C.P.U. No. 25

COMMITTEE ON PUBLIC UNDERTAKINGS

[THIRD LOK SABHA]

TWELFTH REPORT

Action taken by Government on the recommendations contained in the Twenty-eighth Report of the Estimates Committee (Third Lok Sabha).

INDIAN OIL COMPANY LTD.
[Now Indian Oil Corporation Ltd.]

MINISTRY OF PETROLEUM AND CHEMICALS

LOK SABHA SECRETARIAT
NEW DELHI

November, 1965
Kartika, 1887 (Saka)
Price: Re. 0·60

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(THIRD LOK SABHA)

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Shri H. G. Paranjpe—*Under Secretary.*

INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Twelfth Report on the action taken by Government on the recommendations contained in the Twenty-eighth Report of the Estimates Committee (Third Lok Sabha) on the Indian Oil Company Ltd. (now Indian Oil Corporation Ltd).

2. The Twenty-eighth Report of the Estimates Committee was presented to the Lok Sabha on the 29th March, 1963. Government furnished their replies indicating the action taken on the recommendations contained in that Report on the 31st October, 1963. As Public Undertakings are now to be examined by this Committee, the replies of Government to the recommendations made by the Estimates Committee in the aforesaid Report have been considered by this Committee. The draft Report was adopted by this Committee on the 11th November 1965.

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

I. Recommendations that have been accepted by Government.

II. Recommendations which the Committee do not desire to pursue in view of Government's reply.

4. An analysis of the extent of acceptance of the recommendations is given in Appendix II.

PANAMPILLI GOVINDA MENON,
Chairman,
Committee on Public Undertakings.

NEW DELHI;
November 11*th* 1965.
Kartika 20, 1887 (*S*)

CHAPTER I

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 4)

It is seen that the shortfall in imports during the first half of the period was mainly due to the Company not being prepared to receive them. The Committee are assured that the full quantity of targetted imports would be imported by the end of the fourth year and it is hoped that there will be no difficulty in keeping up to the schedule. (*Para* 17)

Reply of the Government

The Indian Oil Company signed its first agreement with USSR Export Organisation on 15-7-1960 for the import of 1.5 million tons of white oils. This quantity was proposed to be imported during a period of 4 years commencing from September, '60, and ending in September, '64. The delivery schedule of this agreement was subsequently amended by extending the 4-year period upto December, 1964.

The Company has imported upto the end of August, 1963, a quantity of 9,56,746 tonnes of white oils; taking into account the present rate of import, the Company will be able to import the entire contracted quantity of 1.5 million tons a few months before the schedule date.

On 11-9-1961, the Indian Oil Company signed an agreement with the USSR Export Organisation for import of 50,000 tonnes of furnace oil. The final delivery schedule stipulated that this quantity would be imported by November, 1962. In fact, the Company imported 71,624 tonnes by the said date. The excess import is being adjusted in the programme for 1963.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963]

Recommendation (Serial No. 5)

Judging from the past performance of the Company in the matter of import of petroleum products and the progress made in the development of storage capacity so far, the Committee feel that energetic measures are called for by the Management if it is to import 50 per cent of deficit petroleum products by 1964-65. Detailed plans and programmes have to be made by the Company to achieve this objective. (*Para* 19)

REPLY OF THE GOVERNMENT

The Company expects to import about 9 lakhs tonnes of bulk refined products during 1963. The plan of the Company is to import 10-15 lakhs tonnes of these products during each of the years 1964, 1965 & 1966, against India's Trade Plan with one of the foreign countries. This alone is expected to achieve the target of import of 50 per cent of the total deficit. The Company has planned the construction of about 200,000 tonnes of additional storage capacity, 50 new depots and 600 new pumps during 1963-64. Detailed plans in this respect have already been framed.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963]

Recommendation (Serial No. 6)

It will be seen that while there is a serious shortage of kerosene and Diesel Oils necessitating large expenditure of foreign exchange, there is a surplus of motor spirit. It is particularly noteworthy that these imbalances are expected to increase considerably by the end of Third plan. (*Para* 21)

Though this may create a problem for disposal of motor spirit produced in the country as a whole, the Committee are assured that as far as I.O.C. is concerned, they will have no surplus of motor spirit on its hands. Nevertheless the question of finding foreign market for the surplus motor spirit such as there may be, has to be faced and it is hoped that every effort would be made by the producers of motor spirit for its disposal as it will bring foreign exchange into the country. (*Para* 22)

REPLY OF THE GOVERNMENT

Government is already seized of the problem and the possibility of reducing the imbalance by finding new uses for naphtha (raw petrol) is being explored, apart from the utilization of naphtha in petrochemicals, fertilizers, town gas etc.

It may be stated, in this context, that motor spirit produced from indigenous crude will have priority in the matter of meeting the motor spirit demand over the motor spirit produced from imported crude oil.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October,* 1963]

Recommendation (Serial No. 14)

The Committee are somewhat surprised to find that although the Nunmati Oil Refinery had gone on stream over a year ago, no agreement has been finalised between Indian Oil Company and the Indian Refineries Limited for the purchase of products from the refinery. They hope that an agreement will be finalised about any further loss of time. (*Para* 39)

REPLY OF THE GOVERNMENT

Finalisation of an agreement had to be preceded by detailed calculation of various types of charges/elements which go into the price structure. Besides, an element of uncertainty was introduced because of the Sales Tax question raised by the Assam Government. It took a long time to find a solution to this problem as well as other problems. The agreement has since been finalised and signed.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October,* 1963]

Recommendation (Serial No. 16)

The Committee feel that in such cases where the commissioning of the various projects are inter-linked and the failure of one party to keep to schedule dates seriously affects the working of other projects and results in considerable extra expenditure, an endeavour should be made to discuss the matter at the highest level between the various parties with a view to determine the necessity as well as the responsibility for incurring extra expenditure. (*Para* 43)

REPLY OF THE GOVERNMENT

Noted.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October,* 1963]

Recommendation (Serial No. 19)

The Committee feel that large outstanding dues adversely affect the economical functioning of the Company. They, therefore, suggest that effective measures should be taken to recover outstanding dues as early as possible. (*Para* 51)

Reply of the Government

Noted.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963]

Recommendation (Serial No. 20)

The Committee regret to note that although nearly three and a half years elapsed when the Company was set up, no proper cost accounting was introduced till recently. They recommend that immediate and energetic measures should be taken to make cost accounting a reality so as to enable the management to exercise effective control over operational expenses. (*Para* 52)

Reply of the Government

Noted.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963]

Recommendation (Serial No. 21)

The Committee hope that immediate remedial measures would be taken by the Company to improve the methods of accounting and to keep them in proper form. (*Para* 53)

Reply of the Government

The Company is alive to the imperative need of improvement in the methods of accounting. An accounts Manual was prepared in October, 1962, with a view to streamling the accounting procedure at Branches, Depots and Installations. Further improvements are also planned by constantly reviewing the systems and methods. To keep pace with the rapid tempo of expansion, Machine Accounting system has been introduced in the Head Office in consultation with M/s. International Computers and Tabulators Pvt. Ltd., and an adequate number of officers have been provided to organise the Branches. Staff training programmes have also been undertaken.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963]

Recommendation (Serial No. 24)

The Committee note that there were frequent changes in the membership of the Board. The Committee do not consider such changes conducive to the efficient working of the Board. Further they feel that the number of officials on the Board is also on the high side. In this connection the Committee would invite a reference to the decisions of the Government on the recommendations contained in Krishna Menon Committee Report wherein Government have decided to generally appoint only one representative each from the administrative and the Finance Ministries on the Board of Public Undertakings. The Committee recommend that the question of reducing the representation given to the various official interests on the Board of the Company may be examined by Government. (*Para* 61).

REPLY OF THE GOVERNMENT

This recommendation of the Committee has been noted by the Government for examination in the larger context of all its public undertakings/projects.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October,* 1963]

Recommendation (Serial No. 25)

The Committee suggest that one of the considerations in making appointments of officials or non-officials to the Board of Public Undertakings should be their aptitudes, special qualifications, and experience in that particular field so that they could be of real use and assistance to the undertaking. (*Para* 62)

REPLY OF THE GOVERNMENT

Noted.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October,* 1963]

Recommendation (Serial No. 27)

The Commitee consider that it should have been possible for the Company by now to lay down standards to determine the strength of the various categories of staff of the Company, particularly when it was set up about three and a half years ago. They recommend that expeditious action should be taken in the matter.

REPLY OF THE GOVERNMENT

The numerical ceiling staff strength has now been linked to the quantum of business transacted by the Company.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963]

Recommendation (Serial No. 28)

The Committee recommend that concerted efforts should be made by the Company for recruitment of more candidates belonging to Schedule Castes/Scheduled Tribes. (*Para* 67)

REPLY OF THE GOVERNMENT

Other things remaining equal, preferential consideration is given to candidates belonging to Scheduled Castes/Scheduled Tribes.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963]

Recommendation (Serial No. 29)

The Committee feel that there was no justification for giving advance increments on such a large scale especially when there appears to be no paucity of applicants for the posts advertised by the Company. This would seem to indicate that not much discrimination was exercised in this respect in the past. Such raising of salaries unnecessarily add to the operational cost of the Company. It is all the more regrettable that the ex-Managing Director exceeded his powers in this regard for he did not obtain the approval of the Board even in cases where more than five increments were allowed. (*Para* 69).

REPLY OF THE GOVERNMENT

In the initial stages of the development of the company it was found necessary to give advance increments.

The views expressed by the Committee have, however, been noted.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963]

Recommendation (Serial No. 30)

The Committee cannot over-emphasise the importance of well-designed employees training scheme for a Company whose principal function is marketing. They regret that no efforts were made by the Company to evolve such a scheme for its employees till recently. The Committee suggest that the feasibility of organising a regular training scheme for the employees may be examined expeditiously by the Company. (*Para* 71)

REPLY OF THE GOVERNMENT

Training in the marketing of petroleum products was introduced in the Indian Oil Company in September, 1962. It was conducted at the Head Office in Bombay wherein 92 officers of the Company were trained in various aspects of petroleum industry such as, Sales Techniques, Accounting procedures, operations and Engineering functions, Statistics, Planning, Product Exchange etc. A special feature of the training programme was that, it was conducted under the expert guidance of training specialist lent to us by M/s. Mobil Petroleum Company Inco., U.S.A.

A scheme for training of accounts staff in batches was finalised in April, 1963. The first batch of training started in May, 1963 and two batches—30 in all—have already been trained so far. A scheme of management training for Assistant Financial Controllers was conducted for a period of 15 days during April-May, 1963.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated* 31*st October*, 1963.]

Recommendation (Serial No. 31)

The Committee hope that complete Service and Recruitment Rules for employees of the Company would be finalised as early as possible. In this connection they would also invite the attention of the Government to para 12 of their 156th Report (Second Lok Sabha) on the National Mineral Development Corporation Ltd., wherein they have recommended the drawing up of Model Service and Recruitment Rules for all public undertakings by Government. (*Para* 72)

REPLY OF THE GOVERNMENT

A manual containing service rules and recruitment of employees of the Company is under preparation.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963.]

Recommendation (Serial No. 33)

The Committee have referred to certain shortcomings in the working of the Indian Oil Company in the earlier paragraphs. They are, however, not unaware of the difficulties that a new venture like the Indian Oil Co. had to face in the field of oil distribution where competition from well established concerns is keen. Their task was not an easy one particularly when there were no experienced persons either in the Ministry or the Company as stated by the representative of the Ministry. Despite all the handicaps and limitations like absence of any storage capacity, and retail outlets, inexperienced personnel etc., the Company has been able to build a nucleus good enough for further expansion. The Committee hope that the Company will ensure that while there is expansion of its activities, the shortcomings that have been pointed out will be avoided and it will make steady and rapid progress. (*Para* 76)

REPLY OF THE GOVERNMENT

The shortcomings of the various operations and activities of the Company highlighted in the Estimates Committee Report have been carefully studied and noted for sutable action.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-IOC, *dated the* 31st *October*, 1963.]

CHAPTER II

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

Recommendation (Serial No. 1)

The Committee consider the amendments made to Clauses (d) and (e) of Instrument of Instructions significant, as their implications seem to be far reaching. The matter assumes importance when one has to consider what the future set up of various limbs of the Oil Industry in the public sector is to be. This raises the issue whether there should not be one organisation at the top to coordinate the activities both of production and of distribution units as in the cases of some of the well known concerns in the line like Burmah Shell, E.N.I. of Italy etc.—an arrangement which the Committee favour. This subject has been dealt with in their Report on Indian Refineries Ltd. (*Paras* 3-4)

Reply of the Government

There has been no ambiguity regarding demarcation of functions between refining and marketing companies, *viz.*, Indian Refineries. Limited and Indian Oil Company. However, in order to establish the principle, further amendments to the Instrument of Instructions have been effected by the Government of India. As a consequence, marketing will be exclusively Indian Oil Company's responsibility, unless for special reasons Indian Refineries Limited is specially authorised to sell some of the products of its refineries. The latest amendment of paragraph 2(d) of the Instrument of Instructions reads as follows:—

> "2(*d*):—The Company shall take over, at the refinery points or at such other points as may be mutually settled on such terms as may be agreed upon, either as agent or as owner, all the products of the two refineries of the Indian Refineries Limited at Nunmati in Assam and at Barauni in Bihar except those products which are required by the Indian Refineries Limited for use by them in their two Refineries or in respect of which the Indian Refineries have been allowed by prior approval of the Government, direct sales".

In terms of this amendment, Indian Refineries Limited have no absolute discretion to effect direct sales without consulting the Central Government.

The suggestion about integration of companies is under examination.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31*st October,* 1963.]

Recommendation (Serial No. 2)

The Committee regret to note that it took the Government a period of nearly a year each to approve the First and Second Phase Plans of development of the Company even though the representatives of the administrative and Finance Ministries had earlier approved the plans as directors of the Company. The Committee feel that such a situation in which specific instructions, issued by Government are not observed is neither conductive to proper direction and control by the Government nor the timely execution of plans by the Company. Where prior sanction of Government is necessary, it should be accorded in time if it is to serve its purpose. The Committee would, therefore, suggest that all such cases of approval of plans by Government should be dealt with expenditiously, if necessary, within a specified outer time limit. Any matter likely to hold up or delay the sanction should normally be clarified by direct discussions with the persons concerned and not through correspondence which normally is a time-consuming process. (*Para* 10)

REPLY OF THE GOVERNMENT

While the First Phase Plan of IOC was under consideration of the Ministry of Finance and the Planning Commission, it was considered that some time will be required for its approval by the Government including approval by the Cabinet. Rs. 10 lakhs had been approved as Budget Grant for 1960-61 pending approval of the First Phase Plan by the Cabinet, the Government, after examination of the plan, approved an additional provision of Rs. 45 lakhs for the year 1960-61, and this was communicated to the Company on 3rd December, 1960. The total amount of Rs. 55 lakhs was considered adequate for Capital & Revenue Expenditure during the year 1960-61. This sanction was, therefore, tantamount to prior approval of Government, so far as the implementation of the First Phase Programme relating to 1960-61 was concerned. The budget proposals for 1961-62 were examined in the light of the First Phase Programme and sanction was sent in May, 1961, which was followed by the formal approval of the First Phase Programme in June, 1961. As regards the approval of Second Phase Plan, it may be stated that the Budget proposals of IOC were formulated on the basis of its Second Phase Programme. While approving and accepting the aforesaid budget proposals, the Government approved the physical programme of work. The proposed inclusion of Rs. 350 lakhs, agreed to by the Ministry of Finance, was conveyed to the Company on 17th March, 1962; intimation about the Vote on Account for Rs. 350 lakhs for 1962-63 was conveyed to the Company on 3rd April, 1962. It was on this basis that the Company proceeded with its work during the Second Phase (1962-63).

It will, therefore, be seen that approvals of the Government were communicated to the Company to enable it to undertake physical work in regard to plans.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31st *October*, 1963.]

Recommendation (Serial No. 3)

Considering that the Company was required (a) to handle the products of the two refineries and (b) to handle 50 per cent of imports of petroleum products, the planning of storage and other facilities by it during the First and Second Phase Plans seemed to be meagre. That even these modest targets were not fulfilled and fell short by about 45 is regrettable . This would seem to indicate that the realisation of targets was not pursued vigorously by the Management at the time.

The Committee consider that the difficulties about acquisition of land and steel etc. are not uncommon in construction work and should have been foreseen while laying down the targets. They feel that with concerted action and efforts it should have been possible for the Company to achieve the modest targets. The Committee trust that the task of developing adequate storage capacity, which has a very important bearing on the scale of operation of the Company would be given anxious consideration and suitable steps taken for the speedy execution of the programme. (*Para* 14)

REPLY OF THE GOVERNMENT

The figures taken into consideration by the Estimates Committee for determining the performance of the Indian Oil Company in regard to setting up of storage and other facilities are to be annoted as follows:—

(i) Figures under column "storage capacity developed" during the First Phase Plan should be given in "Water

Tonnes" as in the case of storage targets achievement during the Second Phase Plan, because the targets are also in "Water tonnes".

(ii) Revised targets during the two phases should also be taken into account, so that a true picture of achievement can be derived.

Regarding (ii), it may be stated that while large storage at Asansol/Dhanbad (20,000 tonnes) and Kanpur (30,000 tonnes) was originally contemplated during the First Phase Plan, it became clear later (as the marketing picture of the area crystalized) that only depots were required to be put up and that too in the Second Phase Plan. In the case of Siliguri, a large tankage (50,000 tonnes) was contemplated because of the requirement to tranship a large quantity of products from Nunmati Refinery to broad gauge areas towards Calcutta. However, as the Nunmati Refinery was not in a position during 1961-62 to produce the optimum quantities, it was hardly necessary to have the installation at Siliguri during 1961-62 because the priority of movement has to be in favour of metre gauge areas in preference to broad gauge areas, which involve larger under-recoveries of freight. Thus the performance of the IOC during 1961-62 should not be assessed against the originally proposed storage capacity at Asansol/Dhanbad, Kanpur and Siliguri.

During the First Phase the achievement of the target of storage capacity at the main installations was 70 per cent, while during the Second Phase (1962-63) the achievement was 98 per cent as per statement at Appendix I.

It may be stated that if during the First Phase the Company was able to achieve its sales target in respect of kerosene to the extent of 98 per cent and in respect of HSD sales to the extent of 92 per cent on the basis of the installations constructed, it would have increased the operating costs of the company still higher, if larger installations had been constructed by that time.

As stated above, the achievement of target for main installations during the 1962-63 was 98 per cent. Out of the proposed 100 depots (40,000 tons capacity), 65 (about 23,870 water tons capacity) have been developed during 1962-63. Out of the targeted 650 retail outlets, 403 have been commissioned upto the end of March, 1963.

The target set by the Company for construction of tankage capacity was not modest. On the other hand, it was very ambitious and formulated with a desire to achieve the maximum within a short space of time. For purpose of camparison, it may be added that M/s.

Caltex who have been in the field in this country since 1936, have been able to put up only 103 depots till today with a total storage capacity of 263,500 tonnes. Though the Company planned to develop storage capacity of 235,400 tonnes and 137,600 tonnes during the first and second phase plans respectively, these were highly tentative and based on various assumptions. This will be evident from the fact that when the Second Phase Plan was formulated, the tankage planned at certain places in the first phase was drastically reduced and increased in other cases. For instance, at Asansol, the tankage capacity of 20,000 tonnes planned in the first phase was reduced to 2,000 tonnes in the second phase and the latest thinking of the Company is that even the 2,000 tonnes is not essential. Likewise, in Kanpur, Indian Oil Company reduced the storage capacity from 30,000 tonnes in the first phase to 10,000 tonnes in the second phase and the latest view is that it would require only a tankage capacity of 500 to 700 tonnes. It has always been a stupendous task to obtain land, which is at premium particularly in ports like Bombay, Calcutta, Madras. The land for the port installation at Madras has been secured only very recently after prolonged negotiations, and efforts for obtaining land at Cochin (Ernakulam) have still not met with success. The scarcity in availability of steel is well-known and Indian Oil Company was never able to get its full requirements and had to be content with whatever allotment could be made by the Controller of Iron & Steel. In addition, for manufacturing dispensing units, the Company had to rely on import of components from abroad. As against the requirements of 100 per month it succeeded in obtaining only an average of about 50 dispensing units per month during 1962-63, and this accounts for the shortfall in the development of its retail outlets *vis-a-vis* the targeted number laid down in the Plan. Apart from this, there has been an acute shortage of pipelines, valves, pumping units, generators, electrodes etc.

Notwithstanding the above, the company is fully aware of the responsibility particularly, since the national emergency has arisen, and it is doing its very best to construct as much storage capacity as possible. Of late, it has undertaken construction of 26 Bulk Petroleum Installations to meet the requirements of the Defence Ministry. Difficulty in securing land for its retail outlets is still being faced.

[*Ministry of Mines & Fuel, O.M. No. 13/8/63-IOC, dated the 31st October, 1963.*]

Recommendation (Serial No. 7)

The Committee are aware of the difficulties that will be encountered in the matter of setting up and working of Co-operatives succarefully. This is a new experiment on a national scale which needs to be sympathetically considered and encouraged. The Committee would very much desire the experiment to be a success. They would, therefore, urge that the working of these Cooperatives should be closely watched and where necessary proper help and guidance provided. (*Para* 24)

REPLY OF THE GOVERNMENT

Indian Oil Company is doing everything possible to encourage cooperatives to sell its products. In the beginning, the Company supplied kerosene to the Cooperatives at a much lower rate than was being offered to them by other oil companies to their dealers/agents and also at handsome rebates. This was done primarily to enable the cooperatives to build their storage and to organise their own channels of distribution. But the Cooperatives did not take any advantage of the concession and merely acted as super agents. Even now Indian Oil Company is supplying kerosene to the Cooperatives at Re. 1/- less per k.l. than the other oil companies to their agents/dealers and is also extending them loans and subsidies for building their storage tanks, purchasing tank trucks, tempos, cycle-rikshaws etc.

Indian Oil Company Limited have also offered them barrels and containers at half rates and on easy instalments. However, since the Government as well as the Estimates Committee expect that Indian Oil Company would import 50 per cent of their deficit product by 1964-65 it is imperative for Indian Oil Company to appoint additional private individuals as dealers/agents. The Cooperative societies, it has been seen, have limited capacities to handle business. It has been noticed that during the sugar season, the distribution of sugar etc. is being done on monopoly basis, they lose interest in the distribution of Kerosene. We can also no longer afford to give them the kerosene at the previous reduced rates. The Estimates Committee themselves have observed to this effect, *vide* para 47.

A Conference in the Ministry of Cooperatives and Community Development was held in which it was accepted how in certain circumstances (*e.g.*, unsatisfactory performance of Cooperative Societies) Indian Oil Company was justified in appointing additional dealers, in the interest of speedy promotion of sales.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963.]

Recommendation (Serial No. 8)

It would be seen that the information supplied to the Committee is at variance with that in the affidavit sworn before the Court. Even after their being asked to discontinue their negotiations with V/O Sojuznefteexport, M/s. Hindustan Organisers have gone ahead and entered into an agreement with them in March 1960. It is also not possible to reconcile the fact of M/s. Hindustan Organisers approaching I.O.C. towards the end of 1959 for the bulk sale of petroleum products and their concluding an agreement with the Soviet exporters with reference to the same products three months later. (*Para 28*).

REPLY OF THE GOVERNMENT

The sequence of events leading to the agreement between M/s. Hindustan Organisers and Sojuznefteemport of USSR, the non-implementation of this agreement, IOC's agreement with Sojuznefteexport followed by IOC's agreement with M/s. Hindustan Organisers is given below:

The Indian Oil Company was incorporated in June 1959. At that time, the company had no installations/facilities for storing and distributing oil. It was looking round for such facilities being made available to it. Towards the end of 1959, Western India Oil Distributing Company (associates of Hindustan Organisers) were in touch with the IOC for taking substantial quantities of kerosene and HSD in lieu of giving assistance by way of discharge, storage and sale of products brought in by IOC.

Meanwhile, arrangements were being made by the Government for a Trade Plan for 1960 with the USSR. The export organization of the Government of USSR were extremely keen that petroleum products imports (particularly kerosene and HSD) should be included in the Trade Plan for 1960. From the Government's point of view, the opening of a new source of supply for petroleum products on a 'rupee payment basis' was considered most desirable inasmuch as this arrangement would save free foreign exchange and provide a feeding source for the newly-formed Government-owned oil distributing company. It was Government's policy that import arrangements for such 'rupee oil' should be in the public sector. However, before IOC could enter into an agreement with Sojuzneteexport, M/s. Hindustan Organisers finalised an agreement with them for direct import, without Government's approval. This being contrary to Government policy, the Government did not grant an import licence. The Russian party had entered into this agreement directly with the Hindustan Organisers obviously due to a misunderstanding. When the position was explained to the USSR authorities, they appreciated Government's viewpoint and the agreement with Hindustan Organizers for direct import by them was not implemented.

After the IOC negotiated in July, 1960 an agreement with the Export Organisation of U.S.S.R. for import of Petroleum products, it became necessary for the former to have an arrangement with an established oil distribution company for assistance as regards discharge, storage and sale of products, which was so essential for the fulfilment of the Trade Plan obligations. For obvious reasons, the choice had to fall on WIODC/Hindustan Organizers as the attitude of the Western oil companies could not be expected to be helpful. IOC acquired its first tankage consisting of two old tanks (belonging to Defence) at Antop Hill Bombay, in May, 1960. Vizag Installation was taken over in May, 1961 and IOC's own new tankage in Kandla and Bombay was commissioned only in September, 1961 and December, 1961 respectively. WIODC/Hindustan Organisers had full-fledged installations at Kandla, Bombay and Madras. The Defence installations at Bombay did not even have tank-wagon filling facilities. It is a fact that WIODC/H.O. did come to the help of IOC at some very critical situations, and but for this help it would not have been possible to discharge tankers, nor could IOC have made despatches in tank wagons without their help and assistance. The agreement between IOC and Hindustan Organisers was negotiated according to the best terms IOC could get in the context of the above situation. The quantities agreed to were only 45,000 ton/year and the basic discounts on FOB posted prices given were 15% on kerosene and 12% on HSD, which were less than the discounts/commission which H.O. had obtained from the U.S.S.R. in their agreement of March, 1960. Hindustan Organisers is an oil marketing organization—as distinct from a dealer or distributor—in as much as it owns and operates port installations and upcountry depots. As such it has to incur certain expenditure on account of its installations and other distribution facilities, which is not incurred by an agent or distributor. Supplies to Hindustan Organisers were to be made ex-tankers directly into their port installations, which did not involve the aforesaid type of expenditure by IOC; the margin of 3% was therefore considered adequate. It is felt that the private oil companies are getting at least 10% discount of F.O.B. posted prices in the Persian Gulf. WIODC was already getting this discount from an international oil company. Since IOC was getting more than this and in view of the fact that H.O. had already been promised even higher discounts/commission from the U.S.S.R., and in view of the benefits which were likely to accrue to IOC on entering into an arrangement with H.O., the discount allowed by IOC cannot be considered unreasonable. IOC is also getting credit facilities for a period of six months from their suppliers. The same facility was offered by the U.S.S.R. to H.O. Under the circumstances IOC could not possibly resist this concession.

The discontinuance of negotiations by M/s H.O. with Sojuznefteexport referred to in para 28 of the Report, refers to the refusal to give licenses for import—which is an occurrence subsequent (and not prior) to the agreement signed by H.O. with Sojuznefteexport. WIODC/HO's approach to IOC for products towards the end of 1959 had not fructified at that time, obviously because IOC had at that stage, no products to offer. H.O., in their enthusiasm to get into the import business of 'rupee oil', therefore, directly negotiated an agreement with Sojuznefte export.

[*Ministry of Mines & Fuel, O.M. No. 13/8/63-IOC, dated the 31st October, 1963.*]

Recommendation (Serial No. 9)

The reasons advanced by the IOC for entering into an agreement with M/s Hindustan Organisers are neither clear nor convincing. The committee find some unusual features in this transaction which demand notice.

(i) when they held no import licence to import petroleum products there could be no obligation on the part of the IOC to think in terms of compensation to M/s Hindustan Organisers and to accord to them any preferential treatment from what was followed as a general policy in regard to the pattern of distribution.

(ii) The terms of the agreement seem to be very much in favour of the M/s Hindustan Organisers. The price concession given to M/s Hindustan Organisers which left to IOC only a margin of 3% in the first agreement was unusually high. It is particularly noteworthy that the concession price was exactly what M/s Hindustan Organisers had sought to get from Russia in their agreement of March, 1960. That it was so is evident from the fact that in the second agreement the IOC reserved to itself another 3% making a total of 6%. Even with this new agreement the price advantage permitted to M/s Hindustan Organisers seems to be unusually high. The price of kerosene charged by IOC to M/s Hindustan Organisers is lower by Rs. 39 per Kilolitre than that charged to private dealers. It was explained that since kerosene was supplied to M/s Hindustan Organisers direct from tankers and not from the IOC installations the latter did not incur installation and other administrative charges. But these charges amount to Rs. 15 per Kilolitre and that would still leave a margin of Rs. 24 per kilolitre to M/s Hindustan Organisers over other private dealers, which means a net advantage of about Rs. 10 lakhs per year for the whole quantity of 40,000 tonnes of kerosene contracted for..

(iii) There were other special concessions. One of them was an interest free credit of 135 days allowed to M/s Hindustan Organisers for payment of kerosene lifted by them—a concession which was not allowed to other dealers—individual or co-operative, to whom delivery was against cash payment. M/s Hindustan Organisers seem to be taking advantage of this concession, for in October, 1962, it is seen that a sum of Rs. 7 to 8 lakhs was outstanding against them. It is also seen that there is no provision for taking any security for this interest free credit which is an elementary precaution in such matters.

(iv) The terms provide for the supply of additional quantities of petroleum products at the option of the buyers, and what is more, at additional price concessions. This clause was considered to be unfair even by the representative of the Ministry. (*Para* 30).

Reply of the Government

(i) The reasons why it was in IOC's interest to have the assistance of an oil company during the initial stages have been given against Sl. 8. IOC, which did not have adequate storage and other facilities, would not have been able to import 'Rupee oil' but for the assistance mentioned already.

(ii) As regards the reasonableness of the terms, it has already been mentioned that—

(a) Discounts of at least 10% on F.O.B. posted prices are understood to be available to the oil companies;

(b) M/s Hindustan Organisers had already obtained better discounts/commission from Sojuznefteexport than what IOC actually offered them. In fact, the discounts offered to Hindustan Organisers were less than discounts/commission obtained by them from Sojuznefteexport by over 1%.

In the context of IOC's position in the year 1960, the Company could not bargain any better than the terms which were negotiated. Later in 1961-62, when litigation took place and a compromise was contemplated, IOC was in a somewhat better bargaining position.

with the result that the discount on kerosene was reduced by 3% and HSD supplies were scrapped and provision therefor taken out of the purview of the agreement.

In the calculation of differential between the price offered by Indian Oil Company to M/s Hindustan Organisers and that given to the cooperatives in 1960, wharfage, other landing charges, administrative charges and distribution charges (which are incurred by an oil distribution company according to the computation made in OPEC (Damle Report) are also to be taken into reckoning. The position according to November, '60 prices was as follows:—

IOC's price—delivered to Cooperatives :

	Rs. 215.60/K.L.
Rebate	Rs. 10.60/K.L.
Net	Rs. 205.00/K.L.

IOC's price to Hindustan Organisers

	Rs. 103.37/K.L.
(A) Gross difference .	205.00/K.L. minus 103.37/K.L.
	Rs. 101.63/ K.L.

Less elements payable by Hindustan Organisers :

(*a*) Duty .	Rs. 68.65/K.L.
(*b*) Wharfage	Rs. 2.29/K.L.
(*c*) Other landing charges .	Rs. 0.48/K.L.
(*d*) M.I. charges .	Rs. 5.89/K.L.
(*e*) Adm. charges .	Rs. 8.75/K.L.
(*f*) Distribution charges	Rs. 9.77/K.L.
(B)	Rs. 95.83/K.L.

(C) Net difference in the price to H.O.

(A) .	Rs. 101.63/K.L.
Less (B) .	Rs. 95.83/K.L.
	Rs. 5.80/K.L.

This is less than the margin of profit laid down by Damle Committee on kerosene *viz.* Rs. 8.77/K.L. The differential in October, 1962 was Rs. 9.85/K.L. and the present differential is Rs. 6.52/K.L

(iii) Credit arrangements between one company and another cannot be compared with credit arrangements between a company and its dealer/agent. IOC is getting credit facilities for a period of six months from Sojuznefteexport; the same facility had been offered by the Sojuznefteexport to M/s Hindustan Organisers. Under the circumstances IOC could not possibly resist according this concession to M/s Hindustan Organisers.

(iv) It may be mentioned that IOC has got similar provision of additional discounts on additional quantities. (No additional quantities were in fact given to M/s Hindustan Organisers beyond the minimum stipulated in the agreement).

There is another very big advantage that IOC has derived by this arrangement with M/s Hindustan Organizers. Because of the non-availability of land. IOC has not been able to put up an installation at Madras till date. The Russians are supplying product in tankers of minimum capacity of 11,000 tonnes. However, because of draft restrictions, tankers carrying 5,000/7,000 tonne capacity can be received at Calcutta. In other words a portion of the cargo has to be discharged at another port. The potential of Vizag Supply Area is only about 25% of the Calcutta Supply Area potential. On account of this arrangement with M/s Hindustan Organisers, IOC could give the product to them at Madras thus enabling it to receive the product at Calcutta also. In the absence of such an arrangement, it would not have been possible for them to take the product to Calcutta, which would have affected IOC's sales adversely.

It may also be mentioned that the sale of Kerosene to M/s Hindustan Organizers is by and large, an additional sale and has in no way affected the other sale by IOC. To that extent, IOC has earned additional profits. This has also enabled IOC to fulfil its contract with the Russians in the initial stages.

IOC has already served M/s Hindustan Organisers with a notice terminating the agreement with effect from 31st December, 1964.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31st *October*, 1963.]

Recommendation (Serial No. 10)

It is also inexplicable why contrary to the mutual consultation and arbitration clause provided in agreement, the matter was taken to Court and the Indian Oil Company also became a party to it. (*Para* 31)

REPLY OF THE GOVERNMENT

Though the agreement between Hindustan Organisers and Indian Oil Company provided for arbitration, it was Hindustan Organizers and not Indian Oil Company who took recourse to proceedings in Court. Indian Oil Company could not thus prevent being taken to Court, its position being only of a defendent and not a plaintiff. Apart from this, the arbitration clause, as worded was non-operative in certain cases of reliefs which Hindustan Organizers sought from the Court, e.g. reliefs of injunction and specific performance cannot be given by arbitrators as laid down repeatedly by various courts and since these reliefs were sought for, Hindustan Organizers naturally took recourse to Court. Indian Oil Company was never averse to any arbitration and in fact since the proceedings were settled by mutual consultation after the suit was filed in effect the procedure as laid down by the Agreement was implemented.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963.]

Recommendation (Serial No. 11)

All these unusual features suggest that proper care and thought were not exercised in entering into this agreement by the Board of Indian Oil Company which it may be seen had on it representatives of administrative Ministry and the Ministry of Finance. There have been some public criticism of the agreement. The present agreement will run upto December, 1964, and is terminable by either party on a year's notice being given. During evidence the Committee were informed by the Managing Director that he proposed to terminate the agreement after giving due notice. (*Para* 32)

REPLY OF THE GOVERNMENT

The suitability of the terms of the agreement has already been examined above. Government feels that the agreement gave no undue advantage to the Hindustan Organizers.

Notice for termination of Agreement has already been served as stated in reply to Serial No. 9.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963.]

Recommendation (Serial No. 12)

The Committee feel that the past performance of the Company in achievement of the object of meeting the full requirements of Government Organisations has not been quite encouraging. They regret to observe that its future plans in this regard are also vague as neither complete information on the estimated requirements of petroleum products of all Government Organisations has so far been collected and compiled nor any detailed plans and targets formulated to meet them progressively. The Committee urge that action should be taken to complete such data expeditiously and plans made to meet the requirements as early as possible. (*Para* 35)

REPLY OF THE GOVERNMENT

The estimated requirements given by the various Government customers are only approximate and subject to changes. Subject to such changes, the Company have a definite idea of the requirements of various categories of the Government customers for the year 1963-64. The requirements of the petroleum products of Government Organisations for subsequent years are not very definite. These however, are being collected by the Company and are continuously brought up-to-date. The Company's plans for the sale of petroleum products include all potential customers including Government organisations. These are formulated on the basis of the Company's anticipated ability (commensurate with its supply position) to meet the requirements of these organisations. The usual procedure adopted by the Organisations is to obtain supplies on the basis of competitive tenders and the extent to which the Company succeeds in competing with the Private Companies, it meets the requirements of these organisations.

Indian Oil Company realises its responsibility and continues to collect data from all sources regarding potential customers not only of Government bodies but of all industrialists and major customers. This data is continuously brought not only up to date but proper follow-up with the customers is done.

It may be stated here that Indian Oil Company is today supplying 60% of the requirements of the State Transport Undertakings. Besides, it is supplying HSD to the Indian Railways meeting more than 70% of their total requirements.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-IOC, *dated the* 31st *October*, 1963.]

Recommendation (Serial No. 13)

It is seen that the product exchange Arrangements is a misnomer. Considering these factors the Committee fails to understand the real commercial advantages accruing to the Indian Oil Co. from these arrangements. They feel that the terms of such arrangements should be drafted in such a way as are capable of being worked to mutual advantages of the parties concerned. They suggest that the existing arrangements should be examined and revised as early as possible. (*Para* 38)

Reply of the Government

(a) In terms of the Product Exchange Arrangement for Nunmati Products, Indian Oil Co. can obtain products (Except deficit products) from the private companies' refineries to the extent of quantities delivered by the former to the latter Ex-Nunmati. At the time of the finalisation of the Product Exchange Arrangements, it was considered that it was not in Indian Oil Company's interest to take deficit products in exchange because Indian Oil Co. was importing these on rupee payment basis at discounted rates and if Indian Oil Co. had taken these in exchange, the proportion of free foreign exchange required for import to that required for 'rupee oil' would have increased.

(b) It is inherent in the Product Exchange Arrangement that products are given and taken at a profit-free price; this, in effect, means that the extent to which IOC can lift products from private refineries (in lieu of products given ex-Nunmati) the Company can earn its profit thereon correspondingly allowing private companies to earn their profits on quantities obtained ex-Nunmati. To this extent, it is not correct to say that the principles underlying Product Exchange Arrangement do not give profit to Indian Oil Co.

(c) Product Exchange is a convenient arrangement which avoids unnecessary cross-movement of petroleum products and enables the companies entering into the product exchange arrangement to sell products at places where they have the facilities to do so. For example, if motor spirit is given in product exchange arrangement by Indian Oil Company to other companies ex-Nunmati, Indian Oil Co. can take in exchange equivalent quantities of motor spirit and sell it to places as far away as Delhi, Bombay or even in the extreme south where they may develop facilities for selling that motor spirit. In a competitive economy, companies tend to develop marketing facilities at places where they can best do so. The product exchange arrangement has, therefore, been of benefit to the Indian Oil Company as well as to the other companies.

(d) Under-recoveries of freight flow from the location of the refinery and since the product exchange arrangements is an agreement between the IOC and the other companies, the other companies cannot be compelled to bear the under-recovery as they have the freedom to import products through Calcutta and sell them in the same area without involving themselves in this under-recovery.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963.]

Recommendation (Serial No. 15)

It would be seen that the wagon-ferry had a short operational life of about nine months only and even during that period it was utilised far below its rated capacity. Since the Nunmati refinery has not reached its rated capacity as yet and in any case could not have been expected to reach it in the initial stages of commissioning, the Committee are doubtful whether the construction of a 60 tank wagon-ferry at such a high cost was at all necessary. They cannot help feeling that the decision to construct such a big wagon-ferry was unwise and that most of the expenditure on that account was avoidable. (*Para* 45)

REPLY OF THE GOVERNMENT

The factual position is that the cost incurred on the wagon-ferry was on account of the construction of a new rail track and ramps etc. This cost would not have been reduced even if less than 60 tank wagons per day were to be ferried across the river. Moreover, it was not possible to know at the stage of planning of the ferry as to what capacity would be reached by the Nunmati Refinery till the construction of rail bridge.

Also, according to its original schedule, Gauhati Refinery was to go on stream by the end of 1961, whereas the bridge was expected to be ready only by the end of 1962. It could not have been visualised at that stage, that the refinery will not achieve full production even one year after its commissioning. Even so, in the absence of the wagon-ferry, no products from the refinery would have been able to move across the river (till the construction of the rail bridge) into Western Assam and beyond.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963.]

Recommendation (Serial No. 17)

While the Committee appreciate the circumstances under which I.O.C. had to resort to price cuts, they consider that the long term agreements that the Company entered into committing itself to lower rates, the non-fixing of the rates of kerosene on par with those of the ceiling selling prices and the delay of three months in raising the prices of H.S.D. compared to other oil companies, all seems to indicate that the interests of the Company have not been keenly watched and may partly be due to the inexperience of the officers concerned. It is well known that the I.O.C. has to compete with well-established competitors which have been in the line for long time. It is, therefore, of vital importance that utmost care and caution is exercised in such matters. (*Para* 47)

Reply of the Government

The price differential in case of superior kerosene was about Rs. 15/- per kilolitre. This differential was gradually reduced and with effect from 1st August, 1962, the differential was reduced to about Rs. 5/-.

The statement of the Sub-committee at para 46 is not factually correct. Where it says that "while no information about the period upto which the other companies had made supplies at reduced rates was furnished to the Committee, they note that I.O.C. has undertaken to supply H.S.D. at reduced rates for periods extending over one year in many cases". Attention is invited to I.O.C.'s answer to question No. 20 in reply to Lok Sabha Office Memorandum of the 30th September, 1962. The relevant paragraph is reproduced below:—

> "We had also therefore to enter into contract at competitive terms with the rates quoted and the periods upto which the other oil companies had offered to make supplies. Accordingly we entered into contracts as detailed below:—

Name of State Transport Undertakings	Contractual rate at which supplies were effected (Ex-M.I.Bombay)	Period	Contractual period upto which supplies were effected.
1. B.E.S.T. .	Rs. 409.15 per KL Rs. 409.36 per KL	Oct.60 to Oct. 62.	Upto 28-9-1961 From 1-10-1961 to 31-10-1962.
2. Maharashtra State Transport.	Rs.409.41 per KL	16-1-61 to 31-10-62.	31-10-1962.
3. Madhya Bharat Roadways.	Rs. 409.41 per KL (for Indore & Bhopal only)	Oct. 61 to 31-12-62.	31-12-1962.

Name of State Transport Undertaings	Contractual rate at which supplies were effected (Ex-M.I. Bombay)	Period	Contractual period upto which supplies were effected.
4. Andhra Pradesh State Road Transport Corporation.	Rs.432.00 per KL	Nov. 61 to 31-10-1962	31-10-1962.
5. Gujarat State Transport.	Rs. 409.41 per KL	Oct. 61 to 13-7-1962.	13-7-1962.
6. Kerala State Transport.	Rs. 500.00 per KL (Provisional rate inclusive of Sales Tax of Rs. 80/- per KL.).	1-11-1962.	31-10-1962.

It would thus be seen that the performance of IOC's contracts coincided with the periods upto which the other oil companies had agreed to make the supplies. It had been made clear to the Committee previously also that I.O.C.'s share of supply to the State Transport was much less than the share of the other oil companies. It may be mentioned that IOC has already revised its rates on supply of HSD to the State Transport Undertakings and now no supplies are being made at the old rates.

Even now although the other oil companies have officially fixed their prices at the ceiling and have officially dispensed with all the traditional allowances that were being allowed in the oil industry with effect from 1st June 1962, yet IOC have authenticated reports to the effect that confidential discounts are being given.

It should also be mentioned that IOC have to keep its customers at par with the other oil companies. So long as the Company is unable to develop facilities comparable to those of other oil companies it has to compensate its customers by other means like slightly lower rates etc.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31*st October*, 1963 *and Ministry of Petroleum & Chemicals O.M. No. F.* 13(8)/63/*IOC, dated the* 6*th October*, 1965.]

Recommendation (Serial No. 18)

The Committee note that in 14 out of 29 cases, the tankers were diverted to two ports and that an additional freight of Rs. 2.41 lakhs was paid by the company on that account upto February, 1962. They consider that with better planning such expenditure can be considerably reduced. They hope that concerted efforts would be made to minimise the expenditure on this account. (*Para* 48)

REPLY OF THE GOVERNMENT

The diversion of tankers mentioned in this paragraph, relates to the period 1-4-60 to 31-12-61 when the entire activity of the Indian Oil Company and the other facilities available were in the embryonic stage. Difficulties in the way of the Company's growth and operation, and the inability of the Company's suppliers at times to adhere to the shipping programme, as agreed with the Company in respect of the time and quantity schedule, resulted in diversion of tankers. Also Indian Oil Company had to encounter stiff competition from the private oil companies (who resorted to price cutting and other devices), with the result that on many occassions anticipated sales did not materialise. It will be appreciated that a little delay in actual loading or any changes in the loading pattern, which the Company's suppliers were obliged to resort to due, perhaps, to genuine difficulties at their end, created in its wake a chain of reaction which upset Company's future tanker planning. As an infant organisation, the Indian Oil Company was not equipped with sufficient tankage to accommodate shipments at concentrated points in quick succession, nor considerations of economy would have justified such a course.

Furthermore, as mentioned in Serial No. (9) above and also because products had to be given to M/s. Hindustan Organisers at Madras, single port discharges could not be managed at ports on the Eastern Coast because of draft restrictions. Out of 14 tankers, 6 were discharged at ports on the Eastern Coast.

Two-port discharges have been recognised in Damle Committee Report, which is based on the operations of other oil companies having larger tankage capacities. According to the Damle Committee Report, the prices are fixed on the basis of two-port discharges for all ports except Bombay. It is, therefore, clear that Indian Oil Company did not suffer any extra loss on account of multiple port discharges; it was also able to save to the extent it could take single port discharges at ports other than Bombay.

Regardless of the various bottlenecks detailed above, it was incumbent on the Company to ensure that it did receive the contracted quantities and no oportunities were given to the Company's foreign suppliers to contend that favourable conditions were not created to enable them to fulfil their obligations under the contract. Steps have been taken to increase the Company's capacity to the required economic levels at the various ports in India and it would soon be in a position to receive larger quantities at various ports in India and larger tankers at Bombay and Vizag. Care has been taken to ensure that double-port-discharges are reduced to the absolute minimum. In recent months it has been increasingly possible for the Company to receive single-port discharges to a very large extent. The two-port discharges resorted to for the period under scrutiny was due to the exigency of circumstances entirely beyond the Company's control.

It may also be pointed out that the diversion of tankers did not result in extra expenditure to the Company inasmuch as the pricing of products includes ocean freight to each port. When any tanker is sent to a port, it incurs the normal freight which is recovered in the prices.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC*, *dated the* 31*st October*, 1963]

Recommendation (Serial No. 22)

It is seen that the operational expenses of the IOC are higher compared to those of others in the oil industry. The Committee appreciate the downward trend in the operational costs which has been brought about recently. They, however, hope that by utilising modern methods of cost control, the operational expenses will be further reduced. (*Para* 55)

REPLY OF THE GOVERNMENT

In the initial stages of an oil company's growth, comparative larger operational expenses are inevitable because the amount of tankage constructed in a particular year is usually more than is warranted by the turnover during that year.

[*Ministry of Mines & Fuel O.M. No.* 13/8/63-*IOC*, *dated the* 31*st October*, 1963.]

Recommendation (Serial No. 23)

The Committee feel that there is no justification whatsoever for a distributing oil company to incur such heavy losses. They recommend that effective measures should be taken by the Company immediately not only to obviote losses but to earn profits. (*Para* 58)

REPLY OF THE GOVERNMENT

Regarding the Committee's view that there is no justification whatsoever for distributing oil Company to incur such heavy losses, the following factors may be mentioned:—

1. That Indian Oil Company till March, 1962, was primarily selling only Superior Kerosene and HSD. As per the ceiling selling prices, the margin of profit on HSD is comparatively lower than in the case of some other products. This, coupled with the heavy underselling resorted to by the other oil companies resulted in losses of Rs. 19.86 lakhs to Indian Oil Company on the sale of HSD. However. Indian Oil Company made a profit of Rs. 9·41 lakhs on sale of Superior Kerosene, but unfortunately, it was more than off-set by the losses suffered on the sale of HSD.

2. The profit margin of other products like LDO, Lubricating Oils and other speciality products is much more. In fact, the profit margin on Lubricating Oils and speciality products is many times more than on fuels. The other oil companies are marketing the full range of products, which includes Lubes and other speciality products.

3. Indian Oil Company had to pay Rs. 1.01 lakhs on account of under-recovery of freights.

4. Indian Oil Company had to pay Rs. 11.14 lakhs as unrecoverable additional excise duty. Whereas this additional excise duty was levied to mop up the credit balance in the accounts of C & F Fund of other oil companies, Indian Oil Company had a much smaller credit balance, this matter has been taken up by Indian Oil Company with Government for refund.

Indian Oil Company has now started marketing other grades of petroleum products including Lubricating Oils, etc. The profits for the year 1962-63 are expected to be more than enough to wipe out all the losses incurred so far and also leave a sizeable surplus. It may also be mentioned that Indian Oil Company has to bear the burden of freight under-recoveries which result from factors beyond the control of the Company.

Although Indian Oil Company suffered an apparent loss of Rs. 19·86 lakhs on the sale of HSD, on account of the entry of the Indian Oil Company in the field and the consequent reduction of rates of HSD by other oil companies, all the State Transport Undertakings and other Direct Demanding Offices gained correspondingly, and if we take this factor into consideration, it will be seen that the State Transport Undertakings etc. saved a lot more than what Indian Oil Company lost.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31*st October,* 1963.]

Recommendation (Serial No. 26)

Considering the general performance of the Company since its inception, the Committee regret to observe that Government took a long time to realise the unsuitability of the ex-Managing Director and took about 2½ years to replace him. In the Committee's view, it is of the vital importance to the successful working of public undertakings that the man at the top is held responsible for showing good results and the continuity of his tenure is related to actual performance. They recommend that whenever new undertakings are set up by Government, utmost care should be exercised in making initial appointments to these important posts. It would be very desirable if experienced persons of proved worth from existing public undertakings are appointed to top posts *e.g.* Managing Director and Financial Controller, in the new undertakings. (*Para* 64)

REPLY OF THE GOVERNMENT

The Committee, while summing up its assessment of the performance of the Company, has observed in para 76 of the Report that "despite all the handicaps and limitations like absence of any storage capacity and retail outlets, inexperienced personnel etc., the Company has been able to build a nucleus good enough for further expansion". A good part of the credit for building up this nucleus is due to the ex-Managing Director.

[*Ministry of Mines & Fuel, O.M. No.* 13/8/63-*IOC, dated the* 31*st October,* 1963.]

Recommendation (Serial No. 32)

It is obvious that the Ministry has not been able to exercise that measure of control which would appear to be desirable particularly in the case of new undertakings. The Committee feel that this was perhaps due to some misconception with regard to the nature of responsibility attaching to Government in relation to the public undertakings and the nature of and extent of control that should be exercised over them. They, therefore, recommend that it would be desirable to review the whole question comprehensively with a view to determine what exactly should be the relationship that should subsist between the undertaking and the Ministry particularly in the formative stages of the undertaking, and also when and where the Ministry should intervene by way of advice or by issue of a directive. (*Para* 75)

REPLY OF THE GOVERNMENT

During the evidence before the Estimates Committee, it was stated on behalf of the Ministry in reply to enquiries regarding directions or instructions issued by the Government that apart from the Instrument of Instructions issued to the Company a number of letters were sent to the Company from time to time on important aspects of the Company's operations. The purpose of issuing these letters was to direct the Company in regard to the bottlenecks in its operations as and when such situations came to the notice of the Ministry. To substantiate this, copies of the nine letters issued to the Company were supplied to the Estimates Committee. A list of these letters is given below:—

S. No.	Letter No. & Date	Issued over the signature of	Brief subject
1.	D.O. No. 9/9/60-OIL (PL) dated 14-3-60	Secretary, Mines & Fuel.	Import programme & other aspects of Company's Operations.
2.	9/69/60-OIL (PL) dated 16-2-61	Joint Secretary	Arrangement for upliftment & transportation of products ex-Gauhati Refinery.
3.	9/69/60-OIL (PL) dated 10-3-61	Do.	Do.
4.	9/69/60- OIL (PL) dated 2-5-61	Do.	Arrangement for upliftment & transportation of products ex-Gauhati Refinery and time-action schedule, product exchange arrangement, price arrangement with Indian Refineries Limited, availability of tank

S. No.	Letter No. & Date	Issued over the signature of	Brief Subject
			wagons additional ferry at Gauhati, barge transport to Calcutta, product, pipeline across Brahamputra, installations at Madras/ Calcutta/Siliguri / Asansol/Kanpur / Lucknow, container manufacture plant, policy regarding co-operatives and other dealers/agents and second phase plan.
5.	312/MMO/61-1064 dated 10-8-61	Minister (Mines & Fuel)	Arrangement for upliftment of the products ex-Gauhati Refinery.
6.	No. 9/35/61-OIL(PL) dated 16-9-61	Deputy Secretary	Construction of retail outlets for sale of petrol/HSD etc.
7.	No. 9/12/61/IOC dated 12-2-62	Under Secretary	Accumulation of stocks; need for better effort for sales promotion to reduce stocks particularly in the light of forthcoming availability of Nunmati products and further imports.
8.	9/32/62/IOC dated 28-2-62	Deputy Secretary	Sales targets/achievements.
9.	9/32/62/IOC dated 31-5-62	Do.	Do.

It will be observed from the above letters that the Ministry has been conscious of the problems facing the company in its successful operation and has been writing on the subject to the Company from time to time urging action on specific matters. These letters, though not issued in the name of the President, were intended to achieve the same objective as a formal directive would have done.

[*Ministry of Mines & Fuel, O.M. No. 13/8/63-IOC, dated the 31st October, 1963*]

NEW DELHI;
November 11th 1965.
Kartika, 20, 1887

PANAMPILLI GOVINDA MENON,
Chairman.
Committee on Public Undertakings.

APPENDIX I

Statement vide *Govt.'s reply to Recommendation at Serial No.* 3

STORAGE CAPACITY (Figures in Water Tonnes)

Installations	First Phase (upto 31-3-62)			Second Phase (upto 31-3-63) (including first phase)			Remarks
	Target as originally proposed	Target as amended sub-sequently	Developed	Target as originally proposed	Target as amended sub-sequently	Developed upto 31-3-63	
1	2	3	4	5	6	7	8
Main Ports & Inland							
Kandla	32,000	32,000	37,900	38,000	38,000	54,700	
Bombay	23,000	23,000	36,600	50,000	50,000	39,380	
Cochin	25,000	25,000	15,700	40,000	40,000	39,100	
Vizag	35,000	35,000	35,000	35,000	51,600	58,400	
Calcutta	20,000	20,000	6,400	24,000	24,000	26,000	
Okha		..	..	35,000	35,000	28,500	

1	2	3	4	5	6	7	8
Madras							Dropped in 2nd phase due to the delay in acquisition of land.
Siliguri . . .	50,000	50,000		50,000	50,000	40,300	
Asansol (Dhanbad) . .	20,000		..	2,000			Dropped in the 1st and 2nd phase being found unnecessary, instead, a depot has been shown under the statement relating to depots.
Kanpur	30,000			10,000			Dropped in the 1st and 2nd phase being found unnecessary.
Shakurbasti .	400	400		25,000	25,000	23,000	
Barauni (Garhara) .				21,000	2,000	*4,700	Developed as a transhipment depot (shown under statement II relating to depots).
Hissar				5,000			Dropped in 2nd phase, being found unnecessary instead, a depot has been

Unnecessary

							constructed (shown under the statement relating to depot).
Intermediate Ports . . .	..			35,000			Dropped in 2nd phase.
	2,35,400	1,85,400	1,31,600	3,73,000	3,15,600	3,09,380	
	Target achieved 70%			Target achieved 98%			*Not included for calculation of achievement of target in this table.

STORAGE CAPACITY (Water Tonnes)

	First Phase				Second Phase (including 1st Phase)			
	No.	Target capacity	Number actual	Capacity developed	No.	Target capacity	Number developed by 31-3-63	Capacity developed by 31-3-63
1	2	3	4	5	6	7	8	9
Depots . .	50	12,100	14	3,950	100	40,000	65	23,870
Pumps . .	200	..	80	..	650	..	403	..

APPENDIX II

(*Vide* Introduction)

Analysis of action taken by Government on the recommendations contained in the 28th Report of the Estimates Committee (Third Lok Sabha)

I. Total Number of recommendations made . . 33

II. Recommendations that have been accepted by Government (*vide* recommendations at serial Nos. 4, 5, 6, 14, 16, 19, 20, 21, 24, 25, 27, 28, 29, 30, 31 & 33.

Number 16

Percentage to total . 48%

III. Recommendations which the Committee do not desire to pursue in view of Government's reply (*vide* recommendations at serial Nos. 1, 2, 3, 7, 8, 9, 10, 11, 12, 13, 15, 17, 18, 22, 23, 26 & 32).

Number 17

Percentage to total 52%

GMGIPND—LSI—1554 (Aii)LS—15-11-65—1240.