-availability of detailed engineering at the time of preparation of detailed feasibility report. The Committee have also been informed that since both Secondary Processing Facility (SPF) and capacity expansion projects were inter-connected with many common facilities, their implementation was clubbed together. In Nov., 1984, CRL prepared the Detailed Project Report (DPR) for both the projects together. A review was also stated to have been carried out in Nov., 1984, in the light of the process designs finalised by UOP, PPC, and EIL and other available information which indicated that the revised capital cost of the projects together would be Rs. 156.43 crores as against the combined sanctioned cost of Rs. 132.59 crores (Rs. 116.66 crores for SPF and Rs. 15.93 crores for capacity expansion). The final cost of both these projects on completion was Rs. 164.98 crores. Thus, there was cost escalation of Rs. 32.39 crores in the project estimates for SPF and capacity expansion projects.

In this connection, when the Committee drew the attention of CRL to the observations made by the Planning Commission in Feb., 1982 while approving the Feasibility Report of Sept., 1981, a representative of CRL was candid in his reply during his evidence before the Committee that "There is some defect in the original estimates and.....they are trying to reduce the areas where the estimates go wrong." On the same subject, the Ministry of Petroleum and Natural Gas informed that the original cost estimates were prepared without completing detailed engineering. This resulted in substantial increase in the costs *vis-a-vis* the estimates. Further, the Ministry has assured that on the basis of the report of a study group, substantial improvements were made in the procedure for estimating project costs. Approval is also now based on a two stage system. According to them, this has resulted in considerable improvement in cost estimation. The Committee are deeply shocked to observe that the cost estimates of these projects were prepared by the Company with insufficient data and without completing detailed engineering which culminated into substantial cost escalation in the initial estimates of these projects. They deprecate the lackadaisical manner in which the estimates of these projects were prepared by the Company and feel that the Govt. also cannot escape from their responsibility in this regard. The Committee desire that in future projects of the Company it should be ensured that the project estimates are prepared realistically after taking into consideration all relevant factors and plugging all the loopholes existing in cost estimation of the projects.

Reply of the Government

The recommendations of the Committee have been noted for compliance. In the case of Benzene project implemented by the Company and commissioned in March, 1989, the actual cost incurred is well within the approved cost and there is no overrun. Further the project was also commissioned well within the scheduled date of completion.

[Ministry of Petroleum and Natural Gas
(Deptt. of Petroleum and Natural Gas)
OM No. R-38018|1|90-OR. II dated 20-11-90]

Recommendation Sl. No. 16 (Paragraph No. 3.46)

The Committee regret to find that as against the project schedules of March, 1984 for mechanical completion of capacity expansion and Secondary Processing Facilities (SPF) projects, the actual dates of commissioning of these projects were respectively October, 1984 and June, 1985. Thus, there was a delay of 7 months in case of capacity expansion projects and of about 15 months in case of SPF project. These slippages were stated to be caused mainly due to delays in release of drawings of UOP/EIL, procurement, tendering, delivery and construction ranging from 3 months to one year. The extent of hold-up due to all the delays was assessed to be 22.14 per cent as compared to the original schedule of completion by March 1984. In view of the delays in implementation of these projects, when the Committee enquired about the machinery in the Ministry to monitor the progress of implementation of various projects as well as concrete measures taken by them to avoid recurrence of such slippages in future projects, the Ministry of Petroleum and Natural Gas *inter-alia* informed the Committee that a cell has been set up by the Ministry in Engineers India Limited which has been entrusted with the task of monitoring of all projects costing Rs. 20 crores and above. In addition, in respect of the projects costing Rs. 100 crores and above, a system of Flash Report has been introduced. The completion schedule of a project is stated to be divided into various milestones through a PERT Chart. The progress of constructions is, thereafter monitored through the milestones achieved. Quarterly Performance Review Meetings are also taken at the level of Secretary with Chief Executives of Public Sector Undertakings under the administrative control of the Ministry wherein the progress of the projects is also discussed and remedial action wherever necessary is taken. According to the Ministry, this arrangement of monitoring the progress of implementation of projects has been, working very well and it is hoped that

slippages in time schedule of future projects will be avoided to a large extent, if not completely eliminated. The Committee are of the view that had the Company and the administrative Ministry monitored the progress of implementation of SPF and capacity expansion projects systematically as is being done now, slippages would not have occurred in these projects. The Committee, therefore, recommend that the projects implemented by the Company in future should be monitored closely both by CRL as well as the administrative Ministry through the mechanism devised by them now and it must be ensured that the projects are completed by the scheduled dates and within the estimated expenditure.

Reply of the Government

The recommendations of the Committee has been noted for compliance. As already submitted to the Committee, the projects are now being monitored by the Ministry and also by the project authorities through a monitoring cell set up by the Ministry in Engineers India Ltd. This is in addition to the system of flash reports. The monitoring system is also being constantly reviewed to make it more effective.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR-II dated 20.11.90]

Recommendation Sl. No. 22 (Paragraph No. 4.39)

The Committee note that the capacity utilisation of the Company had been above 85 per cent during the years from 1978-79 to 1987-88 except in the years 1984-85 and 1985-86 when it was respectively 22.31 per cent and 61.89 per cent. Some of the reasons for shortfall in crude thrupt during these years were stated to be on account of plant emergency shut down, non-availability of crude due to diversion of cargo and tanker meant for CRL to other refineries and non-allocation of suitable crude for CRL etc. In this connection, the Chairman and Managing Director of CRL, during his evidence before the Committee informed that they were getting adequate crude and during the last two years there was no such problem as the indigenous crude was available. They also hoped that during the year 1988-89, the crude thrupt of CRL would be 4.75 MTPA as against its capacity of 4.5 MTPA. The Committee are glad to note the improvement in the crude thrupt during the last few years. They hope that with the overcoming of various production constraints especially with the adequate availability of indigenous crude, the Company will be able to maintain its capacity utilisation around 100 per cent.

Reply of the Government

The crude thrupt of CRL during 1988-89 was 4.761 MTPA as against a capacity of 4.5 MTPA. This represents a capacity utilisation of 105.80 per cent. Subject to availability of crude, the refinery is likely to achieve 100 per cent capacity utilisation in the coming years also.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018|1|90-OR-II dated 20-11-90]

Recommendation Sl. No. 25 (Paragraph No. 4.42)

The Committee find that although the refinery started regular production of LSHS from Nov., 1978 but they started consumption of LSHS as own fuel only from July 1981 and that too partially by installing a temporary seal oil system at a cost of Rs. 3.81 lakhs. A permanent seal oil for fuller use of LSHS as own fuel was completed in March 1983. When asked to state the reasons for not switching over to LSHS in November, 1978 itself. The representative of CRL during evidence stated that 'what we thought was that the market of LSHS should be developed and then it will be consumed by the switch over of fuel oil consumers to LSHS; in this connection, the CMD, CRL also added that due to some reason or the other, the marketing areas for LSHS did not develop as anticipated and there had been gap between production and actual marketing. As soon as they came to know that it was not catching up, they were able to introduce it fully in place of furnace oil only in 1983. The Committee are not satisfied with the above replies and are of the view that had the refinery switched over to the use of LSHS from Nov. 1978 as envisaged originally, it would have definitely resulted in considerable saving in the consumption of valuable furnace oil, which is reported to have been in great demand by the industry. Besides, it would have also enabled the Company to increase thrupt of BH crude with a resultant reduction in the import of crude, thereby conserving valuable foreign exchange.

Reply of the Government

The observations of the Committee have been noted. Since there were constraints on LSHS off takes, CRL subsequently decided to use LSHS as own fuel and necessary facilities were initiated in 1981.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018|1|90-OR-II dated 20-11-90]

Recommendation No. 26 (Paragraph No. 4.43 and 4.44)

The Committee are perturbed to note that the Company had a record of four fires—Dec., 1981, May 1982, Sept., 1983 and March 1984, the last one a major explosion destroying equipments, buildings etc. resulting in very heavy losses. The explosion in the Kerosere heater in Dec., 1981 necessitated repairs at a cost of Rs. 16.35 lakhs and the insurance claims were settled for Rs. 20.29 lakhs. The fire in Sept., 1983 was a major one, which caused extensive damage to the crude charge heater, erected in 1972-73 as a part of the expansion. The cost of the damage was estimated at Rs. 77 lakhs. The crude thrupt loss from 17th Oct., 1988 (start up of plant after turnaround) to 10th Nov., 1983 worked out to 2.26 lakhs MTs. The loss of thrupt resulted in loss of profit of Rs. 14.46 lakhs. A major explosion and fire occurred in the refinery on 8th March 1984. The explosion caused considerable damage to equipment and buildings of CRL. An internal Committee of Departmental Heads which investigated the cause of the explosion and fire concluded that it was caused due to human failure in complying with the established operating procedures. The report of the Committee of experts (High Power Committee) deputed by the Govt. of India to investigate into the cause of the explosion and fire submitted in June, 1984, disclosed several disturbing aspects of refinery operations. This Committee also suggested some corrective measures based on their recommendations. The Company is stated to have taken all the corrective measures suggested by the above Committee except one regarding Distributed Digital Control (DDC) System which under implementation. Even in the case of the major fire which occurred in March 1984 the technical experts came to India only on 26th March, 1984 i.e. nearly three weeks after the event. The refinery stopped production from 8th March to 3rd Oct., 1984. Apart from the production loss of Rs. 4227.05 lakhs, financial benefits expected from the expansion and SPF to the tune of Rs. 276 lakhs per annum, were also postponed. The total loss to the equipment is admitted to be to the tune of Rs. 7 crores due to the fire accident of March 1984 alone. The Committee take a serious note of the series of fire accidents which took place at short intervals in succession from 1981 to 1984 which in turn resulted in huge financial loss to Refinery. They are distressed to note that CRL did not

take measures to provide adequate fire fighting facilities in the Refinery. In Committee's view, the renewal of the TSA agreement with practically no responsibility or commitment on the part of PPC definitely casts sad reflection on the working of CRL. The Committee also feel that the numerous deficiencies as pointed out by the Internal Committee as well as the High Powered Committee definitely raise doubts about the effectiveness of PPC as technical consultants in refinery consultation and its continued operation despite the heavy fees paid to them over a period of several years. The Committee note that to avoid recurrence of such cases of fire and explosion in the refinery, all remedial measures and instructions suggested by various departmental and High Powered Committee have been implemented by CRL. They hope that there would be proper upkeep the fire-fighting equipments installed in the refinery.

Reply of the Government

CRL has implemented all works connected with safety and are maintaining the equipment in good order. From 1984-85 onwards, there has been no major fire. Apart from this, CRL has received following safety awards:

1. Award of Merit issued by the National Safety Council, Chicago for the operation of 10,95,978 employee hours without an occupational injury during July—Dec., 1987; and
2. National Safety Award, 1988 in recognition of maintaining high standard of safety from British Safety Council, London.

To ensure proper implementation of various aspects of safety in the oil industry, this Ministry had set up an Oil Industry Safety Directorate (OISD). The OISD functions under a Safety Council with Secretary (Petroleum) as the Chairman. It has been decided that the OISD will carry out external safety audits of all refineries including Cochin refineries Ltd. on a regular basis to ensure proper implementation of safety procedures.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum Natural Gas) O.M. No. R-38018/1/90-OR II dated 20-11-1990]

Recommendation Sl. No. 27 (Paragraph No. 4.45 & 4.46)

The Committee are happy to note that crude thruput rose from 2.75 MMT in 1985-86 to 4.7 MMT during 1988-89. The capacity utilisation showed an increase from 61.1 per cent in 1985-86 to 105.8 per cent in 1988-89. Turnover of the Company also went up from

Rs. 548.5 crores in 1985-86 to Rs. 1164.1 crores in 1988-89. Likewise profit before tax also showed a significant increase from Rs. 0.25 crores in 1985-86. to 48.36 crores during 1988-89. The Committee also note that as part of the strategic needs of the growth of CRL, in line with their Corporate Plan new projects such as, Refinery Capacity Expansion, Diversification into petrochemicals field etc. are also being currently taken up by the Company.

While the Committee appreciate over-all improvement in performance and consistent progress made by the Company during the last four years, they trust that continued vigorous efforts shall be made in order to achieve still higher levels of performance in the years to come.

Reply of the Government

The recommendation of the Committee has been noted. It shall be the endeavour of the Company to improve upon its performance in the coming years.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1|90-OR-II dated 20.11.90]

CHAPTER III

RECOMMENDATION WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation Sl. No. 17 (Paragraph No. 3.47)

It has been brought to the notice of the Committee that though maximisation of middle distillates by conversion of heavy residues was the need of the hour the refineries commissioned in the 1960s did not contemplate installation of FCCU. The FCCU as a process had come to be exploited on a commercial scales as early as in 1942. The Visakh Refinery established in 1957 had a FCCU. The Committee regret to find that the Company considered the feasibility of a FCCU only in 1976, nearly ten years after the refinery was commissioned and the FCCU actually started functioning in 1985. In this connection, the Committee were informed that at the time of entering into construction contract of the Refinery, the FCCU technology was not developed to cater for increased middle distillate production. The technology of FCCU was such that it produced more Naphtha, which was surplus world over at that time. Subsequently, improvements were made, in FCCU technology to increase the production of middle distillates in preference to Naphtha. According to the Company, the feasibility of including FCCU in CRL was considered at time of its construction, but it would have cost the Company an amount of more than Rs. 150 crores. This higher investment would have had a bearing on the economic viability of the refinery, therefore it was not considered feasible by the Company to include FCCU at that time.

The Committee are convinced that the problem of surplus Naphtha had to be viewed in the context of increasing demand for middle distillates which when imported would place a heavy burden on foreign exchange. The Committee fail to understand as to why this factor was not taken into consideration because this was visualised by Government even in 1962 while contemplating a proposal for setting up one more refinery in South India. The Committee are unhappy to note that a detailed analysis of pros and cons of including FCCU in CRL was not done by the Company at the time of establishment of the refinery

Reply of the Government

When the refinery construction contract was entered, the FCCU technology was not fully developed for maximising middle distillate production. FCCU was basically for producing increased quantity of gasoline as was the case with the FCCUs set up in the refineries at Bombay and Visakh. By installing FCCU, production of naphtha would have been more, which would have caused disposal problems since naphtha was a surplus product and would have been exported in highly competitive markets. Further, it would have involved additional investments and would have increased investments in the refinery. Hence, CRL installed a reformer unit for producing gasoline as against FCCU in other refineries. After the steep increase in the crude cost and when the FCCU technology was modified to increase middle distillates production, CRL considered the feasibility of installing FCCU for maximising middle distillates in 1976 to meet the growing demand for these products with economic advantage.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR.II dated 20-11-1990]

Recommendation Sl. No. 18. (Paragraph No. 3. 48)

The Committee regret to find that during 1985-86 as against the planned intake of 41.03 lakhs MTs of crude, the actual crude run was 27.54 lakh MTs which worked out to be 32.74 per cent of the planned thruput. The high incidence of loss of thruput in CRL was due to project delay/stabilisation. In this connection, the Committee are constrained to point out that while the time taken for Madras Refineries Limited to stabilise its FCCU after commissioning was only 3 months, the FCCU of CRL could not stabilise even till December 1985 (commissioned in June, 1985) due to considerable teething problems.

Reply of the Government

Originally the schedule for completion of capacity expansion and FCCU was June, 1984. As of March, 1984 the capacity expansion project was on schedule and a shutdown of the refinery was scheduled from the middle of March, 1984 to the end of May, 1984 to carry out the revamping of the crude unit and associated facilities. On completion of the revamping operation, the crude unit would have been commissioned with the expanded capacity of 4.5 MMT in June, 1984 as scheduled. Regarding FCCU it was scheduled

to be commissioned fully by end of September, 1984. The scheduled progress was in fact achieved by March, 1984 inspite of the fact that there was a delay of 6 months in receipt of reactor|regenerator from BHPV and another delay of 3 months due to the power cut imposed by Kerala Govt. As of March, 1984 no delay was anticipated in commissioning capacity expansion facilities and at best only a marginal delay was expected in the implementation of FCCU. However, the unfortunate fire accident of 8th March, 1984 resulted in considerable damage to the existing utility|facilities and it took more than 6 months to put into commission the damaged facilities along with the revamping of the crude unit. Since all available resources were directed and utilised for recommissioning of old refinery facilities along with the expanded crude unit in the first instance only in October, 1984 the secondary processing facilities got delayed.

Further, the industrial relations commencing from May, 1985 also got deteriorated which ultimately culminated in a 102 days strike. Consequently the secondary processing facilities could be commissioned only in June, 1985. But for the fire accident in March, 1984 both the projects could have been commissioned on schedule with perhaps some marginal delay in the case of FCCU.

During 1985-86 CRL achieved an actual thrupt capacity of 2.749 MMT which amounts to nearly 61 per cent of the installed capacity. As per standard industrial norms, after commissioning of a new unit, achievable capacity in the first year operation is 60 per cent. It will be noted that CRL has achieved 61 per cent of the capacity utilisation during the first year of operation despite ~~con~~straints such as unfavourable crude mix, high catalyst loss and industrial relations problems.

In view of the circumstances detailed above, it will be seen that there has been no identifiable lapses on the part of either the project implementation set up, project co-ordinators—EIL nor CRL Management. The unfortunate fire accident that occurred in March, 1984 was responsible for the delay in completion of capacity expansion as well as FCCU. Non-stabilisation of units soon after commissioning has also to be considered as having regard to the fact that CRL has achieved the capacity expansion by a major-modification of the crude fractionating column as well as substantial changes to the column internals, heat train, pumping capacity etc. Thus the expanded unit of CRL for all practical purposes is a new unit and installation of FCCU is a complete new technology for CRL. In view of the same, this Ministry is of the view that achievement of 61 per

cent capacity in the first year of operation is within the prescribed norms.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR-II dated 20.11.90]

Recommendation Sl. No. 19 (Paragraph No. 3.49)

The committee are also perturbed to note that on account of a fault in the plant (use of counter weighted flapper valves instead of trickle valve), the rate of consumption of catalyst became alarmingly high during July, 1985 to December 1985 (ranging between 3.40 MTs/day to 17.60 MTs/day) as against the estimated consumption of 1.8 MTs/day as per UOP design. The total consumption was stated to be 800 MTs during this period. CRL suffered a set back of Rs. 80 Lakhs (approx) on account of the abnormal consumption of valuable catalyst and after consulting the process licensors (M/s. UOP, USA) the technical snag was rectified. In February, 1985 the Sub-Committee of Board of Directors for SPF and expansion projects directed CRL to examine the agreement with UOP from the legal angle to find out if the delay in commissioning of the FCCU and non-stabilisation of the unit could be attributed to failures on the part of UOP and whether there was any provision in the Agreement for penalising UOP for their failures, as this had resulted in overstay of UOP (personnel) and consequential payment of a substantial amount of US \$ 1,340,813 (Rs. 160.90 lakh) by way of supervision charges. In this connection, the Ministry intimated Audit in July, 1987 that the valve design was the same as of Koyali refinery and the excessive catalyst loss was purely accidental to CRL. CRL could not hold UOP legally responsible for the loss of thruptut or high consumption of catalyst experienced at the time of commissioning, as per legal advice taken by CRL and PPC had also concurred with this view. The committee feel that there had been a lacunae in the agreement with UOP due to which they could not be held responsible for these lapses. They desire that in view of thruptut loss during 1985-86 on account of project delay|stabilisation and also the loss of Rs. 80 lakhs due to excess consumption of catalyst, the matter should be thoroughly gone into with a view to fixing responsibility. The Committee also hope that in future agreements this legal lacunae will not come in the way of holding the consultants responsible and recovering damages. However the Company have deferred a payment of dues of \$ 1,62,000 of UOP and discussions were reported to have been initiated with UOP to resolve the issue. The Committee trust that this payment would be finalised by the Company only after re-examining the

whole agreement from the legal angle again with a view to recover at least some portion of losses incurred by the Company.

Reply of the Government

When CRL noticed excessive loss of catalyst, the matter was referred to UOP and experts from USA inspected the same in the last week of Dec. 1985. The conclusion of the expert after inspection was that during the initial operation i.e. before stabilisation when the unit was operated under UOP's direction, the support plates of the valves got distorted resulting in the malfunctioning of the flapper valve and catalyst loss. Subsequently, after reviewing the entire system of the working of valves UOP recommended use of trickle valves in place of flapper valves as a permanent solution. This was implemented.

The choice of the valve was made by UOP in the same manner as they provided in Koyali refinery originally. Koyali is also provided with flapper valve which is even now functioning correctly. But in CRL this caused an excessive catalyst loss and had therefore to be replaced by trickle valve. In the later designs UOP provided trickle valves for the FCCU regenerator in MRL.

In a start up, stabilisation of process takes time and the problems faced by CRL were unfortunate. This situation was brought about neither by any intentional failure on the part of CRL nor collaborators. It is, therefore, not possible at this point of time to fix responsibility]

Regarding payment of dues of \$ 1,62,000 to UOP detailed and long drawn discussions were held between CRL and UOP and M/s. UOP finally indicated that as a gesture of goodwill they agree to reduce the claim amount by 50 per cent. In the light of the recommendations of the COPU, CRL had sought legal opinion in the matter. Their legal consultants had opined that CRL do not have any recourse to recovering any damages from UOP in view of the guarantee clauses in the agreement. In view of the foregoing CRL had taken a view that the offer of UOP for agreeing to a 50 per cent reduction would be the best available solution to the problem. This matter has since been looked into by the Government and the necessary foreign exchange was released and payments were made in full and final settlement of the contract.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR-II dated 20-11-90]

Recommendations Sl. Nos. 20 & 21 (Paragraph 3.50, 3.51, 3.52)

The Audit has pointed out that there were frequent power interruptions that resulted in a loss of production after the refinery went on stream. The number of days the refinery went off stream and the production hours lost due to power failure and power dips since 1980-81 to 1985-86 were respectively 12 and 251. Total thru-put loss for these days was 12200 MTs, which was stated to be not quantified in monetary terms by the Company. The Company is reported to have only estimated the thru-put loss of 12,250 MTs which occurred during December, 1982 at Rs. 228.23 lakhs. The Committee take a serious view of the above loss of production on account of power failure and power dips during 1980—86.

The Committee also find that as a consequence of power cuts imposed by Government of Kerala with effect from 1st December, 1982, the Board of Directors of CRL in December, 1982 decided in principle, to instal captive power plant to meet the entire requirement of the refinery. In this connection, the Ministry of Petroleum in August 1982 had also conveyed to EIL their decision that all the refineries should erect their own captive power generation facilities in order that they were fully insulated from power fluctuations and interruptions, which were endemic in the supply received from outside sources. The Committee are distressed to note that no serious thought was given for installation of the captive power plant at the initial stage of construction of the refinery. The contention put forward by the representatives of the Ministry during the course of evidence to the effect that power situation then was not bad fails to satisfy the committee. The Committee feel that even though at that time Kerala did not face any power shortage, the Company should have established their own captive power plant which is vital for a refinery to ensure regular and uninterrupted power supply, more so when FACT, a neighbouring public sector undertaking at Cochin had established a Captive Power Plant (12 MW capacity) for one of its units as far back as in 1971 and MRL and Koyali Refinery in Gujarat had put up their power plants at the initial construction stage itself.

Reply of the Government

Kerala was a power surplus state in the late sixties and seventies. As the refinery provided almost the entire petroleum requirements of Kerala, the KSEB would have exempted power cuts in the refinery if at all such a situation arose. The power cuts in Kerala started only from December, 1982 and even then the refinery was exempted, although neighbouring industries like FACT

were not exempted. Also to maintain power supply without much interruptions, 2 feeders were installed from KSEB. Kalamassery sub-station direct to CRL. The cost of power generation on the basis of captive power plant will normally be much higher than those generated through hydel sources. As far as Kerala is concerned, the power rate charged by KSEB was much lower and hence the installation of a captive power plant at a time when Kerala state was surplus in power generation would not have been beneficial to company. In August 1982 a report was in fact made to CRL Board indicating that EIL has been requested to prepare a feasibility report for the captive power plant. In February 1983, EIL submitted their report. The report was not further processed as it was not found economical to generate power. A comparison of power cost is shown below.

	1980-81	1981-82
(i) Energy consumed KWH	38,63,633.1	40,98,725.0
(ii) Cost paid to KSEB for supply of power	Rs. 54,92,856	62,51,518
(iii) Unit cost Paisa	14.2	15.2
(iv) Cost of generated power at estimated cost Re. 0.84 per unit ; Rs.	324,54,518	344,29,290
(v) Savings in power (iv) - (ii) Rs.	269,61,662	281,77,772

In August, 1986 the cost of the power from KSEB increased from 32 paise per unit in July, 1986 to 72 paise per unit in August, 1986 due to imported power having been introduced into the system. Even though CRL was exempt from power cut by KSEB, this situation in Kerala became severe and CRL was not sure how far the exemption would continue and also the power supply position should deterioration involving frequent load shedding. Hence CRL took initiative to provide a captive power plant which is now being implemented.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural gas OM No. 38018/1/90—OR. II dated 20-11-90)]

Recommendation Sl. No. 23 (Paragraph No. 4.40)

With the aim of containing the country's import bill as well as reduction in the cost of petroleum products, the production and processing of indigenous crude oil had to be stepped up. It was, therefore, decided in March 1978 to increase the Bombay High

(BH) crude run at the refinery to the maximum extent. It has been stated that the refinery BH crude results in a high percentage of Low Sulphur Heavy Stock (LSHS) and it was estimated that processing of 1 million tonne BH crude would result in 2,66,000 tonnes of LSHS, which is the net quantity after consumption of LSHS as fuel, in the refinery. The Committee are constrained to observe that though the Company had anticipated intake of 28 per cent of BH crude by February, 1979, it could achieve this target by 1982-83 only. Additional facilities at a cost of Rs. 146 lakhs were stated to have been created by October, 1982 to facilitate an intake of BH crude of 2.4 MTPA. The Committee regret to note that the maximum BH crude thruptut was only 1.3 MTPA in 1983-84 and even by 1985-86, the intake only reached a figure of 2.1 MTPA. The main reason for the reduced thruptut of BH crude during these years was stated to be due to the problem of LSHS storage consequent on its poor offtake as a result of apparent inadequate marketing efforts by marketing companies (IOC, HPCL & BPCL) who did not fulfil their obligations to lift the product though wagon loading facilities had been completed in October, 1982. The Committee strongly feel that had the company as well as the Government anticipated the problem of disposal of LSHS earlier, the Company would have achieved the target of intake of 2.4 MTPA of BH crude by October, 1982. They also take a serious note of the fact that the marketing companies (i.e. IOC, HPCL & BPCL) failed to fulfil their obligations to lift the product during this period. Delay in maximisation of intake of indigenous BH crude by CRL as anticipated had resulted in outgo of precious foreign exchange. The Committee, therefore, recommend that a thorough probe should be made into the circumstances leading to the reduced through put of indigenous BH crude with a view to fixing responsibility.

Reply of the Government

Upto the year 1980-81 Bombay High (BH) crude production was fully absorbed in the refineries in our country. Hence there was no loss of foreign exchange till then.

In CRL, BH crude processing was started in 1977-78. This required the conversion of Furnace Oil Customers for using the high power LSHS for which certain additional facilities had to be provided to keep the LSHS in heated condition during handling. The marketing companies were entrusted with this activity. The consumers for LSHS produced at CRL were mainly FACT, Gwalior Rayons, Travancore Rayons, South India Viscose etc. Apart from this, road and rail movement was also envisaged to Tirunelveli and

Madras in Tamil Nadu. The upliftment was not as expected due to problems like serious prolonged IR problems in Kerala leading to lock out of certain consumers, power cut in Kerala resulting in partial or total closure of industries, delay in installation of railway siding at Tirunelveli, inadequate availability of tank wagon etc.

CRL also faced difficulty in blending of LSHS into furnace oil due to pour point specification constraints. During 1985-86, CRL also faced some operating problems with the new FCC unit with 9 consequential increase in LSHS; yield.

In conclusion it may be noted that the constarints explained above were beyond the control of CRL and oil industry as a whole. CRL and oil industry had put in all efforts to maximise BH intake which was at the level of 2.439 million tonnes in 1988-89 and 2.850 million tonnes in 1989-90.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR-II dated 20.11.90]

Recommendation Serial No. 24 (Paragraph No. 4.41)

The Committee, however, appreciate that the company has since overcome the constraint of LSHS disposal by effecting a 5 per cent reduction in its production by modifying the process. This has resulted in maximisation of intake of BH crude which is reported to have reached the level of 3.0 MTPA (with a total processing capacity of 4.5 MTPA).

Reply of the Government

The observations made by the Committee on Public Undertakings with regard to the maximisation of intake of BH crude have been noted.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR. II Dated 24-12-90]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation Sl. No. 12 (Paragraph No. 2.75)

The Committee note that after Triton breached the Contract of Affreightment (COA), CRL entered into a COA with M/s. Norse Shipping Company (Norse) in October, 1973 for a period of 4 years from 1st March 1974 to 28th February, 1978. During the contract, disputes arose mainly concerning the shortfall in the quantity lifted, ocean loss and demurrage. Norse was prepared to offer several concessions and settle all other outstanding claims provided the contract was extended beyond December, 1978. Though Board of Directors of CRL sent their recommendation on this offer for consideration, GOI decided not to extend the COA with Norse beyond 28th February, 1978. Arbitration proceedings were initiated by Norse (May, 1978) for their claim, which was awarded in their favour for an amount of US \$ 4.725 million (Rs. 5.67 crores approximately). CRL challenged the award of arbitrators in the British courts but the courts ruled in favour of Norse. CRL had filed an appeal against the judgement in the Division Bench of British High Courts, which was stated to be pending. On this issue the Company solicited legal opinion from local legal experts, who opined that CRL's appeal in the British courts (May, 1987) would be lost and by that time their liability would mount to \$ 10 million. Keeping in view the local legal opinion, Government of India reached an out-of-court settlement for an amount of \$ 2.9 million on 5th August, 1988. As regards the reasons for not extending the contract with Norse beyond February, 1978, the Secretary of the Ministry of Petroleum & Natural Gas during their evidence stated that the Government took a policy decision to indigenise their own fleet and use Shipping Corporation of India instead of giving it to a foreign company. The Committee are constrained to observe that Government did not properly evaluate the Norse's offer for extension of COA to Shipping Corporation of India on account of which Government of India had to incur an infructuous expenditure of \$ 2.9 million as out-of court settlement for the claims of Norse.

Reply of the Government

The observation of the Committee has been noted. On the question of not granting extension of contract to M/s Norse beyond

28-2-1978, the Ministry would submit that this was a conscious policy decision taken, keeping in view the need for indigenisation. M/s Shipping Corporation of India had by then acquired two large crude tankers and it was felt that instead of giving the contract to a foreign line, it would be better to give it to the national company. Further, the freight paid to SCI and other tankers used for crude transportation, was much lower than what would have payable to Norse by extension of the contract.

(Ministry of Petroleum & Chemicals (Deptt. of Petroleum & Natural gas) OM No. R-38018|1|90-OR. II dated 20-11-90]

COMMENTS OF THE COMMITTEE

(Please see paragraph 6 of Chapter I of the Report)

CHAPTER V

RECOMMENDATION IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED.

Recommendation Serial No. 3 (Paragraph No. 1.24)

The Committee note that M/s Phillips Petroleum Company, USA disinvested their 1,85,007 equity shares in Cochin Refineries Limited by selling these shares of Rs. 100 each at Rs. 200 per share. 25 per cent of these shares were sold to the financial institutions, 5 per cent to the employees of the Cochin Refineries and the balance to the public. After the disinvestment was complete in November, 1988 the public share holding is reported to have increased from 4 per cent to 18 per cent. The Phillips Petroleum Company offered the shares to the Government at a rate of Rs. 3000 per share and obviously the Government refused the offer in view of the high rate, however, later on the RBI fixed the selling price at Rs. 220 per share. These shares are reported to have been sold in November, 1988 when the quoted market price of these shares was around Rs. 250. The Committee are, however, unhappy to note that there was no enabling clause in the agreement with M/s PPC whereby the Government could buy the shares at cost price. The Committee feel that the Government should have considered buying these shares at least when the RBI had fixed the price at Rs. 220 and in any case this would not have caused any loss to the Government. The contention of the Secretary, Ministry of Petroleum and Natural Gas that since the Govt. already had majority of shares, there was no need for investing Government funds and no advantage would have accrued, does not convince the Committee. The Committee hope that as assured by the Secretary, Ministry of Petroleum and Natural Gas during evidence, the question of selling some of the unallotted shares in the open market at a premium would now be examined in greater detail.

Reply of the Government

The proposal to issue 5.86 lakhs unsubscribed shares to the public/Financial Institutions at a premium is still under the consideration of the Government.

[Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR- dated 24-12-90]

Recommendation Sl. No. 6 (Paragraph No. 2.68)

The Committee further note that for 15 years from 1967-68 to 1981-82 CRL paid a total dividend of Rs. 321.30 per cent of its equity capital of Rs. 700 lakhs. While PPC and other shareholders received Rs. 594.43 lakhs and Rs. 466.43 lakhs respectively i.e. more than 3 times their share capital contribution upto 1981-82, Government had to pay a net amount of Rs. 632.40 lakhs, as Government had paid an amount of Rs. 18.20 crores to CRL during the year 1971-72 to 1975-76 in the fulfilment of contractual obligations arising out of the modified formation agreement. The Secretary, Ministry of Petroleum and Natural Gas stated inter alia, during the evidence that there was no negative return. Government also received dividend in the same proportion as others from the Company. The representative of CRL, however, admitted during the evidence that the liability of the Government arose due to the provisions in the Formation Agreement. Clause 3 of the modified agreement of Feb. 1969 further provided that in the event of CRL making net profits in excess of those required to pay the guaranteed dividend, CRL should apply such excess towards refund of contributions made by the GOI to the revenues of CRL to enable it to pay the minimum dividend. The Committee regret to note that no refund had been made by the Company even when the Company was having excess funds from 1981-82 onwards on the plea that the agreement had expired in 1982. The Committee were informed that as the agreement had expired, the CRL was not legally liable to refund the contribution of Rs. 1820.63 lakhs made by the GOI as guaranteed dividend. In this connection the Committee were also informed that the GOI had already received back Rs. 14.40 crores (approximately) out of Rs. 18.21 crores paid to CRL as income tax, dividend tax and share of dividend and there was no legal obligation for CRL to repay the balance amount as per agreement of the 20th Dec., 1968. The Committee, however, are not convinced of the above justification given by the Ministry. The dividend received by Government during 1967-68 to 1981-82 was only Rs. 1188.23 lakhs whereas their contribution to enable minimum dividend payment was Rs. 1820.63 lakhs. The Committee cannot but conclude that the negative return to the Government was the direct consequence of the unfavourable provisions in the Formation Agreements in April, 1963 and Feb., 1969 with PPC. The Committee desire that the possibility of recovering the amount of Rs. 18.20 crores should be further examined. They also hope that

in future more care shall be exercised while framing the terms and conditions of the contract and interest of the Government shall also be adequately safeguarded.

Reply of the Government

On the question regarding repayment of Rs. 18.20 crores by Cochin Refineries Ltd., it is pointed out that as per clause 14 of the original formation agreement dated 27th April, 1963 CRL was to be paid a minimum process margin of US \$1.35/1.30 for an initial period of 15 years. However, this was substantially modified to the benefit of the Government of India by the modification on 20.12.68 of the formation agreement dated 27th April 1963 whereby the above clause 14 was deleted. As per this modification only a minimum process margin was to be provided by the Government of India and even this could be invoked only in those years where CRL's results did not enable the Company to declare a stipulated dividend.

The payment of Rs. 18.20 crores by GOI to CRL and its return by CRL were based on clauses 3 and 9 of the modified formation agreement.

Clause 3 of the agreement dated 20.12.68 contains the following provisions:

- Quote: 1. The Government of India will ensure that Cochin will declare and pay dividends out of its profits and free reserves of atleast an amount sufficient.....
2. Provided also that where the GOI arranges for any payments as above, and in the event that at the end of any subsequent financial year or years Cochin makes *net profits* in excess of those required to declare and pay as aforesaid dividends for such financial year sufficient that when totalled with previous dividends including those for the particular financial year dividends will have been declared and paid by Cochin sufficient that Phillips has received an amount equal to the average net dividend of \$388,270.24 calculated as above multiplied by the number of financial years from 1967-68 to and including the particular financial year, then Cochin shall pay to Government of India an amount from such excess as will in the aggregate equal the payments which the Government of India has made to Cochin, less any taxes in-

cluding income taxes, duties, levies or other charges, if any, which Cochin may have paid on said payments from the Government of India to Cochin.

This indicates that dividend quantum has to be based on the profits and free reserves available. But the obligation to return the money received arose only when—

- (1) in any financial year the net profits available are in excess of that required to declare and pay dividends for such financial year; and
- (2) that year's dividends when totalled with the previous years' dividend would have resulted in PPC having received an amount equal to average net dividend of US \$388,270.24 per annum.

Clause 9 of the modified agreement is as follows:

This agreement and all provisions thereof except the provisions of paragraph 3 shall terminate on 31st Aug., 1982. Upon the date which Cochin declares and pays the dividend for financial year 1981-82 in accordance with the provisions of paragraph 3 thereof, the provisions of said paragraph 3 shall terminate.

During all the years including the financial year 1981-82, CRL's profits were not sufficient to meet the dividend obligation and during the year ended 31st March, 1981 an amount of more than Rs. 2 crores were transferred from General Reserve to the Profit and loss account as required under Companies Act so that CRL could declare dividend as stipulated in the modified formation agreement. Thus it will be seen that there was no surplus left after making provision for dividend and other statutory reserves so as to enable CRL to return the amount received from the Government.

In its vetting comment on the draft reply Audit asked the Ministry to consider taking the advice of the Ministry of Law on the recovery of Rs. 18.20 crores from CRL vis-a-vis the impact of the modified formation agreement. The advice has been sought from Ministry of Law who have been expedited.

(Ministry of Petroleum and Chemicals (Deptt. of Petroleum and Natural Gas) O.M. No. R-38018/1/90-OR II Dated 24-12-90)

NEW DELHI:

BASUDEB ACHARIA,
Chairman

8th March, 1991

Phalguna 17, 1912 (S)

Committee on Public Undertakings

ANNEXURE I

Minutes of the 35th sitting of the Committee on Public Undertakings held on 6th March, 1991

The Committee sat from 15.30 hrs. to 17.30 hrs.

PRESENT

Shri Basudeb Acharia—*Chairman*

MEMBERS

2. Shri Manoranjan Bhakta
3. Dr. A. K. Patel
4. Shri Piyus Tiraky
5. Shri Yuvraj
6. Smt. Renuka Chowdhury
7. Shri Dipen Ghosh
8. Shri Mohinder Singh Lather

SECRETARIAT

1. Shri S. C. Gupta—*Joint Secretary*
2. Shri K. K. Sharma—*Director*
3. Smt. P. K. Sandhu—*Under Secretary*

The Committee took evidence of the representatives of the Ministry of Energy (Department of Coal) in connection with examination of Coal India Ltd. y

*** Minutes relating to the evidence of the representatives of Department of Coal in connection with examination of Coal India Limited have been kept separately.

The Committee thereafter considered and adopted the following draft Reports subject to the amendment shown in the Annexure:

- (i) Draft report on Action Taken by Government on the recommendations contained in the 63rd report of Committee on Public Undertakings (1989-90) on Cochin Refineries Limited.

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

The Committee authorised the Chairman to finalise the reports on the basis of factual verification by the Ministries/Undertakings concerned and Audit and to present the same to Parliament.

The Committee then adjourned.

APPENDIX II

(Vide Para 3 of Introduction)

Analysis of action taken by Government on the recommendations contained in the 63rd Report of the Committee on Public Undertakings

I.	Total number of recommendations made	27
II.	Recommendations that have been accepted by the Government (vide recommendations at Sl. Nos. 1,2,4,5,7 to 11, 13 to 16, 22 & 25 to 27)	17
	Percentage to total	63%
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies (vide recommendations at Sl. Nos. 17 to 21, 23 & 24)	7
	Percentage to total	25.9 %
IV.	Recommendation in respect of which reply of Government have not been accepted by the Committee (vide recommendations at Sl. No. 12)	1
	Percentage to total	3.7%
V.	Recommendations in respect of which final replies of Government are still awaited (vide recommendations as Sl. Nos. 3 & 6)	2
	Percentage to total	7.4%