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**STANDING COMMITTEE ON
PETROLEUM & NATURAL GAS**

(2014-15)

SIXTEENTH LOK SABHA

MINISTRY OF PETROLEUM & NATURAL GAS

FUNCTIONING OF OIL INDUSTRY

DEVELOPMENT BOARD

*[Action Taken by the Government on the recommendations contained in the Twenty
Third Report (Fifteenth Lok Sabha) of the Standing Committee on Petroleum and Natural
Gas (2013-14)]*

SECOND REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2014/ Agrahayana, 1936 (Saka)

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PETROLEUM & NATURAL GAS
(2014-15)**

(SIXTEENTH LOK SABHA)

**MINISTRY OF PETROLEUM & NATURAL GAS
FUNCTIONING OF OIL INDUSTRY
DEVELOPMENT BOARD**

*[Action Taken by the Government on the recommendations contained in the Twenty Third
report (Fifteenth Lok Sabha) of the Standing Committee on Petroleum and Natural Gas
(2013-14)]*

Presented to Lok Sabha on 16.12.2014

Laid in Rajya Sabha on 16.12.2014

**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2014/ Agrahayana, 1936 (Saka)

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**COMPOSITION OF THE STANDING COMMITTEE ON PETROLEUM &
NATURAL GAS (2014-15)**

Shri Pralhad Joshi – Chairman

- | | |
|----|-----------------------------|
| 2 | Dr. Ravindra Babu |
| 3 | Shri P. K. Biju |
| *4 | Shri Haribhai Chaudhary |
| 5 | Shri Kalikesh N. Singh Deo |
| 6 | Shrimati Rama Devi |
| 7 | Shri Elumalai V. |
| 8 | Shri Naranbhai Kachhadiya |
| 9 | Dr. Thokchom Meinya |
| 10 | Shrimati Pratima Mondal |
| 11 | Shri Ashok Mahadeorao Nete |
| 12 | Shrimati Jayshreeben Patel |
| 13 | Shrimati Anupriya Patel |
| 14 | Shri Arvind Sawant |
| 15 | Shri Raju Shetty |
| 16 | Dr. Bholu Singh (Begusarai) |
| 17 | Shri Ravneet Singh |
| 18 | Shri Kamakhya Prasad Tasa |
| 19 | Shri Rajesh Verma |
| 20 | Shri Om Prakash Yadav |
| 21 | Shri Laxmi Narayan Yadav |

RAJYA SABHA

- | | |
|------|-------------------------|
| 22 | Shri Mani Shankar Aiyar |
| # 23 | Dr. Akhilesh Das Gupta |

- 24 Shri Ishwarlal Shankarlal Jain
- 25 Shri Prabhat Jha
- 26 Shri Bhubaneshwar Kalita
- 27 Shri Mansukh L. Mandaviya
- 28 Shri Ahmed Patel
- 29 Shrimati Gundu Sudharani
- 30 Prof. Ram Gopal Yadav
- 31 Shri Sharad Yadav

SECRETARIAT

- 1. Shri A.K.Singh – Joint Secretary
- 2. Shri S.C.Chaudhary – Director
- 3. Shri H Ram Prakash – Additional Director

*Ceased to be a Member of the Committee on becoming Minister in the Union Council of Government w.e.f. 9th November, 2014.

Ceased to be a Member of the Committee consequent upon his resignation from the membership of the Rajya Sabha w.e.f 25th November, 2014.

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Natural Gas having been authorised by the Committee to submit the Report on their behalf, present this Second Report on Action Taken by the Government on the recommendations contained in the Twenty Third Report (Fifteenth Lok Sabha) of the Committee on the subject 'Functioning Of Oil Industry Development Board'.

2. The Twenty Third Report of the Standing Committee on Petroleum & Natural Gas was presented to Lok Sabha on 17.02.2014. The Action Taken Replies of the Government to all the recommendations contained in the Twenty Third Report were received on 26.06.2014.

3. The Standing Committee on Petroleum & Natural Gas (2014-15) considered and adopted the Report at their sitting held on 11.12.2014.

4. An analysis of the action taken by the Government on the recommendations contained in the Twenty Third Report (Fifteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas is given in Annexure-II.

5. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

6. The Committee place on record their appreciation for the valuable assistance rendered to them by the officers of the Lok Sabha Secretariat attached to the Committee.

New Delhi;
December, 2014
Agrahayana ,1936 (Saka)

PRALHAD JOSHI,
Chairman,
Standing Committee on
Petroleum & Natural Gas.

REPORT

CHAPTER I

This Report of the Standing Committee on Petroleum & Natural Gas deals with the action taken by the Government on the Recommendations contained in the Twenty Third Report (Fifteenth Lok Sabha) of the Standing Committee on Petroleum and Natural Gas (2013-14) on 'Functioning of Oil Industry Development Board ', which was presented to Lok Sabha on 17.02.2014.

2. Action Taken Notes have been received from the Government in respect of all the 8 Recommendations /Observations contained in the Report. These have been categorized as follows:-

- (i) Recommendations/Observations that have been accepted by the Government: Sl. Nos. 2 and 8 (Total 2)

(Chapter- II)

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies Sl. Nos.- NIL

(Chapter-III)

- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:- Sl. No.1, 4 and 5 (Total 3)

(Chapter-IV)

- (iv) Recommendations/Observations in respect of which final replies of the Government are still awaited: - Sl. Nos. 3,6 and 7 (Total 3)

(Chapter-V)

3. The Committee desire that the Action Taken Notes on the Recommendations/Observations contained in Chapter-I of this Report and Final Replies in respect of the recommendations for which interim replies have been furnished by the Government (included in Chapter-V), should be furnished expeditiously.

4. The Committee will now deal with the action taken by the Government on some of their recommendations.

Recommendation No. 1

Functioning of OIDB

5. In their earlier Report, the Committee had desired that instead of merely functioning as a financial institution, OIDB should look at spear heading the R&D activities in the entire value chain of oil industry in a more aggressive manner based on the experience gained by oil industry in the last 2 decades and also due to NELP regime. In this regard, the Committee had further recommended that OIDB should form a committee comprising of experts, professionals, academia etc. to identify, evaluate, monitor and fund research and development projects crucial for the oil industry.

In view of the critical role of the oil industry in the economic growth and its growing impact on financial resources of the nation, the Committee had also observed that MoP&NG should conduct a review of functioning of OIDB and strengthen it with required expertise and manpower and amend the Act if need be to expand its functions for the development of oil industry.

6. In their Action Taken Reply ,the Ministry of Petroleum and Natural Gas has submitted as below:-

"Section 6 (3) (e) of the Oil Industry (Development) Act No. 47 of 1974 enables OIDB to render assistance for scientific, technological and economic research which could be, directly or indirectly, useful to oil industry. OIDB has been financing R&D activities of oil industry, based on proposals received. The current mandate of OIDB as per the OI Act is wide enough and it is felt that there is no need to amend the Act.

R&D Projects are currently considered, evaluated and recommended by Scientific Advisory Committee (SAC) on Hydrocarbons of MoP&NG, wherein the representatives of Oil PSUs and concerned industry bodies are members. The Scientific Committee advises MOP&NG to promote application of science and technology in the hydrocarbon sector (excluding upstream sector).

The Ministry is of the view that OIDB should remain a lean organisation, while at the same time getting its work done through collaboration with other bodies. Secondly, it has not been possible in recent years to strengthen OIDB financially to any considerable extent due to non-receipt of cess amount collected. Therefore, it is felt that a review of its functioning may not be necessary at the present juncture."

7. The Committee had recommended for increasing the activity of OADB to create an expert panel of its own to evaluate and approve the R&D projects for sponsorship. The Committee find that presently Scientific Advisory Committee (SAC) on Hydrocarbons of MoP&NG is considering, evaluating and recommending the R&D projects to OADB. However, the Committee note with surprise that this advise of SAC is restricted to the projects pertaining to downstream sector. The Committee feel that it is high time that OADB must be equipped with its own expertise for being a statutory body working in this field as to critically evaluate the projects of upstream as well as downstream sector and ideally SAC should function under its aegis. This would induce the much needed fillip in OADB. The Committee are of the view that financial constraints must not play an hindrance in the efficient disposal of OADB duties and therefore, reiterate their earlier recommendation for reviewing the functioning of OADB and induction of the required expertise and manpower. The Committee also desire the Ministry to take the non-receipt of cess amount collected with MoF at highest level.

Recommendation No. 4

Rationalisation of cess levied on crude oil

8. The Committee, in their earlier Report had noted that two upstream PSU companies namely ONGC and OIL bear the levy of cess and the increase in cess results in increase in crude production cost . In view of the fact that these PSUs share the under-recoveries by way of providing discount on sale of crude to OMCs , the Committee had observed that the increase in cess is unjustified and has put financial burden on them. The Committee, therefore, to ameliorate the adverse financial situation faced by these PSUs had also recommend, that MoP&NG should take up with the MoF/Government to consider levy of small amount of cess on a wide range of petroleum products and reduce on crude oil/natural gas.

9. In their action Taken Reply, the Ministry of Petroleum and Natural Gas has submitted as under:-

“This Ministry has taken up the matter about the adverse impact of increase in cess on crude oil with Ministry of Finance (Department of Revenue) through its letter No. 38011/3/2012-Fin.II/ONG-III dated 12th May, 2014 .

As far as levy of cess on variety of petroleum products is concerned, it may be noted that a large proportion of final consumer prices for petrol & diesel is

contributed by Central & State taxes and levies. For example, out of the present consumer price of Petrol at Delhi of Rs.71.41, as much as 31.2% is towards taxes and levies. Similarly, taxes and levies constitute 34% of the consumer price of petrol of in Mumbai. There is a road cess of Rs.2.00 per litre on petrol and diesel throughout the country. There is also 3% education cess. Therefore, imposing further cess on products will make the product prices too high for consumers. Hence, the Ministry is not in favour of widening the levy of cess on a variety of petroleum products.”

10. The Committee note that Ministry have expressed reservations towards the proposal of levying further cess on Petroleum products as the same would contribute to an increase in overall final consumer prices of Petrol and Diesel. The Committee are well aware of the concerns raised by the Ministry regarding the consequential hike in the consumer threshold prices in case increased cess is levied on products like petrol and diesel .The Committee would like to emphasise here that there are approximately eight to ten kind of other petroleum products like Naptha, Bitumen, lubes etc. which are being produced as byproducts during the refining process of crude oil, besides the primary produce of petrol and diesel , which have got tremendous industrial utility and export value . The minor increase in the prices of such products would not trickle down to consumers in any significant way and could simultaneously ease the financial burden of upstream oil companies. The Committee, therefore, reiterate their recommendation and desire that the Ministry should reconsider the issue. The Committee also expect the MoP&NG to pursue vigorously with MoF the issue of adverse impact of increase in cess on crude oil.

Recommendation No. 5

Utilization of funds by OADB

11. The Committee, in their earlier Report had noted that out of budgeted provision of Rs. 219.05 cr for the year 2013-14, OADB has granted DGH an amount of Rs. 110.88 cr which comes out to be 50 percent of the total amount. In this connection, the Committee while fully endorsing the suggestion of the Ministry of Finance that office of DGH must be given financial independence and the same should be included in Budgetary estimates of MoPNG instead of being sponsored by OADB, had

recommended that Ministry should raise separate Budgetary demand as suggested by MoF which will ease the financial burden of OADB to a considerable extent.

The Committee had further noted the clarification of MoF that as per CCEA approval the cost of filling the crude in three strategic storage caverns is to be borne by the Government and not by OADB. The Committee had welcome this decision as it will save considerable amount of funds.

12. In their action Taken Reply, the Ministry of Petroleum and Natural Gas has submitted as below:-

“The matter of funding of the requirement of DGH by OADB has been reconsidered in the Ministry. Minister of Petroleum & Natural Gas has written a letter on 20.01.2014 (Annex-III) to Minister of Finance conveying the view of the Ministry that the present funding arrangements have worked well, without straining the limited budget allocations of MoP&NG. DGH has to carry out several functions which are emergent and unpredictable in nature. Functions like carrying out well testing, ensuring safety regulations, inspections, contesting international arbitration require quick sanctions. This is possible in the current scheme of things without getting into revision of budget and supplementary demands, which require significant time for processing. Thus, the present system for funding DGH through OADB grants is considered suitable and the same may continue. OADB funding facilitates flexibility and speed in decision making which is essential for effective functioning of DGH. Further action would be taken as per the advice of Ministry of Finance.

Regarding the observation of the Committee on filling of crude in 3 strategic storage caverns, it is submitted that for 2014-15, only a token provision of Rs.1 crore has been made in the budget. There is a plan provision of Rs.4948 crore for this during the 12th Plan, but the requirement to fill up the 3 caverns at Vishakhapatnam, Mangalore & Padur is of the order of Rs.25000 crore.”

13. The Committee support the views of MoF and reiterate their recommendation of asking for separate budget allocations for DGH with a view to avoid major cash outgo from OADB fund for DGH , which eats up considerable corpus of OADB and interferes with efficient disposal of its other funding responsibilities. The Committee, feel that this way DGH, which is catering to multiple objectives would also be able to exercise improved freedom in meeting its various commitments, on being endowed with its own corpus. The Committee would like to be intimated about the response of MoF and decision taken in the matter expeditiously. The Committee , also desire that budgetary provisions be suitably enhanced for filling up crude oil in the strategic caverns, which are expected to achieve completion by the end of 2015.

Recommendation No. 7

Rehabilitation of Biecco-Lawrie (BLL)

14. The Committee , in their earlier Report had noted that BLL has a history of financial problems and huge accumulated losses. The Committee had noted that Board of Reconstruction of Public Sector Enterprise (BRPSE) has reviewed BLL's proposal for restructuring and has recommended closing of BLL after giving VRS to all its employees if the option of take over by other CPSE's does not succeed. The Committee had further observed that MoP&NG had been making efforts for merger of BLL with other PSUs and in this regard has approached Ministry of Heavy Industry (MHI) and Ministry of Power (MoP).

The Committee had also recommended that MoP&NG and OIDB should earnestly pursue for revival of BLL within CPSE framework so that the option of closing BLL after giving VRS to its employees may be obviated which will secure the employment of those working in it and also safeguard the funds of OIDB.

The Committee further had desired that the OIDB/Ministry should grant interim financial support to keep the company running till the revival package is finalized for implementation.

15. In their action Taken Reply Ministry of Petroleum and Natural Gas has submitted as below:-

"BLL has a history of financial problems and rehabilitation packages were sanctioned by Government of India (GoI) from time to time. In the year 2007, BRPSE reviewed the restructuring proposal submitted by BLL. In October 2007, BRPSE made certain recommendations against which GoI in May 2011, approved the following :-

- (a) Conversion of OIDB loan of Rs. 32.76 Crore into equity ;
- (b) Reduction of equity capital by setting off accumulated loss of Rs. 59.60 Crore and
- (c) Raise funds from Banks / Financial institutions by mortgaging freehold land at Mayurbhanj Road.

The company again approached this Ministry with a request for infusion of fund to the extent of Rs. 75 crore to revive the company. The request of the company was placed before the BRPSE in its meeting held on 22.02.2013. On review of the proposal of BLL, BRPSE recommended that Ministry of Petroleum & Natural Gas may consider closing BLL after giving VRS to all employees if the option of its takeover by other CPSEs does not succeed.

On BRPSE recommendation, a CCEA note with the approval of Hon'ble Minister (P&NG) for closure of BLL was sent to different Ministries / Departments on 15th July, 2013 for their comments. In the meantime, this Ministry received a reference from Dr. Nitish Sengupta, Ex-MP and Chairman of BRPSE suggesting this Ministry to find out the option for merger of BLL with M/s Bridge & Roof Co. (India) Ltd., a CPSE under D/o Heavy Industry. Accordingly, D/o Heavy Industry was requested for their comments on the above issue. Thereafter, MD, BLL requested this Ministry to take up the matter with Ministry of Power for finding out the option for merger of BLL with any CPSE under them. Accordingly, Ministry of Power as well as Department of Heavy Industry were requested to explore the option for merger of BLL with any CPSE under the administrative control of their Departments. Ministry of Power has shown its inability stating that the M/s BLL being a manufacturing activity, appropriate synergy would not arise on merger with any of that Ministry's PSUs. Comments of D/o Heavy Industry are still awaited.

Further, M/s Biecco Lawrie Limited has informed that United Bank of India has sanctioned a United Mortgage loan of Rs. 18.78 crore and requested this Ministry to give clearance for obtaining mortgage loan of Rs. 18.78 crore. M/s BLL has been requested to send a detailed strategy on revival of company based on the core competence and strength of the company if such assistance is forthcoming. This is awaited.

M/s BLL has further requested for immediate support with working capital loan of Rs. 10.00 crore from OADB. OADB Board in its 87th meeting noted the follow up action on the Revival Package approved by CCEA in 2011, the subsequent recommendations of BRPSE and additional revival package being prepared by BLL. OADB Board decided that any fresh proposal should be referred to BRPSE by Ministry of Petroleum & Natural Gas."

16. The Committee, on perusal of reply of MoPNG find that most of the revival measures for BLL are lingering and awaiting implementation. These include the pending response from Department of Heavy Industries regarding the merger of BLL with any CPSE under its domain. Simultaneously, the interim support in the form of the mortgage loan of Rs 18.78 crore sanctioned by United Bank of India is also awaiting MoPNG nod. And currently as a fresh turn around in the matter, it has been decided by OADB that from now onwards all the proposals in this regard would be referred to BRPSE by Ministry of Petroleum & Natural Gas. Against the above backdrop, the Committee desire that the follow up action on the Revival Package approved by CCEA in the year 2011, and the recommendations of the Committee must be implemented in letter and spirit without further delay. Due care must also be taken that unnecessary departmental delays do not mar the collective efforts of multiple forums and every effort be taken to revive the ailing company and the stakeholders.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation No. 2

Filling up of vacancy in OIDB

The Committee note that Section 3(3) of the OID Act 1974 provides for the Constitution of the OID Board. The Board consists of a Chairman, 12 members and 1 member Secretary. As per Section 3(3)(d), one Member shall be appointed by the Central Government to represent labour employed in the oil industry. The Committee are constrained to note that this post has been vacant for considerable period of time between 1990 and 1998 and since 26.11.2000, it has been continuously lying vacant. The Committee have not been given any valid explanation for non-filling of this vacancy by the Ministry.

The Committee are of the view that such an important category of Member in the Board should not remain vacant for a long time and recommend that MoP&NG should take immediate action to fill the current vacancy at the earliest. The Committee would also like to be apprised of the efforts made by the Ministry in filling up of the vacancy and reasons for delay.

REPLY OF THE GOVERNMENT

Ministry has requested all oil PSUs to send names of office bearers of Registered Trade Union representing labour employed in their organization. The vacancy will be filled up with the approval of competent authority as soon as the information is received. The matter is being followed up with oil PSUs.

Ministry of Petroleum & Natural Gas
O.M. No. G-38011/27/2014-Fin.I Dated 26th June, 2014

Recommendation No. 8

Tax Exemption to OIDB

The Committee note that in accordance with Section 22(a) of OID Act, the OIDB was exempted from paying income tax till the year 2002-03 but thereafter in compliance with

Finance Act 2002, Section 22(a) was deleted and OIDB was made a tax paying entity w.e.f. April 2003. The reasons given by MoF for revoking the benefits is the commercial operation carried out by OIDB in line with other such organizations like NHB, SIDBI and NABARD. The Committee, however, are not convinced with the reasoning given by MoF for equating OIDB with other commercialized banking organizations as mentioned above. The functional domain of OIDB, which was brought into its very existence with objective of inculcating self-reliance in petroleum sector and earnestly following the set objectives cannot be branded as commercial. OIDB provides financial assistance to various organizations engaged in development programmes of the oil industry which have far reaching impact of these activities on development of any nation.

The Committee wish to point out that Government has been encouraging R&D activities in Science and Technology sector by way of various tax benefits/exemptions. Since OIDB has been funding mostly R&D activities, tax exemption will incentivize OIDB to have more funds at its disposal for such activities. The Committee, therefore, desire MoP&NG to pursue diligently to get tax exemption status to OIDB which will enable it to fund many important developmental activities.

REPLY OF THE GOVERNMENT

Ministry has taken up the matter with Ministry of Finance (Letter No.G-38011/45/2014-Fin.I dated 1.5.2014 of Secretary (P&NG) for restoration of tax exempt status to OIDB.

Ministry of Petroleum & Natural Gas
O.M. No. G-38011/27/2014-Fin.I Dated 26th June, 2014

CHAPTER III

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

NIL

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED

Recommendation No. 1

Functioning of OI DB

The Committee note that OI DB was established on 13th January, 1975 under OI Act 1974, as an autonomous body under MoP&NG to provide for development of oil industry which includes all activities connected directly or indirectly with petroleum, fertilizers and petro-chemicals industry. As per the objectives of the act, an oil industry development fund was proposed to be created to achieve self-reliance in petroleum and in petroleum based industrial raw materials which would be used exclusively to provide financial assistance to the organizations engaged in development programmes of the oil industry.

The Committee have been informed that OI DB has been disbursing funds for activities specified in the Section 6 by providing financial assistance to various institutions like DGH, OI SD, CHT, PCRA etc. The Committee desire that instead of merely functioning as a financial institution, OI DB should look at spear heading the R&D activities in the entire value chain of oil industry in a more aggressive manner based on the experience gained by oil industry in the last 2 decades and also due to NELP regime. In this regard, the Committee desire that OI DB should form a committee comprising of experts, professionals, academia etc. to identify, evaluate, monitor and fund research and development projects crucial for the oil industry.

In view of the critical role of the oil industry in the economic growth and its growing impact on financial resources of the nation, the Committee recommend that MoP&NG should conduct a review of functioning of OI DB and strengthen it with required expertise and manpower. The Committee would also expect the Ministry to amend the Act if need be to expand its functions for the development of oil industry.

REPLY OF THE GOVERNMENT

Section 6 (3) (e) of the Oil Industry (Development) Act No. 47 of 1974 enables OI DB to render assistance for scientific, technological and economic research which could be, directly or indirectly, useful to oil industry. OI DB has been financing R&D activities of oil

industry, based on proposals received. The current mandate of OIDB as per the OID Act is wide enough and it is felt that there is no need to amend the Act.

R&D Projects are currently considered, evaluated and recommended by Scientific Advisory Committee (SAC) on Hydrocarbons of MoP&NG, wherein the representatives of Oil PSUs and concerned industry bodies are members. The Scientific Committee advises MOP&NG to promote application of science and technology in the hydrocarbon sector (excluding upstream sector).

The Ministry is of the view that OIDB should remain a lean organisation, while at the same time getting its work done through collaboration with other bodies. Secondly, it has not been possible in recent years to strengthen OIDB financially to any considerable extent due to non-receipt of cess amount collected. Therefore, it is felt that a review of its functioning may not be necessary at the present juncture.

Ministry of Petroleum & Natural Gas
O.M. No. G-38011/27/2014-Fin.I Dated 26th June, 2014

**Comments of the Committee
(Please see Para No. 7 of Chapter-I)**

Recommendation No. 4

Rationalisation of cess levied on crude oil

The Committee note that the Union Government collects cess as a duty of excise on indigenous production of crude oil and natural gas under the OID Act. The cess levied was Rs 60 per tonne in 1974 and after periodic revision stands at Rs. 4500 per tonne since 17th March, 2012 which is collected by Ministry of Finance and credited to the Consolidated Fund of India. Two upstream PSU companies namely ONGC and OIL bear this cess and the increase in cess to 4500/MT has resulted increase in crude production cost by US\$5/bbl. Taking into consideration that these PSUs share the under-recoveries by way of providing discount on sale of crude to OMCs, the Committee feel that the increase in cess is unjustified and has put financial burden on them. The Committee would like Ministry of Finance to ameliorate the adverse financial situation faced by ONGC and OIL due to these measures and reduce the levy of cess on crude oil.

The Committee are of the view that instead of levy of the cess on crude oil, it would expect MoP&NG and MoF to widen the levy of cess on a variety of products. The

Committee, therefore, recommend, that MoP&NG should take up with the MoF/Government to consider levy of small amount of cess on a wide range of petroleum products and reduce on crude oil/natural gas

REPLY OF THE GOVERNMENT

This Ministry has taken up the matter about the adverse impact of increase in cess on crude oil with Ministry of Finance (Department of Revenue) through its letter No. 38011/3/2012-Fin.II/ONG-III dated 12th May, 2014.

As far as levy of cess on variety of petroleum products is concerned, it may be noted that a large proportion of final consumer prices for petrol & diesel is contributed by Central & State taxes and levies. For example, out of the present consumer price of Petrol at Delhi of Rs.71.41, as much as 31.2% is towards taxes and levies. Similarly, taxes and levies constitute 34% of the consumer price of petrol of in Mumbai. There is a road cess of Rs.2.00 per litre on petrol and diesel throughout the country. There is also 3% education cess. Therefore, imposing further cess on products will make the product prices too high for consumers. Hence, the Ministry is not in favour of widening the levy of cess on a variety of petroleum products.

Ministry of Petroleum & Natural Gas
O.M. No. G-38011/27/2014-Fin.I Dated 26th June, 2014

Comments of the Committee

(Please see Para No. 10 of Chapter-I)

Recommendation No. 5

Utilization of funds by OADB

The Committee are happy to note that despite non-allocation of funds by Central Government on regular basis, OADB has augmented its funds corpus to Rs. 10726 crores as on March 2013 by utilizing its various internal resources of fund generation. The OADB is efficiently disbursing its funds for various projects and activities emanating either directly or indirectly from multiple objectives set in the Act for development of oil sector. These activities include lending money to oil companies as loans, equity investment, grants to institutions under the Ministry of Petroleum and Natural Gas.

The Committee note that out of budgeted provision of Rs. 219.05 cr for the year 2013-14, OADB has granted DGH an amount of Rs. 110.88 cr which comes out to be 50% of the total amount. In this connection, Ministry of Finance (MoF) has suggested that office of DGH must be given financial independence and the same should be included in Budgetary estimates of MoPNG instead of being sponsored by OADB. The Committee fully endorse this and therefore recommend that Ministry should raise separate Budgetary demand as suggested by MoF which will ease the financial burden of OADB to a considerable extent.

The Committee further note that MoF have also clarified that as per CCEA approval the cost of filling the crude in 3 strategic storage caverns is to be borne by the Government and not by OADB. The Committee welcome this decision as it will save considerable amount of funds.

The Committee hope that due to the measures as proposed above by MoF, there will be saving of funds which will help OADB to judiciously allocate funds for meeting its objective of development of oil industry.

REPLY OF THE GOVERNMENT

The matter of funding of the requirement of DGH by OADB has been reconsidered in the Ministry. Minister of Petroleum & Natural Gas has written a letter on 20.01.2014 to Minister of Finance conveying the view of the Ministry that the present funding arrangements have worked well, without straining the limited budget allocations of MoP&NG. DGH has to carry out several functions which are emergent and unpredictable in nature. Functions like carrying out well testing, ensuring safety regulations, inspections, contesting international arbitration require quick sanctions. This is possible in the current scheme of things without getting into revision of budget and supplementary demands, which require significant time for processing. Thus, the present system for funding DGH through OADB grants is considered suitable and the same may continue. OADB funding facilitates flexibility and speed in decision making which is essential for effective functioning of DGH. Further action would be taken as per the advice of Ministry of Finance.

Regarding the observation of the Committee on filling of crude in 3 strategic storage caverns, it is submitted that for 2014-15, only a token provision of Rs.1 crore has been

made in the budget. There is a plan provision of Rs.4948 crore for this during the 12th Plan, but the requirement to fill up the 3 caverns at Vishakhapatnam, Mangalore & Padur is of the order of Rs.25000 crore.

Ministry of Petroleum & Natural Gas
O.M. No. G-38011/27/2014-Fin.I Dated 26th June, 2014

Comments of the Committee

(Please see Para No. 13 of Chapter-I)

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation No. 3

Fund allocation to OIDB from cess collection

The Committee have observed that OIDB established under mandate of OI Act 1974, is working towards development of domestic oil industry by financing various projects and activities associated with it. The Central Government pay to the Board such sums out of cess proceeds levied on production of crude oil as it may think fit for being utilized for the purposes of this Act. The Committee note that Central Government has paid an amount of Rs. 902 crore only to OIDB out of the total cess proceeds of more than 118500 crores collected since the OI Act was enacted. The Committee further note that i.e. during the period from 1974 to 1992 there had been regular annual fund transfer to OIDB except for five years from the year 1983 to 1988. Thereafter, from 1993 onwards, the fund allocation has been altogether discontinued and the Board, is managing its affairs within the funds generated through internal resources. The Committee have been informed by OIDB that increased allocation of funds from the cess collected would enable it to provide more assistance to the oil industry for their development.

The Committee have been informed that MoP&NG had requested Ministry of Finance (MoF) for a share of 75% of the levied cess to be allocated to OIDB for meeting its various expenses. However, MoF has expressed its inability to spare such a huge share of cess for OIDB and have stated that Government has been financing various activities that qualify as development of oil industries within the purview of the Act. The Committee are of the view that since OIDB have to enlarge its activities with a number of additional funding responsibilities, there

should be a regular source of funds for OIDB. The Committee, therefore, desire MoP&NG to impress upon MoF for annual allocation of fixed percentage of collected cess to OIDB for enabling it to render unhindered funding towards meeting its various commitments.

REPLY OF THE GOVERNMENT

The Ministry of Petroleum & Natural Gas had earlier requested Ministry of Finance through letters dated 8.11.2012 and 9.4.2013 for allocation of funds out of cess collection to OIDB, but the request was not agreed to by Ministry of Finance (letter dt. 24.5.2013 of the Finance Minister). Recently, Minister of Petroleum & Natural Gas has written a D.O. letter dated 14.03.2014 to the Finance Minister to reconsider the earlier decision and

- (a) To consider transferring at least Rs.3000 crore on immediate basis to OIDB to meet its urgent requirement during 2014-15, and
- (b) To agree to devolution of 75% of the collected cess proceeds to OIDB thereafter for enabling it to render unhindered funding for meeting its various commitments.

The reply from MoF is awaited.

Ministry of Petroleum & Natural Gas
O.M. No. G-38011/27/2014-Fin.I Dated 26th June, 2014

Recommendation No. 6

Payment of additional royalty to State by OIDB

The Committee note that the Government entrusted OIDB with the responsibility for payment of additional royalty to state Governments to meet its commitments on fiscal stability in production sharing contracts under NELP. The Committee note that out of total amount of Rs. 902 cr received from Central Government, the Board has already paid an amount of Rs. 407.71 cr upto March 2013 towards payment of additional royalty which is almost 50% of the total sum received by OIDB.

The Committee observe that utilizing Board's resources for payment towards differential royalties to states is adversely affecting the finances of OIDB. This purpose does not cover any of the Board's objectives, intent with which OIDB had been created. The Committee feel that this activity which is exclusively a sovereign responsibility of the Union Government must not be catered to by the Board owing to limited fund available at its disposal. The Committee, therefore, recommend that MoP&NG should take up with the Ministry of Finance for delinking the role and involvement of OIDB regarding payment of differential royalty to State Government.

REPLY OF THE GOVERNMENT

Payment of differential royalty is being examined in the Ministry in consultation with DGH and further necessary action will be taken as per the views emerging out of the above consultation process.

Ministry of Petroleum & Natural Gas
O.M. No. G-38011/27/2014-Fin.I Dated 26th June, 2014

Recommendation No. 7

Rehabilitation of Biecco-Lawrie

The Committee note that OIDB holds equity of Rs. 50.34 crores in Biecco Lawrie Ltd. (BLL) which is 67.33 % of total equity of the company. OIDB has recently decided to nominate FA&CAO, OIDB as its nominee to the BLL Board. The Committee note that the Company has a history of financial problems and has huge accumulated losses. The Committee note that Board of Reconstruction of Public Sector Enterprise (BRPSE) has reviewed BLL's proposal for restructuring and has recommended closing of BLL after giving VRS to all its employees if the option of take over by other CPSE's does not succeed. The Committee further note that MoP&NG has been making efforts for merger of BLL with other PSUs and in this regard has approached Ministry of Heavy Industry (MHI) and Ministry of Power (MoP).

The Committee recommend that MoPN&NG and OIDB should earnestly pursue for revival of BLL within CPSE framework so that the option of closing BLL after giving VRS to its employees may be obviated which will secure the employment of those working in it and also safeguard the funds of OIDB.

The Committee have been informed that the Ministry has asked BLL to send a detailed strategy for revival of the company in response to the request made by BLL to give clearance for obtaining a mortgage loan of Rs. 18.78 crore. The Committee desire that the OIDB/Ministry should grant interim financial support to keep the company running till the revival package is finalized for implementation. The Committee should be apprised about the steps taken in this regard.

REPLY OF THE GOVERNMENT

BLL has a history of financial problems and rehabilitation packages were sanctioned by Government of India (GoI) from time to time. In the year 2007, BRPSE reviewed the restructuring proposal submitted by BLL. In October 2007, BRPSE made certain recommendations against which GoI in May 2011, approved the following :-

- (d) Conversion of OIDB loan of Rs. 32.76 Crore into equity ;

- (e) Reduction of equity capital by setting off accumulated loss of Rs. 59.60 Crore and
- (f) Raise funds from Banks/Financial institutions by mortgaging freehold land at Mayurbhanj Road.

The company again approached this Ministry with a request for infusion of fund to the extent of Rs. 75 crore to revive the company. The request of the company was placed before the BRPSE in its meeting held on 22.02.2013. On review of the proposal of BLL, BRPSE recommended that Ministry of Petroleum & Natural Gas may consider closing BLL after giving VRS to all employees if the option of its takeover by other CPSEs does not succeed.

On BRPSE recommendation, a CCEA note with the approval of Hon'ble Minister (P&NG) for closure of BLL was sent to different Ministries / Departments on 15th July, 2013 for their comments. In the meantime, this Ministry received a reference from Dr. Nitish Sengupta, Ex-MP and Chairman of BRPSE suggesting this Ministry to find out the option for merger of BLL with M/s Bridge & Roof Co. (India) Ltd., a CPSE under D/o Heavy Industry. Accordingly, D/o Heavy Industry was requested for their comments on the above issue. Thereafter, MD, BLL requested this Ministry to take up the matter with Ministry of Power for finding out the option for merger of BLL with any CPSE under them. Accordingly, Ministry of Power as well as Department of Heavy Industry were requested to explore the option for merger of BLL with any CPSE under the administrative control of their Departments. Ministry of Power has shown its inability stating that the M/s BLL being a manufacturing activity, appropriate synergy would not arise on merger with any of that Ministry's PSUs. Comments of D/o Heavy Industry are still awaited.

Further, M/s Biecco Lawrie Limited has informed that United Bank of India has sanctioned a United Mortgage loan of Rs. 18.78 crore and requested this Ministry to give clearance for obtaining mortgage loan of Rs. 18.78 crore. M/s BLL has been requested to send a detailed strategy on revival of company based on the core competence and strength of the company if such assistance is forthcoming. This is awaited.

M/s BLL has further requested for immediate support with working capital loan of Rs. 10.00 crore from OIDB. OID Board in its 87th meeting noted the follow up action on the Revival Package approved by CCEA in 2011, the subsequent recommendations of BRPSE and additional revival package being prepared by BLL. OID Board decided that any fresh proposal should be referred to BRPSE by Ministry of Petroleum & Natural Gas.

Ministry of Petroleum & Natural Gas
O.M. No. G-38011/27/2014-Fin.I Dated 26th June, 2014

Comments of the Committee
(Please see Para No.16 of Chapter I)

New Delhi;
December, 2014
Agrahayana, 1936 (Saka)

PRALHAD JOSHI,
Chairman,
Standing Committee on
Petroleum and Natural Gas.

MINUTES

**STANDING COMMITTEE ON PETROLEUM & NATURAL GAS
(2014-15)**

**SIXTH SITTING
(11.12.2014)**

The Committee sat on Thursday the 11 December, 2014 from 1600 hrs. to 1700 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Sh. Pralhad Joshi - Chairman

**MEMBERS
LOK SABHA**

2. Shri Ravindra Babu Pandula
- 3 Smt. Rama Devi
- 4 Shri Elumalai V.
- 5 Shri Naranbhai Kachhadiya
- 6 Smt. Pratima Mondal
- 7 Shri Ashok Mahadeorao Nete
- 8 Smt. Jayshreeben Patel
- 9 Smt. Anupriya Patel
- 10 Shri Arvind Sawant
- 11 Shri Raju Shetti
- 12 Dr. Bholu Singh
- 13 Shri Ravneet Singh
- 14 Shri Kamakhya Prasad Tasa
- 15 Shri Om Prakash Yadav
- 16 Shri Laxmi Narayan Yadav

RAJYA SABHA

- 17 Shri Ishwarlal Shankarlal Jain
- 18 Shri Bhubaneshwar Kalita
- 19 Shri Mansukh L. Mandaviya

SECRETARIAT

- | | | | |
|----|---------------------|---|---------------------|
| 1. | Shri A.K.Singh | - | Joint Secretary |
| 2. | Shri S.C. Chaudhary | - | Director |
| 3. | Shri H.Ram Prakash | - | Additional Director |
| 4. | Smt Jagriti Tewatia | - | Deputy Secretary |

2. At the outset, Hon'ble Chairman welcomed the Members to the sitting of the Committee held to consider and adopt two reports of the committee namely (i) Draft Report on DFGs (2014-15) of MoPNG and (ii) Draft Action taken report on the recommendations contained in the 23rd report (15th LS) on the subject 'Functioning of Oil Industry Development Board'.

3. * * * * *

4. Thereafter, the Committee took up for consideration the draft Action Taken Report on action taken by the Government on the recommendations contained in the 23rd report (15th LS) on the subject 'Functioning of Oil Industry Development Board' and adopted the same without any modifications .

5. The Committee also authorized the Chairman to finalize the reports and present/lay them in both the Houses of Parliament.

The Committee then adjourned.

***Matter not related to this subject.**

Annexure II**(Vide Para 4 of the Introduction)*****ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE TWENTY THIRD REPORT (FIFTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON PETROLEUM AND NATURAL GAS (2013-14) ON 'FUNCTIONING OF OIL INDUSTRY DEVELOPMENT BOARD'***

I	<u>Total No. of Recommendations</u>	8
II	Recommendations/Observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 2 and 8) Percentage to Total	2 25%
III	Recommendations/Observations which the Committee do not desire to pursue in view of Government's Reply (Vide Recommendations at Sl. No. NIL) Percentage of Total	NIL NIL
IV	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. Nos. 1,4 and 5) Percentage of Total	3 37.5%
V	Recommendations/Observations in respect of which final replies of the Government are still awaited (Vide Recommendations at Sl. Nos. 3,6 and 7) Percentage of Total	3 37.5%