TWENTY-THIRD REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2001)

(THIRTEENTH LOK SABHA)

MARKETING & DISTRIBUTION OF PETROLEUM PRODUCTS WITH SPECIAL REFERENCE TO RURAL AND HILLY AREAS

MINISTRY OF PETROLEUM AND NATURAL GAS

Presented to Speaker on 28.12.2001 26 FEB 2002
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LOK SABHA SECRETARIAT
NEW DELHI

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CONTENTS

PAGE

ANNEXURES

COMPOSITION OF STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2001)

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Ramchander Bainda
4. Shri Ananda Mohan Biswas
5. Shri Ajay Singh Chautala
6. Dr. (Smt.) C. Suguna Kumari
7. Shri Padam Sen Choudhary
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9. Shri Dilipkumar Mansukhlal Gandhi
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13. Shri Shriprakash Jaiswal
14. Shrimati Nivedita Mane
15. Shri Punnulal Mohale
16. Shri P. Mohan

*17. Dr. Debendra Pradhan

18. Shri Mohan Rawale
19. Dr. Bikram Sarkar
20. Shri Shyama Charan Shukla
21. Shrimati Kanti Singh
22. Shri Prabhunath Singh
23. Shri D.C. Srikantappa
24. Dr. Ramesh Chandra Tomar
25. Shri Tarlochan Singh Tur
26. Shri Shankersinh Vaghela
27. Shri Ratilal Kalidas Verma
28. Shri B. Venkateshwarlu
29. Shri Rajesh Verma
30. Dr. Girija Vyas

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* Nominated on 13.11.2001 on casual vacancy caused consequent upon appointment of Sh. Ashok Pradhan, M.P. (LS) as Minister w.e.f. 2.9.2001.

Rajya Sabha

31. Shri Anil Kumar
32. Shri Gaya Singh
33. Shri Ram Nath Kovind
*34. Shri Daya Nand Sahay
35. Shri Moolchand Meena
36. Shri Dipankar Mukherjee
37. Shri Suresh Pachouri
38. Shri Ahmed Patel
39. Shri Mukesh R. Patel
**40. Vacant
41. Shri K. Kalavenkata Rao
42. Shrimati Basanti Sarma
43. Shri Rajiv Ranjan Singh 'Lalan'
44. Shri P. Soundararajan
45. Prof. Ram Gopal Yadav

SECRETARIAT

1. Shri P.D.T. Achary	—	*Additional Secretary*
1. Shri K.V. Rao	—	*Joint Secretary*
2. Shri Brahm Dutt	—	*Deputy Secretary*
3. Shri J.N. Oberoi	—	*Under Secretary*
4. Smt. Madhu Bhutani	—	*Sr. Executive Assistant*

* Nominated on 28.9.2001 as casual vacancy caused consequent upon the retirement of Dr. (Smt.) Joyashree Goswami Mehanta M.P. (RS) from the membership of Rajya Sabha *w.e.f.* 14.6.2001.

** Vacanacy caused consequent upon appointment of Sh. Ravi Shankar Prasad, M.P. (RS) as Minister *w.e.f.* 1.9.2001.

COMPOSITION OF SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2001)

Shri Mulayam Singh Yadav — *Chairman*

2. Dr. Girija Vyas — *Convenor*
3. Shri Ashok Argal
4. Smt. Sheela Gautam
5. Shri Pawan Singh Ghatowar
6. Shri B.K. Handique
7. Shri Ahmed Patel
8. Shri Mohan Rawale
9. Shri Shyama Charan Shukla
10. Smt. Kanti Singh
11. Shri Prabhunath Singh
12. Shri Tarlochan Singh Tur
13. Shri Shankersinh Vaghela
14. Shri Ratilal Kalidas Varma
15. Prof. Ram Gopal Yadav

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (2001) having been authorised by the Committee to submit the Report on their behalf present this Twenty Third Report on 'Marketing and Distribution of Petroleum Products with special reference to Rural and Hilly Areas'.

2. This subject was selected for examination by the Standing Committee on Petroleum & Chemicals (1999-2000) and the preliminary material was obtained from the Ministry of Petroleum and Natural Gas. The Committee decided to refer this subject to the Sub-Committee on Petroleum for detailed examination. The Sub-Committee on Petroleum considered the replies furnished by the Ministry of Petroleum and Natural Gas and issue questionnaire on the subject and sought other materials on the subject. The Sub-Committee on Petroleum took evidence of the representatives of the Federation of All India Petroleum Traders (FAIPT) on 3rd October, 2000. The Standing Committee on Petroleum and Chemicals (2001) after reconstitution decided to continue with this subject. The Sub-Committee on Petroleum took evidence of the representatives of IBP Co. Ltd. On 10th May, 2001, Bharat Petroleum Corporation Ltd. (BPCL) and Hindustan Petroleum Corporation Ltd. (HPCL) on 7th November, 2001, Indian Oil Corporation (IOCL) on 22nd November, 2001 and Ministry of Petroleum and Natural Gas on 5th December, 2001.

3. The Committee wish to express their thanks to officers of the Ministry of Petroleum and Natural Gas and the representatives of FAIPT, IBP Co. Ltd., BPCL, HPCL and IOCL for placing their views before them and for furnishing the information desired in connection with examination of the subject.

4. The Sub-Committee on Petroleum considered and adopted this Report at their sitting held on 19th December, 2001.

5. The Standing Committee on Petroleum and Chemicals (2001) considered and adopted this Report at their sitting held on 20th December, 2001. The Committee place on record their appreciation of the work done by the Sub-Committee on Petroleum.

6. The Committee also place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

NEW DELHI;
December 20, 2001
Agrahayana 29, 1923 *(Saka)*

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on
Petroleum & Chemicals.

PART I

BACKGROUND ANALYSIS

CHAPTER I

INTRODUCTORY

The Ministry of Petroleum and Natural Gas is entrusted with the responsibility of exploration and production of Oil and Natural Gas, their refining, marketing distribution and pricing. Four Public Sector Oil Companies are under the administrative control of Ministry of Petroleum and Natural Gas, namely Indian Oil Corporation (IOC), Hindustan Petroleum Corporation Ltd. (HPCL), Bharat Petroleum Corporation Ltd. (BPCL), and IBP Co. Ltd. who have monopolistic control over certain items of petroleum products such as MS, HSD. Ministry of Petroleum and Natural Gas through its operational wing Oil Coordination Committee monitors the movement of petroleum products in the country.

1.2 In the Ninth Five Year Plan, Ministry of Petroleum & Natural Gas has given emphasis on infrastructure development for distribution and marketing of petroleum products in view of oil increase in refining capacity as also the need to cater to the large demand for petroleum products.

Indian Oil Corporation Limited (IOC)

1.3 Indian Oil Corporation Ltd. (IOC) is the largest integrated oil company in the public sector in India. It is the only Indian Company in Fortune magazine 'Global 500' listing of the world's largest corporations, with a ranking of 232 for fiscal 1999. Indian Oil Refineries Ltd. and Indian Oil Company Ltd. were set up in 1958 and 1959 respectively to build national competence in the oil refining and marketing business. On 1st September, 1964, these two companies merged to form Indian Oil Corporation Ltd.

1.4 Indian Oil owns and operated seven of the country's 17 refineries, at Digboi, Guwahati, Barauni, Gujarat, Haldia, Mathura and Panipat with a combined capacity of 35.55 million tonnes per annum (MMTPA). At the end of 1999-2000 IOC's overall share was 53.6% as against 53.1% in 1998-99.

1.5 The authorised and paid up capital of the corporation as on 31.3.2000 were Rs. 2,500 crore and Rs. 389.31 crores respectively. The Govt. of India holding in Indian Oil is 82.03%. Profit before tax increased from Rs. 2,733 crore in 1998-99 to Rs. 2,970 crore in 1999-2000, showing an increase of 9%. Profit after tax was Rs. 2443 crore in 1999-2000 as compared to Rs. 2,214 crore in the previous year, registering a growth of 10%. The sales turnover of Indian Oil increased from Rs. 94,141 crore during previous year to Rs. 113,327 crore for the year 2000-01, registering a substantive growth of 20.4%.

Hindustan Petroleum Corporation Limited (HPCL)

1.6 HPCL is a mega public sector undertaking (PSU) and is the second largest integrated oil company in India, with Nav Ratna status. The supply and distribution infrastructure of HPCL has been continuously strengthened over the years. As on September, 30, 2001 LPG bottling capacity is 1520 MMTPA, retail outlets are 4593 and LPG distributorships are 1650. The Corporatioin has achieved turnover of approximately Rs. 47,180 crores with a net profit of Rs. 1088 crores during the financial year 2000-01.

1.7 The current paid-up share capital of the corporation is Rs. 339.33 crores of which 51.01% is held by the Govt. of India, 22.32% by the financial institutions, 13.86% by the OCBs, 4.45% by the banks, mutual funds, NRIs and employees and 8.37% by others. The sales turnover of the Company for the year 2000-01 have been Rs. 47179.93 crores as compared to Rs. 34368.03 crores in 1999-2000 reflecting an increase of 37.28%. The Company has earned the highest profit of Rs. 2140.91 crores as against Rs. 1727.88 crores in 1999-2000 and profit after tax of Rs. 1088.01 crores as compared to Rs. 1057.41 crores in 1999-2000.

Bharat Petroleum Corporation Limited (BPCL)

1.8 Bharat Petroleum Corporation Ltd. (BPCL) a Govt. of India undertaking, came into existence on the 24th January, 1976 as a result of the Govt. of India acquiring Burmah-Shell Oil Storage and Distribution Company of India and Burmah-Shell Refineries Limited. It is an integrated oil company in the downstream sector engaged in refining of crude oil and marketing of petroleum products.

1.9 The current paid-up share capital of the Corporation is Rs. 300 crores, of which 66.20% is held by the Govt. of India, 5.94% by the Unit Trust of India, 1.43% by the Corporation's employees and the balance by financial Institutions/others. BPCL products needed by the transport, power, agriculture and aviation sectors besides catering to the requirements of Fertiliser plants, other industries and domestic users.

1.10 The Corporation, during the year 2000-01 achieved its highest ever sales of 19.35 MMTPA as compared to 18.68 MMT during the year 1999-2000, representing a growth of 3.6% BPCL has retained the second highest market share of 21.43% amongst the oil companies.

IBP Co. Limited

1.11 IBP Company came into existence in the early twentieth century is the oldest oil marketing company in the country. The transformation of the Company is attributed to its corporate vision, commitment, dynamism and an incessant quest for delivering impeccable quality and service. IBP has consolidated its position in the core sector of economy in the fields relating to petroleum, Industrial Explosives and cryogenic Engineering. It performs through three business groups. Petroleum is one of them which is mainly engaged in storage, distribution and marketing of petroleum products like MS, SKO, HSD, LDO, Furance oil and blending and marketing of automative lubes and greases and Industrial Lubes.

1.12 IBP has recently entered the area of Liquified Petroleum Gas (LPG) marketing and is presently marketing LPG in bulk. Marketing of LPG in packed cylinders is likely to commence soon. The authorised and paid up share capital of the Company as on 31.3.2000 were Rs. 100 crore and Rs. 22.15 crore respectively. Govt. share holding in IBP Co. Ltd. is 59.58%.

1.13 The Company achieved a turnover of Rs. 8,388 crore during 2000-01 as against Rs. 6810 crore in the previous year registering a growth of 23%. During the year under review the Company registered profit before tax of Rs. 61.22 crore as against Rs. 47.71 crore in the previous year recording an increase of more than 28%. Profit after Tax has also increased from Rs. 41.71 crore in the previous year to touch Rs. 54.22 crore in 2000-01 reflecting an increase of 30%.

Petroleum Products

1.14 The following are the main petroleum products being marketed:

1. Motor Spirit (MS)
2. High Speed Diesel (HSD)
3. Superior Kerosene Oil (SKO)
4. Light Diesel Oil (LDO)
5. Furnace Oil, Low Sulphur Heavy Stock (FO/LSHS)
6. Lubes
7. Greases
8. LPG
9. Bitumen
10. Naphtha
11. Hexane
12. Benzene
13. Toluene
14. Sulphur
15. Aviation Turbine Fuel (ATF)

1.15 Government of India *vide* Gazette Notification dated 24th November, 1997 announced the phased programme of dismantling of Administered Pricing Mechanism (APM) over a period of four years effective from 1.4.1998. Total deregulation is therefore envisaged by April 1, 2002. Effective from 1.4.1998, except five products *viz.* MS, HSD, SKO for public distribution, ATF and Domestic LPG (marketed by Oil PSUs), all other products were decontrolled. The pricing of ATF has also since been decontrolled *w.e.f.* April 1, 2001. The controlled products are under Administered Pricing Mechanism (APM). The prices for these products are fixed by the Government. The movement and distribution including supplies of controlled products are monitored by the Government. SKO to retail customers is sold through Public Distribution System and Ministry of Petroleum and Natural Gas makes State-wise allocation. Oil Marketing Companies (OMCs) make supplies to their kerosene dealers, who in turn supply to the retailers under the directions of State Civil Supply Departments.

1.16 Products other than the controlled products *viz.* Naphtha, FO LDO Bitumen etc. are supplied to various customers and consumers by oil companies at market determined prices.

CHAPTER II

MARKETING ORGANIZATION STRUCTURE

(a) Indian Oil Corporation Ltd. (IOCL)

2.1 IOCL (Marketing Division) has its Head Office at Bandra, Mumbai and four Regional Offices in the Metro cities *viz.* Delhi, Kolkata, Mumbai and Chennai, 15 State Offices, 42 Divisional Offices and 33 LPG area offices. (Annexure I)

2.1 The Assam Oil Division of the Corporation has its Head Office at Digboi and has a marketing network, which by and large covers the North-Eastern States. The Division has 2 LPG Plants at Silchar and Guwahati, which report to the LPG Office at Digboi and Terminals and Depots, which report to the Operations Office at Guwahati. There are 2 Divisional Offices and 2 Area Offices, which monitor the sales. (Annexure II)

2.2 The Corporation has gone in for a major restructuring of administration set up in 1998-99 with the creation of 15 State Offices which function under the jurisdiction of the respective Regional Offices for the purpose of decentralising decision making. As on 30.11.2001, IOCL is operating 7713 Retail outlets and 3668 LPG distributorships throughout the country. Their region-wise spread is as under:—

Zone	Retail Outlets	LPG Distributorships				
		Urban I	Urban/ Rural II	Rural III	Total IV (I+II+III)	Hilly V
NR	2654	1250	84	25	1359	183
ER	1621	605	88	86	779	109
WR	1540	564	58	7	629	2
SR	1898	824	44	33	901	44
Total	7713	3243	274	151	3668	338

The Corporation has not made any independent study to assess the tangible results of restructuring.

(b) Hindustan Petroleum Corporation Limited (HPCL)

Its organisation structure is as per Annexure-3.

2.3 In 1997-98 prior to the Corporation its organisational structure. Post restructuring consequent to BPR study. Corporation has a flatter organisation with larger span of control in each level to facilitate empowerment of employees at lower levels and also to minimize the hierarchy in decision making. The Organisation Structure was recast by creating Strategic Business Units (SBUs) *viz.*, LPG, Retail, Direct Sales to give product wise thrust on marketing effort and improve brand equity and customer satisfaction.

2.4 The Corporation has not made any independent study to evaluate the outcome of the restructuring. As on 30.11.2001, the Corporation is operating Retail Outlets—LPG Distributorships and their region-wise detail is as under:—

Region	ROs	LPG Distributorships
North	1357	400
East	714	174
West	1090	580
South	1448	493
Total	4609	1647

(c) Bharat Petroleum Corporation Limited (BPCL)

2.5 Under marketing there are 5 strategic Business Units (SBUs) handling different products and customer segments. 3 SBUs *viz.* Retail, LPG and Industrial and Commercial are headquartered at Mumbai and 2 *viz.* Lubs and Aviation at Delhi. Other than Industrial and Commercial SBU, other SBUs have their Regional Offices at the 4 Metro Cities and Territory Offices at the Supply Locations. At the lowest level Corporation has Sales Officers. Area managers in Cities/Towns to look after Dealers/Distributors/Customers in a defined geographical area for different customer segments. (Annexure IV).

2.6 BPCL has undergone a major restructuring exercise during May, 1998. Under which the whole gamut activities were divided into six Strategic Business Units, *viz.* Refinery, Retail, LPG, Lubes, Aviation, industrial and Commercial and various entities to support these SBUs. Some of the major Entities are Finance, HR, Engineering and Projects, Brand, Strategy, Information System, HSE, Co-ordination etc.

2.7 The previous structure was based on the Functional concept, whereas the revised structure has been evolved to lay thrust on customer segments. In the Functional concept the Regional Heads (West, East, North and South) were looking after marketing of all products/customer segments.

The objectives of redesigning the organisation were:

1. To create an organisation which is focussed sharply on customers;
2. An organisation which is ready, attitudinally, to accept change in the market place and respond pro-actively;
3. An organisation, which will be ready to face deregulation in the petroleum sector.

2.8 Consequent to these restructuring efforts, the Organisation has achieved better marketing performance across all SBUs as compared to the Industry performance. However, no independent study has been taken up for assessing tengible results of the restructuring.

2.9 The Corporation is operating 4609 Retail Outlets and 1607 LPG Distributorships as on 30.11.2001 and their region-wise break-up as under:—

Region	Retail Outlets	LPG Distributorships
Northern Region	1366	537
Eastern Region	740	126
Western Region	1150	529
Southern Region	1353	415
Total	4609	1607

(d) IBP Co. Ltd.

2.10 IBP Business Group (Petroleum) has a Head Office at Mumbai. Under the Head Office there are 4 Nos. Regional Office *i.e.* Western (Mumbai), Northern (Delhi), Eastern (Calcutta) and Southern (Chennai). Under the 4 nos. Regional Offices there are a total of 24 divisional Office *i.e.* 5 nos. Divisional Office under Western region, 9 nos. Divisional Office under Northern Region, 5 nos. Divisional Offices under Eastern Region and 5 nos. Divisional Offices under Southern Region.

2.11 All the 4 Oil Companies have uniform, institutional system with Central and State Governments which ensures proper and effective retail sales in the country. The system which works as under has been found satisfactorily after evaluation:

(e) Coordination system with Central Government

2.12 Coordination with Central Govt. is done through the Oil Coordination Committee. The Oil Coordination Committee coordinates between the Oil Industry and the Govt. for all the downstream activities relating to petroleum Industry.

(f) Coordination with State Governments

2.13 The coordination with the State Govts. for proper and effective monitoring of Retail Sales is done through a system of State Level Coordinators (SLC) and District Level Coordinators (DLC).

2.14 An officer of the Oil Industry is designated as the State Level Coordinator in each State. The Officer of the Oil Company whose marketing presence in the State is more prominent as compared to other Companies, is usually nominated as the State Level Coordinator for the State. He provides the link between the State Govt. and Oil Industry *vis-a-vis* Ministry/Oil Coordination Committee.

2.15 Similarly, an Oil Company Officer whose marketing presence in the District is more prominent as compared to other Companies, is usually nominated as the District Level Coordinator for the District, who coordinates between the Oil Industry and the District authorities as well as with SLC.

(g) Evaluation of the System

2.16 The system was developed over a period of time and started operating from 1981 and has worked smoothly since then. The SLC and DLC offices have been coordinating with the Govt. agencies in their respective areas and proved quite effective particularly, during crisis, natural calamities like drought, floods, earthquake etc. as also monitoring of supplies during product shortage. The system has also provided its effectiveness in monitoring of SKO upliftment *vis-a-vis* allocation. The system also plays its role in development of new dealerships as conducting feasibility studies and identification of new locations is done by DLC/SLC.

CHAPTER III

DISTRIBUTION

3.1 All petroleum products except kerosene meant for public distribution system (PDS) are supplied as per market demand across the country. Kerosene (PDS) distribution within the State is coordinated by the State Governments, under the overall allocation for the State made by Central Government every year.

3.2 Ministry of Petroleum and Natural Gas and its operational wing Oil Coordination Committee (OCC) have significant role in ensuring availability of petroleum products in the market as per demand. From the marketing point of view, the petroleum products can be divided under two categories.

Controlled Products

3.3 Currently controlled products are MS, HSD, kerosene for Public Distribution and Domestic LPG (marketed by oil PSUs) and they are under Administered Pricing Mechanism (APM). The prices for these products are fixed by the Government. The movement and distribution of these products including supplies to the consumers are planned on monthly basis during Supply Plan meeting (SPM) coordinated by OCC on behalf of MOP&NG. Preparation of monthly supply plan is based on 'least transportation cost'. MS/HSD, SKO and LPG are supplied to retail consumers through Retail Outlets, SKO/LDO dealers and LPG distributors respectively of the four Oil Marketing Companies (OMCs) *i.e.* IOC, BPC, HPC and IBP. Supplies to bulk customers/industries are made directly by OMCs as per laid down guidelines, wherever applicable.

3.4 SKO to retail customers is sold through Public Distribution System and MOP&NG makes State-wise allocation. OMCs make supplies to their kerosene dealers, who in turn supply to retailers under the directions of State Supply Departments.

3.5 In order to make product available throughout the country and to develop dealership/distributorship for retail selling of MS. HSD, SKO and LPG in a planned manner, in different class of markets, PSU oil companies prepare Marketing Plan, which is being approved by MOP&NG. Further, Government issues policy guidelines from time to time governing the appointment of dealers/distributors by Public Sector Oil Companies.

Decontrolled Products

3.6 Products other than the controlled products *viz.* Naphtha, FO, LSHS, LDO, Bitumen etc. are supplied to various customers and consumers by oil companies at market determined prices.

In order to effectively monitor activities, coordinators have been appointed at all Major Ports, at Regional Level, and at State Level.

In the event of any natural calamity or specific occasions, control cells are operated to ensure smooth supplies of products.

3.7 In the event of any natural calamity/crisis situation, a 'Control Cell' is being operated at OCC to ensure smooth supply and distribution of petroleum products in the affected areas. In the last three years, there have been many instances of this nature noteable being cyclone in Gujarat in 1988 (affecting coastal input at Kandla, operation of Kandla-Bhatinda Pipeline and loading of tank wagons); Super cyclone in Orissa in October, 2000 (affecting tanker movement at Paradeep, rail/road movement to Orissa locations); and earthquake in Gujarat during January, 2001 (affecting operations of Vadinar-Kandla Pipeline, Kandla-Bhatinda Pipeline and rail/road movement in Kutch area).

Introduction of Green Fuels

3.8 In pursuance of the need for pollution abatement, MOP&NG has taken a number of steps like introduction of improved quality fuels like unleaded petrol, Low Sulphur and Benzene Petrol, Low Sulphur Diesel, Auto LPG etc. Unleaded Petrol is available throughout the country effective from 1.2.2000. Similarly, in the case of Diesel, the Sulphur content has been brought down from 1% to 0.25% all over the country.

3.9 In the last three years, the industry has introduced Low Sulphur Petrol (0.05%), petrol with 1% Benzene Max, Low Sulphur Diesel (0.25%) and (0.05%) in various parts of the country as per the plan and also for introduction of Auto LPG.

LPG Enrolment

3.10 New LPG connections by PSU oil companies were issued during the last three years. The details of actual enrolment *vis-a-vis* enrolment planned for each financial year during the last three years are as under:—

(Figs. in lakhs)

Year	Planned enrolment (as per IX Plan document)	Actual enrolment
1998-99	50	42.3
1999-2000	50	90.3
2000-2001	35	107.0

3.11 With the large release of new LPG connections by the PSU oil companies during 1999-00, the entire pending LPG waiting list in the country was liquidated and, at present new LPG connections are being released on demand across the counter in the existing markets throughout the country.

3.12 Infrastructure facilities as part of distribution are critical for the growth of oil industry. The infrastructure facilities being provided among others, include product pipeline facilities, rail facilities, port facilities, additional product tankage and LPG infrastructure facilities etc. The notable additions in the field of marketing infrastructure during the last three years are as under:—

Infrastructure	Addition
LPG Bottling Capacity	1910 TMTPA
LPG Tankage	195 TMT
Additional Product Tankage for MS/SKO/HSD/ATF	3.36 Million KL

3.13 SKO distribution to the States has been regularly monitored, to ensure upliftment in line with allocations, and *adhoc* releases, wherever required due to natural calamities etc., have been arranged.

3.14 In addition to the routine policy procedure adopted by the Government in distributing petroleum products, the Committee wanted to know from the oil companies, the extent to which they have technologically upgraded distribution system from Refineries to consumption zones. IOCL in a written note responded as under:—

"Terminals/Depots:

Automated systems for receipt/delivery operations are being provided in new terminals/depots which were/are being constructed after 1995. In line with this policy, all the KBPL TOPS have been provided with the fully automated facilities for receipt/despatches.

Further upgradation of facilities at existing major terminals is being carried out in phases. Given below are the number of locations where automation system has already been completed during last three years and number of automation projects are in progress.

Levels	Nos. of Locations-Automation completed	Nos. of Locations-Automation work in progress
Level-I	12	6
Level-II	6	2
Level-III	37	10

Level-I	:	Full Automation of Terminal.
Level-II	:	Only Tank Truck Filling and Tank Gauging is Automated.
Level-III	:	Tank Gauging is automated and flowmeters provided in TLF.

LPG

During last three years, following technological upgradation has been carried out in some of the LPG plants for improvement of quality:

(a) Electronic carrousel

(b) Electronic checkscale

(c) Electronic valve leak and bung leak detector

(d) Electronic 'O' ring detector

(e) Automatic manless purging unit

(f) Automatic sealing unit

(g) On line evacuation unit

Additionally, in all the plants metallic unloading arms have been provided in lieu of flexible houses for decantation of bulk TTs."

3.15 HPCL stated in this regard as under:

"HPCL has two dedicated ATF pipelines (8" & 10") for ATF supplies at airport from HPFR/BPFR at Mumbai. In major Terminals and supply locations, we have introduced automation for storage, loading and supplies. For Pipeline network we have introduced advanced supervisory and data acquisition controls.

LPG

Fully integrated automation system provided at Mangalore for receipt of LPG from Refinery as well as through import for centralised operations and control consisting of following:

- Tank Farm Automation.
- Tank truck and tank wagon loading.
- Tank truck and tank wagon weighment.
- LPG receipt pipeline.

Enhanced safety in product handling and operations by providing

- Marine unloading arms at Jetty.
- Tank wagon loading arms at loading gantry.

Similar facilities were provided at recently commissioned TOP's at Ajmer/Lone enroute Jamnagar/Loni pipeline."

3.16 BPCL explained their position and submitted in a written note as below:

"We have also carried out the following technological upgradations at bottling plants:

(i) Provision of electronic weigh bridge at LPG bottling plants for accurate measurement of bulk LPG receipts/despatches.

(ii) Provision of loading unloading arm for safe handling operations.

(iii) Provision of electronic check scales for greater accuracy and quality control in cylinder filling.

(iv) Provision of telescopic conveyor at the plant for gentle handling of cylinders while loading/unloading to/from trucks.

We have put up at the new Cochin International Airport the state of the art Hydrant refuelling system."

3.17 The Committee were informed that IOCL was operating 128 depots and 73 bottling plants including 6 bottling plants of IOC (R&D) and IOC (AOD). Whereas HPCL was operating 77 POL depots, 33 POL terminals/TOPs and 39 LPG bottling plants. BPCL was maintaining 73 owned depots and also having 18 hospitality depots. It was also having 38 LPG bottling plants.

3.18 The Committee wanted to know specifically, whether there was approved distance norm between one depot/LPG bottling plant and the other. IOC replied as under:—

"There is no established guidelines on minimum distance between plants. The plants are set up on need basis depending upon the supply/demand logistics.

There are no specific guidelines/norms for minimum/maximum distances between individual bottling plants and/or terminals. Locations for new bottling plants/terminal are identified basis the projected demand for product, logistics of supply, distribution, pricing etc. Analysis for financial economic viability is done prior to investment in such facilities.

3.19 IOCL added that it is being ensured that at least one storage point is located in each State. On an average, distance between one terminal/depot and another is not more than 200 Kms depending on the off-take and viability.

3.20 Replying to the specific query of the Committee as to whether an integrated independent expert study has been made to make distribution system cost effective and less time consuming, HPCL stated in written statement:—

"While no integrated independent study has been made, however, on the basis of experiences from time to time, efforts are being made to make the distribution system cost effective and where under recovery occurs on account of product movement, the same is avoided to the maximum extent for all non-APM products.

As regards APM products which account for nearly 80% of the total product moved from various refineries, the distribution is done as per OCC's CRIS Plan. This Plan is based on the principle of least transportation cost and the same is being followed by the Oil Industry.

LPG

On Industry basis a computerised LP model specially designed to meet the product requirement for the whole country in the most cost effective manner has been introduced.

The programme takes into account following variables/constraints to arrive at the most optimal linkage on an Oil Industry basis:

(i) Monthly product availability from all Refineries/Production centres and demand of each bottling plant.

(ii) The sector wise Rake availability in the country.

(iii) The Import/Coastal movements already lined up for the month.

(iv) Transportation cost (various options rail, road, pipeline, coastal).

(v) Tax implication for inter-state movement.

(vi) Terminalling charges at Import/coastal locations wherever applicable.

The output thus obtained from the model is followed by all the Industry for moving the product."

3.21 IOCL added as under:—

"Sub-groups on Demand projections, Marketing and Energy Conservation were constituted along with the Working Group of Petroleum and Natural Gas by Govt. of India, Planning Commission for the formulation of IX Five Year Plan. These sub-groups held series of discussions and finalised report on demand projections, development of facilities and marketing infrastructure (tankages, handling and marketing facilities) and capital outlay."

3.22 The Committee sought to know from Oil companies, their reaction towards the suggestion that marketing logistics and distribution infrastructure such as terminals, depots, port facilities and also product pipelines should be pooled or made commercially available for use by each other irrespective of any Company's ownership.

3.23 IOCL submitted in a written note as under:

"Each oil marketing company establishes its marketing legistics and distribution infrastructure, such as port facilities, terminals, depots, LPG bottling plants, aviation fuel stations, product pipelines etc. to meet its requirements. These facilities provide a competitive advantage to the company, which establishes them. In our view such facilities need not to be pooled and should be left to the company concerned to utilise the way it considers appropriate. If workable, the company could extend these facilities to another company on commercial terms.

Only those facilities which are monopolistic in nature and where another company does not have any reasonable option but to use these facilities, the same need to be pooled and viewed as Industry facilities, irrespective of ownership. Needless to say that such facilities are very minimal. Most of the product pipelines also do not fall under this category as these are meant to evacuate production of specific refineries. Similarly, in case of port facilities, if there are number of jetties and only some of the jetties are captive, then the captive jetties cannot be viewed as monopolistic in nature."

3.24 HPCL seemed to have agreed with the suggestion of the Committee, when it stated:—

"We agree with the suggestion that marketing logistics and distribution infrastructure such as terminals/depots, port facilities and also product pipelines should be pooled or made commercially competitive for use irrespective of any company's ownership over these.

Over a period of time, Oil PSUs have been putting up the above facilities. The total deregulation of the petroleum products is slated with effect from 1.4.02. In order to meet the situation emerging out of deregulation, PSU oil companies are discussing and deliberating on product exchange and other related issues. The working group of PSU oil companies has already been constituted to deliberate and finalise draft MoUs on:

(a) Product sharing amongst the PSU oil companies.

(b) Infrastructure/facilities sharing and hospitality arrangements amongst PSU oil companies.

The infrastructure facilities agreed to be shared by PSUs oil companies are as follows:—

- Port facilities
- Rail/road loading/unloading facilities at Refineries, Terminals and depots
- Cross country/local pipelines.
- Facilities at AFS including Hydrant lines.
- Hospitality arrangements to assist other oil companies not having infrastructure.
- Safe keeping arrangements at coastal locations to avoid detention of vessels and improve turn around.
- Warehousing hiring of tankages and allied facilities, to have economy of scale and cost effective operations, as per agreed model of CPC/Vizag Refineries.

The following guidelines to be followed for infrastructure sharing:

- New infrastructure likely to be set up during pendency of MoU, to be also shared amongst PSU oil companies during MoU period.
- Provision of new infrastructure to be decided by individual oil co. However, its usage by others to be firmed in consultation with other oil companies.
- PSU oil company using facility (Assisted Co.) of other PSU oil company (Assisting Co.) to pay compensation for usage of facilities as per formula described hereafter.
- Covers all POL products.
- Infrastructure to be shared by all four PSU oil companies, as is being done currently.
- Infrastructure owned by Associate/JV refineries to be also shared.

The modalities of compensation payable to assisting company in sharing of infrastructure are being worked out.

LPG

We agree with the suggestion to treat Marketing Logistics and distribution facilities including Pipelines to be Pooled. The above suggestion will result into the following.

— This will have a significant impact on freight cost.

— Ensure 100% utilisation of existing assets thereby making them commercially more competitive.

— Reduce capital expenditure of individual companies going in duplication of facilities."

3.25 However, BPCL was cautious when it stated:—

"We feel that oil companies should decide themselves regarding sharing of marketing infrastructure created by them to meet their marketing requirements based on economic/strategic consideration. However, in case of natural monoplies across country pipelines and jetties, open access needs to be provided to all players."

CHAPTER IV

TRANSPORTATION

A. Introductory

4.1 The transportation of controlled petroleum products is decided based on the principle of "Least Transportation Cost" on a monthly basis. In case any deviation is required to this plan, due to exigencies, by the Oil Companies, they are required to obtain an approval for the same from the Oil Coordination Committee by providing adequate justification.

4.2 OCC, through monthly Supply Plan Meetings (SPMs) has ensured availability of controlled petroleum products with 'least transportation cost'. It has also endeavoured for maximum utilisation of cross-country product pipelines and rail tank wagons for transportation of petroleum products, as these are the cheaper mode of transport compared to road transportation. The utilisation of pipelines and tank wagons has been increasing every year. The data for last three years is as under:—

(Figs. in TMT)

Year	Pipeline	Rail*
1998-99	23336	33900
1999-2000	27780	35070
2000-2001	30875	36970

*Including non-revenue earning traffic.

The Oil Companies are however, free to decide their own plan for movement of the decontrolled petroleum products.

4.3 Petroleum products are evacuated by pipelines, coastal tankers, road and rail from refineries, tap off points, terminals, depots to consumption zones. The percentage wise movement under different models with comparative cost for the industry, as intimated by BPCL is as under:

Mode	2000-01	1999-2000	Unit cost	
			POL	LPG
Rail	40.2	38.7	Rs. 1.56/MT/KM*	Rs. 1.24/MT/KM
Road	17.9	22.7	Rs. 1.00-1.25 MT/RTKM**	Rs. 1.57/MT/RTKM
Pipeline	34.9	30.6	Rs. 1.05/MT/KM#	Rs. 1.30/MT/KM
Coastal	7.0	8.0	Rs. 560/MT	

*Transportation by rail is based on slab system. HSD movement for 300-600 kms. considered.

**Based on product moved and distance.

#For Mumbai/Manmad pipeline movements on the basis of 1998-99 cost.

4.4 However, HPCL submitted its relevant information as under:—

"

	%	Cost
Pipeline	50	Rs. 0.40/MT/KM
Road	22	Rs. 1.20/MT/RTKM
Rail	28	Rs. 0.66/MT/KM

LPG

The percentage of LPG evacuation by different modes during the last three years is as follows:

S.No.	Year	By Rail	By Road	By Pipeline
1.	2000-01	16.89%	83.11%	*
2.	1999-00	20.83%	79.16%	0
3.	1998-99	21.327%	78.68%	0

*Only 1000 MT of LPG was moved by P/L from Jamnagar to Lone between March 22nd to March 31st, 2001.

Cost comparison between pipeline, rail and road is as follows:—

Sl. No.	Mode of Transport	Cost
1.	Pipeline	Rs. 1.3/MT/KM
2.	Road (inter-estate)	Rs. 1.52/MT/RTKM
3.	Rail	Rs. 1.176/MT/KM*

*Transport rate by rail is slabwise, the above mentioned rate is for 500 Kms. and train load."

4.5 Oil Companies apprised the Committee about the prevalent system of transportation of petroleum products by road and the complaints in this regard:—

"Transportation of petroleum products is undertaken by rail and road. Road movements are undertaken to deliver products to Dealers/Customers. In the case of LPG, road movement in bulk lorries is also undertaken to supply road fed bottling plants from production centres.

Tank Lorries are engaged for transportation of bulk petroleum products from Storage Points to various Retail Outlets and consumers. Public Sector oil companies *viz.* IOC, BPC, HPC and IBP jointly float public tenders through press advertisement for engagement of tank lorries for transport of petroleum products. The contract is valid for three years (2 years + 1 year extension). Currently, in view of commissioning of Pipelines, Inland Storage Points and improved rail movement, there is a reduction in road movement of petroleum products in the country.

Following are the areas where complaints are being received from time to time in the prevalent system:

1. L1 tenderer normally provides part of the total number of trucks required. Other transporters who quote higher rates do not agree to match the rate and therefore demand not only the higher rate but equitable distribution of work.

2. As per the tender, the transporter is required to take comprehensive insurance for the vehicle. The Corporation, however, irrespective of comprehensive insurance, recovers the cost of the product for loss from the transporter from the bills payable. Transporters therefore have been demanding the deletion of requirement of comprehensive insurance, which has high insurance premium as compared to low premium for third party liability insurance.

3. The number of trucks available for transportation of buk LPG is more than required. As per Ministry guidelines, SC/ST reservation of 22.5% is required to be implemented with readily available trucks and/or against LOI. Same opportunity is not extended to other tenderers, even if such tenderers have quoted lower rates. The tenderers therefore desire level playing field."

Asked about the rate per kilometer, per tanker the oil companies are paying, the reply given was as under:—

"The rate paid to the different transporters for their tankers varies from State to State. The average rate paid to the different transporter is Rs. 1.00 per KL per KM (Equivalent to Rs. 12 per KM per tanker of 12 KL capacity). As the rates quoted by transporters are based on their costs and returns, we consider the rates as reasonable. Additionally there is a provision to permit escalation due to price increases for Fuel/Lubricants/tyres/batteries etc."

4.6 Whether further asked whether the companies are having their own fleet of tankers and at what rate it was being operated, the information supplied is compiled as under:—

Company	Number of Tankers	Rate per kilometer
IOCL	270	Rs. 1.60
HPCL	202	Rs. 1.39
BPCL	189	Rs. 1.50

4.7 Therefore, the Committee wanted to know from the oil companies their plan to lay down pipeline across the country. IOCL in written reply submitted as under:—

"Our company have several cross-country pipelines. For future expansion following pipelines have been planned either exclusively by IOC or as a lead company of joint venture with Petronet for transportation of petroleum products:—

Sl.No.	Pipeline	Owned by
1.	Kanpur-Amousi (under construction)	IOC
2.	Sonepat-Roorkee-Najibabad (u/construction)	IOC
3.	Mathura-Tundla (u/construction)	IOC
4.	Koyali-Navgaon-Sidhpur (u/construction)	IOC
5.	Chennai-Trichy-Madurai (Planned)	JV-Petronet
6.	Paradip-Rourkela-Ranchi (Planned)	JV-Petronet
7.	Vasco-Belgaum-Miraj (Planned)	IOC
8.	Jallandhar-Udhampur (Planned)	IOC
9.	Central India Pipeline (Jamnagar-Nagpur) (Planned)	JV-petronet

The Company further submitted the following detailed information:—

Sl.No.	Name of the Project	Date of (likely) start	Date of (likely) completion	Approved/Anticipated cost (Rs. core)
1.	Mathura-Tundla Pipeline	29.9.1999	January 2002	60.00/45.00
2.	Koyali-Navagam Pipeline	2.1.1998	January 2002	28.00/25.00
3.	Kanpur-Lucknow Branchline from Allahabad - Kanpur section of existing BKPL	30.9.1998	January 2002	74.61/52.00
4.	Kurukshetra- Najibabad branchline	18.5.2001	May 2003	69.56/59.56

4.8 This issue came up for discussions during the course of evidence of representatives of Indian Oil Corporation Limited when Chairman submitted:—

"Indian Oil has a network of almost 4,136 kilometers of the product pipeline and 2387 kilometers of crude pipeline, totalling to 6,523 kilometers of crude and product pipeline in the country......the Petronet India Limited a consortium of the oil companies has been formed which is supposed to provide the product pipeline in the country wherever there is need for it. These pipelines in the consortium of Petronet India Limited are under examination, under process, under construction, under evaluation and we have drawn a detailed plan to improve the network of the pipeline.

I would like to only submit that the detailed plan has been made and it is under implementation. We are going through the process of Petronet India to develop further product pipelines in the country. Normally, it takes roughly about 36 months to develop and commission the product pipeline after it is approved."

4.9 The Committee referred to the Press Reports indicating that Railways have offered Right of use of the land running nearby their rail tracks and wanted the oil companies to explore the possibility of availing the offer for laying pipeline. Director (BPCL) while deposing before the Committee responded as under:—

"Yes; infact, today, we are one of the biggest occupiers of Railway land in the country for our depots...."

4.10 The economics of pipeline transportation also come up for discussion during the evidence of representatives of Ministry of Petroleum & Natural Gas, Secretary in the Ministry referring to the suggestion of the Committee added:—

"We cannot take any dispute with your proposition that transporting petroleum products through pipelines is the most effective, cheapest and efficient way of transporting petroleum products...Pipeline tariff is much cheaper...Most petroleum product pipelines today are captive pipelines belonging to the refineries, but some new truck routes are now being established by Petronet LNG. We have in mind a system of regulation which will allow pipeline to some extent to be treated as common carriers with open access and with regulatory control....."

4.11 HPCL has intimated that its following cross country pipelines are under implementation/consideration.

HPCL Project

VVPL Expansion & Extension to Secunderabad	Length Kms.	Capacity/PH.I MMTPA	Capacity/PH.II MMTPA
	223	5.38	7.70

The project is likely to be completed by April 2002.

Project through joint ventures with Petronet India Ltd.

(a) Mangalore-Bangalore Pipeline

Length, Kms.	Capacity, MMTPA
364	5.6

The project is likely to be completed by May 2002

(b) Bhatinda-Pathankot Pipeline

Length, Kms.	Capacity, MMTPA
250	3.6

Proposed to be cocurrently completed alongwith Guru Gobind Singh Refinery at Bhatinda."

4.12 Chairman, HPCL added during his deposition before the Committee:—

"Pipeline is the most economical mode of transportation, pipeline cannot be short-distance pipeline. They are cross-country pipelines. It has been a policy decision that all new pipelines by put up by petronet pipelines and not by individual companies....So actually, all proposals that are coming up are being sent to them to examine."

4.13 Director (Marketing) BPCL, shared his views on the subject with the Committee during evidence:—

"There is very big thrust on pipelines and major investment is needed for that and that requires several approvals.....16 pipelines in the country have been identified for construction.

I am also happy to report that under Petronet India Limited, 3 subsidiary pipelines have also been undertaken.....One of the largest cross-country pipelines in the country in the offering in the Central India Pipeline which will traverse from Jamnagar-Koyali and Ratlam.....It will cost only one rupee per metric tonne, whereas through road, we have to pay double the amount."

4.14 BPCL in a written note also submitted as under:—

"Presently, BPCL is operating pipeline from their Mumbai Refinery to Manmad (Maharashtra) from where product is despatched onward in tank wagons/tank lorries. Present capacity of this pipeline is 4.33 MMTPA. BPC is currently extending this pipeline to Indore (MP) with an additional capacity of 2.5 MMTPA."

4.15 BPCL is also an equity shareholder in Petronet India Limited a holding Company and its subsidiary companies are presently operating and executing the following pipelines:—

1. Vadinar - Kandla (operating)
2. Kochi - Coimbatore - Karur (executing)
3. Mangalore- Hassan - Bangalore (executing)

In addition, Petronet India Ltd. Is also planning to set-up Central India Pipeline Ltd., Chennai-Trichy-Madurai Pipeline Ltd. and Paradeep-Rourkela Pipeline Ltd. as subsidiary companies to execute and operate cross-country pipeline."

CHAPTER V

MARKETING

A. Introductory

5.1 Marketing of Petroleum Products can be broadly segmented into two major categories *i.e.* regulated products and de-regulated products. At present, the regulated products are MS, HSD, SKO and LPG. The details of major petroleum products marketed and their end users in the country are as under:—

Product	End users
MS and HSD	Retail: 2/3 wheelers, motor cars, trucks, buses, tractor, etc. Bulk: State Transport Undertakings, Railways, Power Plants and Defence.
SKO	Retail: General public through PDS.
	Bulk: Defence, Railways and Industries.
LDO	Agriculture Sector for low speed pumps, small Industrial Units, power Houses as a start up fuel.
FO/LSHS	Power Plants, Fertilizer Industries and Industrial houses.
LPG	General Public for Domestic fuel, Hotel Industries, Bakery, Glass Industries, etc.
Naphtha/NGL	Fertilier Plants, Power Plants, Petrochemical Plants, Steel Plants and Processors
ATF	Airlines and Defence
Bitumen	Road construction Agencies including Government Departments e.g. PWDs, Border Roads Organisation, etc.
Lubes/Greases	For automobiles and Industries.

5.2 In addition to the above some Speciality Products *viz.* Benzene, Toluene, Hexane, MTO, JBO, Propylene, Paraffin Wax, CPFS/Phenol Extract, RPC, CPC, etc. are also marketed on all India basis. The end users of the same are also tabulated below:

Product	End users
Benzene	Production of Various Downstream Petrochemicals e.g. pesticides, paint industry etc.
Toluene	Production of various Downstream Petrochemicals e.g. pesticides, explosives, adhesives etc.
Propylene	Polymer Industries
MTO	Thinner in paint industry
JBO	Jute Industry
Paraffin wax	Candle manufacturing
CBFS/Phenol extract	Tyre industries
RPC	Making CPC
CPC	Aluminium Graphite Industry

5.3 Regulated products are marketed through oil companies retail outlets and distributorships. The role of the Ministry of Petroleum and Natural Gas and its operational agency Oil Coordination Committee (OCC) in marketing and distribution of Petroleum products is as under:—

"The prime objective of Ministry and OCC is to ensure availability of petroleum products in the market as per demand. The prices for the controlled products are fixed by the Government. In order to make product available throughout the country and to develop dealership/distributorship for retail selling of regulated products in a planned manner, in different class of markets, PSU oil companies prepare marketing plan which is approved by the Ministry of Petroleum and Natural Gas. Further, Government issues policy guidelines from time-to-time governing the appointment of dealers/distributors by PSUs oil companies.

Decontrolled products are supplied to various customers and consumers by oil companies at market determined prices. In order to effectively monitor activities, coordinators have been appointed at all major ports at Regional level and at State level.

The role of the Ministry is to ensure that petroleum products are available throughout the country and to avoid unwarranted competition amongst PSU oil companies, certain marketing policies are approved by MOP&NG. Review of marketing policies is undertaken by MOP&NG in consultation with OCC and oil companies keeping in view the changed marketing conditions and difficulties in implementation of policies. MOP&NG also provides clarification and interpretation of policies wherever required for effective implementation.

MOP&NG coordinates with other Ministries and State Governments for creation of infrastructure and resolving issues for strengthening marketing network.

Such operations are carried out through OCC and through regular meetings with senior officials of the oil companies from time-to-time.

Marketing intelligence is gathered by Oil Coordination Committee (OCC) through the institutions of Regional Level Coordinators, State Level Coordinators and Port Coordinators. On the issues of common interest, sub groups are formulated comprising of oil industry and OCC depending upon the issue for developing common activity plan keeping in view the marketing conditions, for which oil companies are best informed, who also have their representatives all over India at field level.

If any information affecting marketing of petroleum products comes to the notice of OCC, the oil companies are kept informed the time-to-time for appropriate action. OCC also compiles important data in respect of marketing activities of oil companies and necessary feedback is given to oil companies and MOP&NG."

5.4 The retailers and distributors are appointed as per laid down procedure and outlets emerge out of implementation of marketing plan. The concept of Marketing Plan was introduced by Ministry on 5.6.1980, which gave the guidelines on reservation, predetermination of location, press advertisement and selection. Presently, Marketing Plan is prepared in line with existing guidelines and as per Volume/Distance Norms of 1980 (Annexure 5).

5.5 Replying to the specific query of the Committee whether these norms are practically in the present context of free marketing, BPCL stated in a written note:—

"In the context of free marketing, oil companies should be permitted to put up Retail Outlets Dealerships/LPG distributorships based on the commercial considerations and economic viability without any restrictions.

Industry has suggested that while the distance norms to be maintained, Volume norms should be revised to 150 KL per month of all existing RO in the area as against present 80 KL per month and economic viability norm be revised to 100 KL pm."

5.6 The Ministry apprised the Committee as under their view point regarding need to review of Volume Distance Norms:—

"A proposal had been obtained from the oil industry for review of the existing volume-distance norms. This is under examination in the Government. Some preliminary discussion was held on the issues involved. However, as the APM is proposed to be dismantled on 31.3.2002 it may be appropriate for the Government to wait for the Petroleum Product market—for controlled products (*viz.* MS, HSD, LPG-domestic and SKO) under competition and Market Driven Price Mechanism—before a decision is taken in this regard. The present Volume-Distance norms for setting for setting up retail outlets and SKO-LDO dealerships are annexed."

Parameters for identifying new locations

Retail Outlets

5.7 The parameters for identifying new locations for Retail Outlets are the sales volume through existing Retail Outlets, Sales potential due to new developments and the distance between the existing Retail Outlets. The norms are known as Volume/Distance norms.

SKO-LDO

New Dealership are developed in unrepresented Block/Taluka headquarters where there is a minimum potential of 75 KL per month.

LPG

Parameters for assessing viability of LPG distributorship are:

(i) Urban/Rural locations with population of 10,000/5, 000 & above respectively and potential available in adjoining villages within 15 kms of radius are considered.

(ii) Per capita income of the people residing in the area.

(iii) Industrial and commercial development.

(iv) Alternate fuel availability.

An estimated refill sale of not less than 70% of the market ceiling in the 4th year of operation are considered as viable.

5.8 The exercise of preparation of Marketing Plan is undertaken by Oil Industry on their own. However, the plan is implemented after approval of the Ministry. Since the system is working smoothly and the assessment of the potential is done by the District/State Level Coordinator who function in consultation with the Oil Industry, no need is felt for any other independent agency to carry out this function. Further, in our view, the Oil Industry is best equipped to carry out this job.

5.9 Identification of location for RO/LPG dealership is an on going process. The feasibility survey is conducted against VIP reference as well as on regular market survey from time-to-time. Feasibility survey is generally conducted within a month's time. Marketing Plan is generally prepared once a year. All the locations found feasible after preparation of last Marketing Plan are included in the ensuring Marketing Plan.

5.10 It is, in the normal course, is done on the yearly basis. The OMCs hold Industry meetings to finalise the draft Marketing Plan by including the commercially viable locations, established through the aforesaid surveys. While finalizing the draft plan, the Oil Industry keeps in view the reservations provided for in the policy guidelines for allotment of dealerships to various segments of the Society and also the 100-point roster maintained for schedule castes/scheduled tribes. Thereafter, Oil Industry, sends the draft Marketing Plan to the Ministry for its consideration and approval.

The locations found feasible after the surveys, are immediately included in the draft Marketing Plan and thereafter it is approved by the Ministry, on the recommendation of the Oil Industry on yearly basis.

5.11 The Oil Marketing Companies (OMCs) take action for setting up of Retail Outlet (RO) dealerships/LPG distributorships at the locations included in the various Marketing Plans, approved by the Government from time-to-time. The Retail Outlet Marketing Plan for 1999-2000 consisting of 547 locations was approved by the Government on 5.1.2001 and the LPG Marketing Plan 1999-2000 consisting of 707 locations was approved on 8th February, 2001.

5.12 The position, as on 15.10.2001 about the locations included in the various marketing plans upto and including 1999-2000 marketing plan, LOIs issued, etc. was as under:—

	Total locations available for selection including locations pending from previous Marketing Plan	Panels finalized by the Dealers Selection Boards out of Col. 2	Total Letters of Intent (LOIs) issued out of Col. 3
1	2	3	4
RO	2973	1111	872
LPG	3887	1469	1093
SKO	408	134	103
Total	7268	2714	2068

5.13 It normally takes a period of 6 to 12 months from the date of interview to commissioning, in view of the long exercise involved for setting up of a dealership/distributorship including selection through DSB process, field investigation report, obtaining various clearances *i.e.* NOC, conversion of land and permission from NH/SH authorities etc.

5.14 The Ministry furnished the following information regarding the projected demand and supply position of each of petroleum products during each of the next five years and then upto 2010 and source of meeting within demands.

5.15 As per Xth Plan Marketing Sub-Group Report, product wise base case (normal) demand for the next five years *i.e.* from 2002-03 to 2006-07 are given below. Demand projections for the XI Plan period are not prepared yearwise, however, projection for the terminal year of XI Plan i.*e.* 2011-12 is also given below:

(Figs. in TMT)

Product	2002-03	2003-04	2004-05	2005-06	2006-07	2011-12
LPG	8776	9528	10310	11123	11966	16470
Naphtha	10823	10723	8668	9128	9228	9643
MS	7620	8202	8813	9419	10067	12848
ATF	2370	2445	2523	2605	2691	3196
SKO	11000	11000	11000	11000	11000	10890
HSD	42146	44508	46966	49555	52324	68710
LDO	1500	1500	1500	1500	1500	1500
FO/LSHS	13184	13520	13876	14253	14653	16065
Bitumen	2808	2892	2979	3069	3161	3664
Lube/Grs.	1202	1245	1283	1342	1386	1646
Others	5668	5668	5668	5668	5668	6000
Total	1076097	111231	113586	118662	123644	150632

Product Availability

5.16 As per the Report of the Sub-Group on Refining for the Xth Plan, product availability estimates from domestic refineries and including non-refinery source for base case production are as under:

(Figs. in TMT)

Products	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6
LPG	7545	7989	8823	8749	8635
Naphtha	11878	13447	13753	13521	13333

1	2	3	4	5	6
MS	10478	10994	11470	11676	11580
ATF	3621	4367	4763	4787	4717
SKO	13966	14656	15062	15110	14944
HSD	47258	51921	57625	58007	57593
LDO	877	701	570	570	545
LSHS	4574	4206	3518	3468	3451
FO	7576	7841	7128	6037	5963
Bitumen	3239	3175	3112	3090	3061
LOBS	836	900	900	882	850
Others	8263	9247	10627	11375	11294
Total	120111	129444	137351	137272	135966

However, product availability estimates for the XIth Plan period have not been computed.

Surplus/Deficit

5.17 Based on the product availability from indigenous sources and demand estimates as given above, the product-wise surplus/ (deficit) situation has been estimated after making the following adjustments: SKO has been adjusted to meet the requirements and excess SKO is adjusted with HSD.

- LDO and Bitumen has been adjusted to match the requirements.

5.18 In response to the query of the Committee, Oil Industry furnished the following data indicating per capita consumption of LPG, HSD and SKO in India and developing countries.

For India, the per capita consumption of LPG, HSD and SKO in 2000-2001 is as under:

(kg/person/yr.)

	LPG	HSD	SKO
India	6.9	37.3	11.1

Data for few other developing nations is as under:

(Data for year 2000)

	LPG	HSD	SKO*
China	11.8	58.7	7.0
Phillipines	14.0	73.5	19.0
Thailand	34.5	204.5	46.7
Pakistan	1.8	52.4	8.5
Vietnam	2.8	47.3	7.7

Source: Consumption figures for India from OCC Ready Reckner, May 2001 Population of countries from World Development Report, 2002.
*Demand figures for other countries from FACTS, Data for Asia-Pacific, 2001 which includes Jet Fuel also, while for India figures is only SKO.
• Handling losses

5.19 With the above adjustments, the Surplus/(Deficit) of products is as follows. In case of deficit, the demand would have to be met through imports.

(Figures in TMT)

Products	2002-03	2003-04	2004-05	2005-06	2006-07
LPG	(1275)	(1587)	(1539)	(2430)	(3391)
Naphtha	1001	2670	5042	4347	4059
MS	2820	2751	2613	2210	1463
ATF	1245	1916	2234	2175	2019
SKO	0	0	0	0	0
HSD	7186	10120	13751	11652	8349
LDO	0	0	0	0	0
FO/LSHS	(487)	(1200)	(3223)	(4920)	(5611)
Bitumen	0	0	0	0	0
LOBS	(369)	(348)	(386)	(463)	(539)
Others	2581	3565	4945	5693	5612
Total	12702	17887	23437	18264	11961

5.20 The Committee pointed out that in the wake of de-regulated marketing, oil companies need to have orientation towards new marketing strategies, live issues, updated technologies such as R&D, information etc. etc. and enquired from oil companies measures initiated in this regard. Indian Oil Corporation Ltd. replied as under:—

"IOC has introduced various new concepts as a part of their marketing strategy during the last three years;

— Upgradation of COCO operated outlets under visual of Identity Programme called Vision-2000.

— Modernisation of Dealer owned Dealer operated outlets under Visual Identity Scheme and also under the subsidy scheme.

— Setting up of value added facilities like convenience stores, ATM, Auto Car Wash, Cyber Cafe, Pizza outlet, Pharmacy, provision of Digital Air Ganga etc.

— Provision of environment friendly fuels in metro-cities and NCR."

5.21 IOCL further intimated that they have devised other strategies for improving customer service. These are as under :

"Following strategies have been introduced and implemented for enhanced and efficient customer service including supply of environmentally friendly fuels as per international standards:—

Other Strategies:

- Restructuring of the organisation to be closer to the customer.
- Technology upgradations for efficient and effective operations for enhanced service to the customers.
- IT re-engineering.
- Customer Empowerment
- Diversification for channelising organization's strength to other areas of operation.
- Value added products and services.
- Delegation of Authority for enhanced and efficient customer service.
- Improving the quality of our products to International standards by the introduction of MS with low benzene, ultra sulphur HSD (0.05%) and higher quality lubricants.

Issues involved for regulated products:

(a) Because of certain additions to the refining capacity in private sector, a situation of product-wise surpluses may lead to the reduction in utilisation of the PSU refineries.

(b) Continued drop in HSD & LDO bulk sales due to marketing of substitute fuels at much economical prices such as Super LDO, Power Oil etc.

(c) Direct imports of HSD/Kerosene for self use.

(d) Cross subsidisation of product pricing.

(e) Uneven playing field for the PSU Oil marketing companies in terms of pricing infrastructure sharing etc. as compared to the private/MNCs.

(f) Vulnerability of B-site (Dealers owned) Retail Outlets.

Issues involved for deregulated products:

(a) Marketing of FO by Private Importers including MNCs at competitive rates.

(b) Direct import of Furnace Oil by major customers/traders for economic reasons.

(c) The prices of de-regulated products such as FO, LDO and LSHS are governed by market related activities, resulting frequent revision of prices based on import parity.

(d) Substitute products like LNG may replace industrial fuels.

(e) Disparity in deferment schemes of sales tax and other levies between private sector players and PSU oil marketing companies.

Following actions are being taken:

(a) Educating the customers on merits of import through IOC *i.e.* assured supplies and quality/quantity.

(b) Providing cost-benefit analysis to customers.

(c) Holding of Oil Industry Meeting on fortnightly basis for arriving at market driven prices of deregulated products.

(d) Conducting of in-house training for Field Staff on pricing, customer service, import procedure of de-regulated products.

(e) Empowerment of the Field Offices/Officers by providing adequate delegation of authority."

5.22 Regarding the use of Information Technology, IOC submitted:

"The scope of IT covers mainly 2 areas, to assist user in his office tasks for Customer Relationship Management and to provide support for better Human Relationship management.

All major activities of Marketing Division, especially at field levels like supply points, have been computerized. With estimated 1.5 lakh transactions per day billing is a critical issue for Marketing Division. Computerized Billing modules have been developed for all types of supply locations like Terminals, Depots, Bottling Points, Aviation Fuel Stations, Lube Depots, etc. These modules generate all documents such as cash-receipts, Delivery Challan-cum invoices, Stock transfer issues/receipts, product return credited note, Customer Adjustment Voucher, Inter Company issues/receipts, Credit/Debit Advice, Consignee receipt certificate etc. on-line."

5.23 As part of Marketing strategy the Government decided in the July, 1998 in Golden Jubilee year of Independence, to provide retail outlets on highways having Multiple Associated Facilities (MAF). These ROs were named as Jubilee Retail outlets. The Ministry of Petroleum and Natural Gas envisaged at least 51 Jubilee Retail Outlets to begin with as a pilot scheme. The outlets were to be set up and run by the Company Owned Company Operated (COCO) basis and were be outside the Marketing Plans.

5.24 The Ministry of P&NG initially stipulated that ROs should be put up on 5 acre plot. However, there was no specific stipulation with respect to mode of acquiring of land. Minister during the meeting on 8.6.99, emphasized that now onwards site of JROs to be put up should be owned by Oil Company. However, in case of Government land, it could be on long lease. He emphasized that land for JRO already taken on lease should be purchased by Oil Company within three months.

5.25 Industry had taken up with Ministry of P&NG for difficulties faced as under:—

(i) Adhering to stipulation of 5 acres of land and requesting JROs to be put up in 2 acres.

(ii) Obtaining of land on outright purchase and requesting permission for putting up JROs on land taken on lease for 30 years.

Minutes of Meeting with D(M)s of OMC's dated 29.04.2000 received on 06.10.2000 states that "after discussion, the following was agreed."

— The minimum land requirement for setting up of JRO may be 2.5 acres.

— Suitable recommendations to permit lease of 30 years and above in place of 'Outright Purchase' may be processed for approval from Ministry of P&NG.

5.26 Ministry of Petroleum and Natural Gas *vide* letter No. P-19012/116/99-IOC dated 24.11.2000 have discontinued the scheme with immediate effect.

5.27 However, Oil Industry sought the approval of the Ministry in December, 2000 to accord permission to develop Jubilee Retail Outlets at locations where negotiations for land procurement had been completed and the landlord's confirmation on negotiation terms is received as on 1.12.2000. However, the Ministry has not responded to this suggestion so far.

5.28 In pursuance of the decision of the Government to set up Jubilee ROs, Oil Companies established these as per the following details:

Name of the Company	No. of Jubilee RO	Expenditure incurred (Rs. in crores)
IOCL	89	217.04
HPCL	46	32.00
BPCL	39	59.57
IBP	53	17.47

5.29 The Ministry explained the reasons for discontinuation of this scheme as under:—

"(i) It was felt that JROs with the variety of facilities which were originally sought to be attached to them might not be very viable.

(ii) The procurement of vast plots of land along the highways, whether on ownership basis or on long lease, seemed to be difficult.

(iii) The project was found to be very capital intensive and it was felt that it would be prudent to increase the number of retail outlets and not to invest in a few JROs."

5.30 Replying to the query of the Committee, the Oil Companies submitted the following average per KL cost of electricity, evaporation and handling loss, wages and salary, customer related facilities, bank charges, cost of working capital and fixed assets on Jubilee/COCO, ROs:—

Company	Charges
IOC	Rs. 373.42 on MS and Rs. 191.83 on HSD
BPCL	Rs. 424.00
HPCL	Rs. 294.64 to Rs. 2309.28 Varying from State to state
IBP	Rs. 384.02

The Committee were also informed that the above mentioned expenses are similar to 'A' and 'B' site of dealers also.

5.31 After the discontinuation of Jubilee Scheme, some of the other scheme where facilities like meals, communication, parking, rest rooms are available at one spot were introduced by the Oil Companies. HPCL intimated as under:—

"The Oil Industry has approached the National Highway authorities to put up outlets at the Golden Quadrilateral route where potential exists. We propose to provide amenities in line with the ones provided at Jubilee outlets to motoring public. No outlets have yet been put up."

5.32 Chairman BPCL stated during the evidence:—

"In order to cater to the district needs of truck fleet owners and truck drivers. BPC has chalked out an ambitious highway strategy. A chain of outlets with special facilities to cater to the highway segment is being set up on highways along the Golden quadrangle.....Many of these outlets are one-stop-truck shops (OSTs) which are company controlled. Twenty such OSTs have so far been commissioned and BPC plans to take this number to fifty by March 2002."

Operation of Jubilee and COCO ROs

5.33 Jubilee and COCO, ROs are operated through contractual labour and as per guidelines given by the Ministry. The contractor's selection is done through interviews of shortlisted candidates from the following categories:—

(a) Haulage Contractor

(b) Transport Contractor

(c) Bulk LPG Transporter

(d) Taxi/Auto Rickshaw/Bus/Truck Operators Associations

(e) State Govt. Corporation

(f) Any other individual/party as deemed fit.

The interview is conducted by a Committee through a system of evaluation to select the best candidate for operation of COCO/Jubilee RO.

The agreement and the undertaking to be signed by the labour contractor gives the full details of the contractor's obligation. This ensures that the legal formalities related with contractor are compiled and fulfilled in letter and spirit.

5.34 Elaborating upon this scheme, BPCL submitted in a note:—

"The appropriate expenditure on an OSTS is in the range of Rs. 1 to 1.5 crores depending on the cost of land.

The concept is similar to Jubilee Retailing concept except we provide some value added services through our Smart Fleet Card to Smart Fleet Customs....

Since these outlets are very much long the lines of Jubilee Retail Outlets no separate permission was sought from MOP&NG before launching the scheme."

5.35 The Committee wanted to know the Company's net profit per KL on MS and HSD sold through Jubilee and COCO, ROs. IOCL intimated that the average net profit per KL for a COCO or a Jubilee Retail Outlet selling 100 KL per month works out to Rs. 97 per KL for MS and Rs. 110 per KL for HSD.

5.36 In this regard HPCL stated that the net profit per KL on MS and HSD sold through Jubilee/COCO outlets is Rs. 654.24 on MS and Rs. 442.62 on HSD.

5.37 For BPCL the performance of jubilee outlets was as under:—

"Gross Margin MS: Rs. 545 per KL (Dealer Commission Rs. 478 + 67.00 RO Margin).

HSD Rs. 344 per KL (Dealer Commission Rs. 277+ Rs. 67 RO margin)"

BPCL further stated that taking into account the actual sales of all the COCO Retail Outlets and the margin and various expenses the average net profit works out to Rs. 25 per KL.

5.38 Indian Oil Corporation has launched Top-Gear Fuel Station scheme and has commissioned one station at Mumbai by upgrading a Retail Outlet. The facilities available at Top-Gear Station include besides refuelling, value added services for the customers such as convenience stores, ATM, Cyber Cafe, Auto Car Wash etc. have been provided. This Retail Outlet has been named as "Top Gear" to be distinct from other Retail Outlets.

IOC has plans to set up more such model ROs with the above facilities to be branded as 'Top Gear' to be developed in various metros and major towns including State Capitals for bench marking the level of service and also create a pool of trained Pump Attendants who would be in a position to impart the skills learnt at other ROs in the country.

IOC has invested an amount of Rs. 297.48 lakhs in converting the RO at Mumbai as Top Gear.

The Top Gear in Mumbai was commissioned on 23.3.2000.

5.39 The volume of sales of MS & HSD at this RO 3 months before and after the commissioning is as under:—

Before commissioning		After commissioning	
August, 1999	262 KL	April, 2000	354 KL
September, 1999	285 KL	May, 2000	360 KL
October, 1999	212 KL	June, 2000	396 KL

(From October, 1999 till March, 2000, the RO was closed for modernisation)

5.40 Oil companies operate mainly three types of retail outletting A, B: & 'C' besides COCO retailing. In case of 'A' sites all facilities, moveable and immoveable are owned by the Company. In case of 'B' sites, only the moveable facilities like pump, tanks, emblem poles etc. are owned by the Company, whereas in case of 'C' sites barring Emblem Poles, all movable and immovable assets like land, pumps, tanks etc. are owned by the dealer. As on Oct. 2001, category-wise details of major companies is as under:—

Company	Jubilee	COCO	A	B	C
IOCl	89	388	1959	5250	—
HPCL	46	121	2550	2043	—
BPCl	39	57	2719	1692	212
IBP	53	50	—	—	—

(—)figures not available.

5.41 The average cost of developing 'A' category and COCO outlets is approximately Rs. 45 lakhs towards cost of land/cost of development of outlet including equipments, whereas the cost for development of 'B' category outlet is aproximately Rs. 10 lakhs as the Company's investment is limited to providing equipment only *i.e.* pump/tank and pole emblems.

5 to 7 years back, the investment for 'A' category outlets used to be approximately Rs. 20 lakh and 'B' site the investment was approx. Rs. 3 to 4 lakhs.

5.42 Besides this development cost, oil company expends Rs. 30 lacs for modernization and Rs. 8 lacs for upgradation of COCO outlet and Rs. 25 lacs for modernization and Rs. 5 lacs for upgradation of 'A' category of outlet. Average sales volume of Jubilee outlets and COCO outlets during second year of operation is as under:—

	MS (KL/PM)	HSD (KL/PM)
Jubilee outlet	8	355
COCO	8	180

The Company also grants subsidy for providing facilities at dealer-owned outlets ('B' category). As per the Dealer Subsidy policy, the maximum amount extended to a dealer is Rs. 75,000 once in 5 years.

The Committee felt that in the wake of dismantling of APM, private companies may endeavour to lure away the 'B' site holders towards their side and hence wanted to know what the PSUs have done to secure their 'B' category sites.

5.43 IOCL has apprised that as on 1.10.2001, it has 36.1% 'A' site ROs yearly targets are fixed for such conversions and are closely monitored during the past three years, the following number of 'B' site ROs have been converted as 'A' site:—

Year	No. of 'B' site ROs converted
1998-99	194
1999-2000	286
20001-2001	207
(April-September, 2001)	186

The targets for conversation from 'B' to 'A' type for the next two years are as under:—

Year	Target
2001-02	350
2002-03	400

5.44 IOC has targetted to bring the percentage of 'A' site Retail Outlets to the level of around 50% by 1.4.2003. Chairman of IOCL was canded to admit during his deposition before the Committee:—

"I would like to submit that Indian Oil was the late entrant in this field. We did not get the transfer of existing locations like HPCL and BPCL who were able to get the Shell, Caltex and ESSO petrol pumps converted to their fold. When the Government announced its policy for de-regulation and the withdrawal of APM, a policy decision was taken that gradually we must take control of strategic locations and convert 'B' site outlets into 'A' site outlets.....

As on 31.3.2001, HPCL has 56% 'A' category outlets and target to raise it to 65% in current Financial Year. During the last 2 years it converted 484 'B' sites into 'A' sites.

BPCL, as on 1.10.2001, has 59.1% 'A' sites and has target to raise this percentage to 65% by March 2003. During the last 3 years, it has converted the following number of 'B' ROs into 'A' sites.

Year	Number of ROs
1998-99	113
1999-2000	131
2000-2001	135"

B. Dealers Commission

5.45 During examination of the subject, this aspect was examined intensively. The Ministry explained as under their role in fixing Dealers' commission and basic parameters taken into account while fixing commission:—

"Dealer Commission for controlled products is fixed by Government.

For fixing dealers' commission for petrol and diesel, the parameters considered are as under:—

- Return on net fixed assets
- Return on working capital
- Operating Cost
- Operating product losses

The parameters for fixing LPG distributors' commission are:—

(a) Delivery cost (to cover salary to deliverymen/drivers, return/depreciation/expenses on delivery vehicles, return on capital, share of manager's remuneration etc.)

(b) Establishment cost (to cover salary to showroom staff, mechanic, expenses on godown, share of manager's remuneration and other establishment cost, etc.)"

5.46 The Committee wanted to have information regarding average sales per retail outlet taken into account for deciding dealers commission, ideal rate and oil industry's role in deciding the same. HPCL responded as under:—

"The minimum sales to make the Retail Outlet Dealership economically viable is 100 KL total motor fuel (TMF) per month. The average monthly thruput per outlet for HPC is 198 KL MS and HSD combined."

5.47 LPG Distribution viability is taken as 75% of the applicable market ceiling limit:—

Locations with Ceiling Limit (No. of cylinders/Month)	Ideal Sales as 75% of ceiling of the market	Actual average Refill sales per month
15000	11250	8309
12000	9000	7560
10000	7500	7228
8000	6000	5809

Variation in refill sales of the distributors in the same market can be on account of various factors, like age of distributorship, presence of other distributors in the vicinity, service provided to the customers, entrepreneurship of the distributor apart from the potential of the area. In large markets different pockets might have population from different income brackets. This would have considerable impact on the customer base as well as refill sales.

However, Oil Industry informed that the average sales per RO taken into account for working the revised Dealer Commission is 734 KL MS and 2592 KL HSD per annum.

As against this norm, the average sales of IOC RO is 475.2 KL MS and 1962.00 KL HSD 39.6 KL MS per annum.

As per the Volume/Distance Norms approved by Ministry, for Retail Outlets to be economically viable, the minimum sales volume has to be under:

Class of Market	Volume
A, B, C and D	MS-5 KL, HSD - 50 KL
E	25 KL HSD

5.48 Federation of All India Traders apprised the Committee of their demands regarding revision of Dealers Commission, Quality control and Marketing guidelines. The Committee after having interactions with their representatives held discussions with Ministry' representatives. So far, the issue of Dealers Commission is concerned, the Government constituted the Directors' Committee and based upon their recommendations revised the Commission *w.e.f.* 10.11.2001 as under:—

Product	Before 10.11.2001	w.e.f. 10.11.2001	% increase
MS (RS/KL)	478	613	28.2
HSD (Rs./KL)	277	365	31.8
LPG (per cyclinder)	14.53	15.55	7.0

The Dealer Commission has been revised 5 times in the last 10 years.

Oil Industry intimated that the Revised Dealer Commission has taken into account all the cost including operating cost, license fee, stock loss, working capital and interest element on fixed capital.

5.49 The Committee enquired whether with the revision of Dealers Commission, all the outstanding related issues pending with the Federation of Petroleum Traders have been resolved. The Ministry appointed a Committee to examine the matters relating to revision of commission.

The following were the terms of reference of the Committee set upto examine the issue relating to dealers commission:—

(1) The Committee shall re-examine all issues regarding operating costs and reimbursement thereof to the dealers.

(2) The Committee shall examine the points that may be raised by the FAIPT in regard to dealers commission.

(3) The Committee shall also *inter-alia* examine the issues of reimbursement of bank drafts charges, licence fees recovery commission on lubricants etc.

(4) The Committee shall hold discussions on these issues with FAIPT before submitting its report.

5.50 The Government, after considering the Report of the Committee has taken the following decisions:

(a) The revised rates of dealers' commission on MS & HSD will be Rs. 613/kl and Rs. 365/kl respectively. The destructive rates for MS-87 and MS-93 stand discontinued. Henceforth, for both these categories, the revised rate of commission will be Rs. 613/kl.

(b) In addition to the dealers' commissions mentioned above, reimbursement on account of demand draft/pay orders/ bankers cheque charges will be made at the following rates.

(i) D.D. charges: Rs. 58/KL for MS and Rs. 34/KL for HSD

(ii) Pay order/bankers cheque charges: Rs. 29/KL for MS and Rs. 17/KL for HSD.

(c) Licence fee recovery for 'A' site at the rate of Rs. 43/kl and Rs. 36/kl and for 'B' site at the rate of Rs. 13/kl and Rs. 11/kl for MS & HSD respectively. The system of giving rebate in LFR to low volume dealers stand discontinue.

(d) The margins on sale of lubricants will be delinked with the dealers' commission for MS & HSD. The revised dealers' commission has been sanctioned after taking into account these adjustments."

5.51 The Ministry also submitted that the revised commission has also taken into account the following aspects:—

"(a) Revision of rates on pay order/bankers' cheque and DD charges:

DD charges:

Product	Unit	Before 10.11.2001	Revised *w.e.f.* 10.11.2001
MS	Rs./Kl	40.00	58.00
HSD	Rs./Kl	16.00	34.00

Pay order/Banker's cheque:

Product	Unit	Before 10.11.2001	Revised w.e.f. 10.11.2001
MS	Rs./Kl	NA	29.00
HSD	Rs./Kl	NA	17.00

(b) Operating product losses has been retained at .59% for petrol and has been increased 1 to .18% from .15% for diesel.

(c) Operating cost has been revised keeping in view increase in average minimum wages, electricity charges, etc. The normative manpower at retail outlets for the purpose of salary/wages calculation has been increased for improving customers' service.

(d) Margin on lubricants has been delinked from the commission on petrol and diesel.

(e) Reimbursement for demand draft charges has been revised in line with latest bank rates and product prices. In addition, provision has been made for reimbursement of pay order/bankers' cheque charges in line with the latest bank rates.

The Committee had recommended revision in LPG commission based on the principles adopted in the past for fixation of commission. The distributors' commission was recommended to be increased by Rs. 1.02 per cylinder.

The Government has accepted the recommendations of the Committee and dealers' commission as mentioned above have been implemented with effect from November 10, 2001.

On ex-showroom/godown delivery at customer's request, a rebate of Rs. 8/- per cylinder is to be allowed by distributors instead of Rs. 5 per cylinder."

5.52 The Committee wanted to know the opinion of oil companies on the issue of establishing an independent regulatory authority to regulate the commission. The Companies response was as under:—

> "In the regulated scenario, the Director (M) of Oil Marketing Companies should be authorised to jointly fix the Dealer Commission. However, in a deregulated scenario, individual oil companies should be allowed to determine the Dealers Commission depending upon the marketing trends."

5.53 As part of market promotion programme, Oil Companies have introduced bank related schemes such as Indian Oil Citibank Co-branded Credit Card, BPCL's Petro Card, HPCL's "HP Smart I". IOCL has reported significant growth after launch of this scheme in 1997. The Company has furnished the following details regarding increase in % growth during the 5 years before and after the introduction of the scheme.

Year	% Growth
1992-93	0.9
1993-94	5.3
1994-95	8.4
1995-96	15.5
1996-97	6.7
1997-98	5.0
1998-99	6.6
1999-2000	7.3
2000-2001	14.1
Apr.-Sept. 01	8.2

5.54 BPCL has submitted the following note with regard to achievements of Petro Card scheme:—

"The Petro Card programme is essentially a retention strategy of the company in the face of deregulation of the oil industry. Post deregulation since competition would be intense we are acquiring our existing customers and retaining then through this layalty programme. However, when we do promotions and campaigns for acquisitions there may be accretion of customers also. In the last over a year the programme has been operating we have enrolled more than 370,000 customers. A member transacts on an average 6 times a month, which indicates their repeat purchase at Bharat Petroleum outlets. The pilot launch of the Petro Card scheme took place in October, 1999 and the scheme was launched nationally in March, 2000. In effect, 2000-01 was the first full year of operation. The volume in TMT over the last five years are as under:

Figures in thousand MT

Year	MS	Growth %	HSD	Growth %
1996-97	1497	—	7008	—
1997-98	1561	4.3	7165	2.2
1998-99	1682	7.8	7500	4.7
1999-00	1825	8.5	7880	5.1
2000-01	2062	13.0	7985	1.3

The response to the Petro Card has been extremely encouraging and the customer base has grown substantially. The sales of Petrol and diesel are dependent on several factors and as such the accurate assessment of growth attributed to Petro Card alone may not be possible."

5.55 In reply to a specific question it came out that none of the Oil Companies has made any independent study to assess the impact of these schemes.

5.56 The Committee wanted to know the system of addressing public grievances relating to marketing. Each Oil Company submitted note on its own system but broadly they maintain the system as mentioned below:—

"Customer Service Cells have been set up at Regional Offices. The complaints received by Customer Service Cell are attended immediately to redress the public grievances. A message on operation of customer service cell is displayed at the Retail Outlets indicating the addresses and Telephone Nos. of the Customer Service Cells as well as Regional Managers, are displayed.

Additionally, the names and addresses of the concerned Sales Officer in charge of the area is also displayed at the Retail Outlets/ LPG Distributorships.

A Complaint/Suggestion book is also made available at all the Retail Outlets/LPG Distributorships wherein customers can register their grievances and complaints against the dealer, if any. These complaints are reviewed by the concerned Sales Officer or Regional Manager and suitable action taken.

The public is made aware of this system by:—

1. Display of name and address of the Sales Officer on the Display Board at the Retail Outlet.
2. Display of address and Tel. Nos. of customer Service Cell on the Display Board at the Retail Outlets.
3. Availability of complaint Book and Suggestion Book at Retail Outlet and display about its availability on the Notice Board.
4. Periodic advertisement in the Newspapers on the existence of Customer Service Cells for redressal of customer grievances."

C. Liquefied Petroleum Gas (LPG)

5.57 Currently domestic LPG (marketed by Oil PSUs) is under Administrative Pricing Mechanism but scheduled to be deregulated *w.e.f.* 1.4.2002. However, Government propose to continue subsidising 15% of the cost of domestic LPG.

The demand for LPG in the country is rising fast with 9% growth in the first half of the current year and expected to rise further with 15% increase in the later half of the same year. IOCL is maintaining 67 LPG bottling plants and HPCL 39 with BPCL 39. The demand for LPG is sharply increasing in the country. As on 1.1.2001 the Ministry of Petroleum & Natural Gas has released 6376 LPG distributors of PSUs and the total customers holding these distributors was about 5.63 crore and now LPG is available on demand.

5.58 Industry has instituted a system to address the public grievances through establishing customer service cell at various levels.

(1) Customer Service Cell at Regional Office:

Customer service cell has been set up at all its regional offices located in the main cities to attend to the customer grievances/ suggestions and manned by officers during all working days. The grievances/suggestions received at these cells are investigated/reviewed by the sales officers and the regional manager and corrective action is taken wherever necessary under intimation to the complaint.

(2) Field Customers Centres:

Each Sales Officer operate a field customer service centre at a predetermined place and time. During such times, customers can contact the sales officer and get their grievance addressed on the spot. In addition to the above all operating location such as LPG Plants, Depots, etc. Receive complaints and are appropriately handled.

(3) Emergency Service Cell:

In order to attend technical/emergency complaints from customers during holidays and after office hours of the distributorships, HPCL operates Emergency Service Cell in all major markets and Monopoly Markets having high customer holding. While the Emergency Service Cell operated in common Markets (where more than one Oil Company operates) are on Industry basis, the monopoly markets ESC's are exclusively operated by HPC.

(4) Monitoring System:

The activities of customer service cell and field customer service cell are monitored by the regional office and sends a monthly report to Zonal office. Zonal office after review of the information sends monthly report to Headquarters Office. In addition to the above, the complaints are received at Zonal offices as well as Headquarters Office which are specifically investigated and action initiated against defaulting distributorships/officers.

(5) Publicity:

At each distributorship, the information with regard to the customer service cell is visible in a standardised board where the address and the telephone number of the customer service cell are visible. Secondly, the name of the sales officer alongwith the telephone Nos. are also visible at the showroom. The timing and place of field customer service centres conducted by the sales officers are also provided at the distributorship.

The information with regard to the customer service cell is published in the leading newspapers on a quarterly basis in English, Hindi and vernacular language for the information of the customers of the existence of the customer service cell.

(b) Demand and Supply of LPG

5.59 To fill the gap between demand and supply, Oil Companies are free to import LPG. PSU Oil Marketing Companies had proposed to develop LPG import capacity of 2400 TMT per annum during IX Plan through setting up of new import facilities as under:—

Haldia	400 TMTpa
Kakinada	400 TMTpa
Nhavasheva	600 TMTpa
Pipava/Dahej	300 TMTpa
Paradeep	600 TMTpa
Pondicherry	100 TMTpa

5.60 With significant increase in indigenous LPG production in the country during IX Plan period and actual import capacity available at Kandla/Mangalore set up in the terminal year of VIII Plan, oil industry reviewed the development of additional LPG import capacity planned during IX Plan period and decided to develop import facility only at one of the locations *i.e.*, Haldia of compicity 600 TMPa through JV between IOC and Petronas, Malaysia. This import facility has since been commissioned during September, 2001.

LPG Bottling Capacity

5.61 PSU Oil Marketing Companies had proposed to set up bottling capacity of 3088 TMT/pa during IX Plan through creation of new bottling plants and augmentation in capacity at some of the existing bottling plants. Against this planned capacity, Industry has provided additional bottling capacity of 2138 TMTpa until 1.4.2001, with the result, the all India bottling capacity which was 3457 TMTpa as on 1.4.1997 has been augmented to 5595 TMTpa as on 1.4.2001.

Retail Outlet Dealerships/LPG distributorship infrastructure

5.62 Oil Marketing Companies envisaged setting up of 1478 LPG distributorships during IX Plan period and have developed 1051 LPG distributorships as on 1.4.2001.

LPG sales for the year 2000-01 were are as under:—

PSUs	Domestic Subsidised	6301 TMT
	Commercial	127 TMT
	Bulk	185 TMT
		6613 TMT
	Parallel Marketing System	403 TMT
	Total	7016 TMT

The percentage of Sales of PSUs is as under:—

Domestic subsidised	95.21%
Commercial	2.00%
Bulk	2.8%

5.63 The Committee wanted to know the likely increase in demand in LPG in next 5 to 10 years and measures initiated to fill the gap between demand and supply. The Ministry submitted in a written note as under:—

"As per X Plan Marketing Sub-Group Report, LPG demand (base case) projection for the next five years *i.e.* from 2002-03 to 2006-07 are given below. Further, year-wise demand projections for the

XI Plan period are not prepared year-wise, however projection for the terminal year of XI Plan *i.e.* 2011-12 is also given below:

(Figs. in TMT)

Product	2002-03	2003-04	2004-05	2005-06	2006-07	20011-12
LPG	8776	9528	10310	11123	11966	16470

As per the Report of the Sub-Group on Refining for the X Plan, LPG availability estimates from domestic refineries and including non-refinery sources for base case production, deficit of LPG with the adjustment of handling losses during X Plan period (2002-03 to 2006-07) is estimated as given in the table:—

(Figs. in TMT)

Year	Availability	Demand	(Deficit)/Surplus
2002-03	7545	8776	(1275)
2003-04	7989	9528	(1587)
2004-05	8823	10310	(1539)
2005-06	8749	11123	(2430)
2006-07	8635	11966	(3391)

The above deficit as also the deficit beyond 2006-07 and till 2010-11 would be met through imports, and there are sufficient import facilities available in the country."

5.64 The Ministry in response to the query of the Committee spelt out as under its policy on use of domestic LPG cylinders for pretty commercial uses by vendors, small hotels etc. etc.

"Packed LPG *i.e.* in cylinders is marketed by PSU oil companies both for domestic and non-domestic customers. Prior to 27.3.87 the pricing of LPG was uniform, both for domestic and non-domestic purposes. Since 27.3.87, Government introduced different prices for domestic and non-domestic customers. This step was envisaged to eliminated supply of subsidised domestic LPG cylinders to non-domestic consumers *i.e.* to vendors, hotel etc.

The PSU oil companies are marketing 14.2 kg. Cylinders to the domestic customers. For non-domestic customers, 19/47.5 kg. Cylinders are being marketed.

The Government Resolution dated 24.11.97 laid down the programme for phased dismantling of administered pricing mechanism (APM). As a part of dismantling of APM, supply of bulk LPG and non-domestic packed LPG to industrial/commercial customers was deregulated. Consequent to this the oil companies are free to fix the selling prices of LPG (bulk) and LPG (packed-non domestic) in line with the market determined price and moreover there is no subsidy involved in LPG for industrial and commercial use.

The wide price difference between domestic and non-domestic packed LPG provides temptation to unscrupulous elements for use of domestic packed LPG for unauthorised non-domestic purposes.

There is no embargo on the oil companies for release of commercial LPG connection and the Oil Companies are allowed to enrol non-domestic LPG customers *i.e.* to vendors, hotel etc.

To check the diversion of domestic LPG for non domestic purposes, oil companies closely monitor the per capita releases by LPG distributors and variations are investigated thoroughly. Action is taken, wherever the diversion of domestic cylinders for commercial purposes is established.

Government has allowed use of LPG cylinder as auto fuel."

5.65 The Committee wanted to know from the oil companies their system to ensure that domestic cylinders are not diverted for commercial use and the number of cases detected during the last three years. Their reply was as under:—

"Regular/surprise inspection at the levels of Area offices/State offices are carried out to check diversion of domestic LPG cylinders for commercial use. In case any distribution is found diverting domestic LPG Cylinders for commercial use, action is initiated against such distributors as per the prevailing guidelines/marketing discipline guidelines."

5.66 The cases of refill diversion detected in the last three years are as follows:—

Year	Number of cases detected	
	IOCL	HPCL
1998-99	11	7
1999-2000	03	10
2000-2001	332	16

5.67 The Government have issued LPG regulation of Supply and Distribution Order on May 24, 2001 and the Committee were apprised as under of the implications of this order:—

"The following activities has been covered under the above order:—

(a) Restriction on unauthorised possession, supply and consumption of liquefied petroleum gas.

(b) Restriction on storage and transport of liquefied petroleum gas.

(c) Restriction on sale or distribution of liquefied petroleum gas or in excess of the standard weight.

(d) Prohibition on carrying unauthorised business of selling LPG.

(e) Possession, supply or sale of liquefied petroleum gas equipment.

(f) Procurement, storage and sale of liquefied petroleum has by a distributor.

(g) Assessment and Certification Rating of parallel marketeers.

(h) Power of entry, search and seizure etc.

Provision has been made in the above order for taking action against LPG distributors found indulging in malpractices specified in the order. The above order empowers the District Authorities to take corrective action against the erring distributors both of PSUs as well as of parallel marketeers as and when required. The above order is in vogue. According to this order, the LPG distributors of Public Sector Oil Marketing Companies are allowed to sell only 14.2 Kg cylinders for domestic purposes. Consequent upon the decision of the Government for allowing the marketing of 5 Kg. cylinder for domestic purpose, the aforesaid order is required to be amended and the same is under progress."

5.68 The Committee, during examination of the subject, came across cases of fake cylinders and wanted specific information on this from oil companies who replied as under:—

"Spurious/Fake Cylinders have been received in the bottling plants at the time of receipt of empty cylinders from the market. During the year 2000-01, BPCL have received 1719 spurious cylinders in their plants which were easily identifiable and recoveries at penal rates have been done from the transporters/distributors, besides confiscating them."

5.69 The Committee sought information from the oil companies with regard to accidents occurred during transport, storage, domestic use etc. etc. Different Oil Companies furnished the information as under:—

Indian Oil Corporation Ltd.

Year	Total No. of Accidents			
	Domestic	Bulk TPT	Packed TPT	Incidents at Bottling Plants
1998-99	49	26	5	5
1999-2000	65	18	1	5
2000-2001	77	29	2	9
2001-2002 (April-Sept.)	36	9	1	6

Hindustan Petroleum Corporation Limited

Sl. No.	Cause	1998-99		1999-2000		2000-01	
		No. of Accidents	Casualty	No. of Accidents	Casualty	No. of Accidents	Casualty
1.	Equpt Fault						
	Washer						
	Pin stuck	3	1	1	0	2	0
	Regulator Leak	8	5	2	0	1	2
	Cylinder Leak	2	0	3	3	—	—
2.	Rubber Tube	4	7	18	7	9	5
3.	Hot Plate Fault	2	3	1	1	—	—
4.	Unsafe Practice by Customer	13	1	15	1	15	15
	Total	32	17	40	12	27	22

Bharat Petroleum Corporation Limited

Categories	1999-2000	2000-01	Upto October, 2001
Domestic	32	24	31
Transportation	10	15	8
Distributorships	Nil	Nil	1
Bottling Plants	Nil	6 (near miss)	Nil

5.70 The Committee found that number of accidents were increasing and desired to know whether the consumer/transporter is insured. Oil Companies apprised the Committee of the existing system in this regard:—

"All domestic LPG consumers are ensured for no-fault liability. Every year Insurance Policy is taken for this purpose on Industry basis. Apart from this individual distributors obtain third party liability insurance.

Oil Industry had taken Insurance Policy to cover all the authorized domestic customers on Industry basis eff. April 1, 1993.

Limits of liability:

Per Event	25 Lakhs
Per Person	10 Lakhs
Per Year	1000 Crores

Personal Accident cover to third parties and property damage at authorized customer's registered premises.

(Irrespective of liability at law):

(a) Personal Injury/Death 1,00,000/- per person per event.

(b) Medical Expenses 2,00,000/- per event (Maximum 25,000 per person)

(c) Property damage maximum Rs. 10,000/- per event at Authorized customer's registered premises.

(d) Per Year Rs. 5 Cr."

5.71 In reply to specific question, the following details of the amount held by the companies were furnished:—

IOCL	Rs. 3846.82 crore
HPCL	Rs. 1880.55 crore
BPCL	Rs. 1800.00 crore

5.72 Regarding utilisation of accumulated amount, it has stated that LPG cylinder deposits are taken from the consumers as security against the LPG Equipment provided by the Companies. These deposits are refundable on demand and as such are treated as current liabilities in the book of accounts. When the Oil Companies receive the deposit it has an effect of increasing their liquidity. The money is a part of overall cash in flows and outflows of the Corporation and the exact usage of the same is not identifiable.

5.73 The Committee also wanted to know the features of LPG cylinder compensation scheme and the amount reimbursed to the companies under this. The reply was furnished as under:—

"Effective 1.4.98, *vide* MOP&NG's letter dated 31.1.99, the LPG cylinder compensation scheme was discontinued.

Subsequently, a new scheme of compensation so as to reimburse 16.21% book depreciation and return on investment was approved by MOP&NG.

The salient features of the scheme are as under:—

- Compensation for depreciation and return on LPG cylinders will be allowed to the oil companies at the time of cost updation.
- The amount collected the price build up amounting to Rs. 448/MT of LPG (domestic) sold would be retained by the oil companies and would be adjusted at the time of revision of this element.
- The norm of 1.3 cylinder per single cylinder connection and 2.3 cylinder for DBC has to be applied for calculating the return on the gross investment of oil companies in LPG cylinders. The same norm would be applied while calculating depreciation also.

The desired cost data for the years 1998-99 and 1999-2000 have been furnished to OCC. Final approval is awaited."

D. Purchase of LPG Cylinders

5.74 During the course of examination of the subject, the Committee discussed the new practice regarding purchase of LPG cylinders. The Committee were informed that the earlier practice of buying cylinders was on the basis of MOP&NG approved pricing formula arrived at by the Industry with M/s. Price Water House as consultant with applicable escalation/deescalation formula. Industry was following a vendor rating and manufacturing capacity based order distribution system on all India basis and accordingly procurement was taking place upto 31.3.2001.

5.75 MOP&NG has directed procurement of cylinders through tendering system in order to procurement at the competitive market driven rates. Accordingly individual oil companies have initiated tendering system to procure the cylinders.

5.76 The Committee enquired whether some of the manufacturers now chosen for supply of LPG cylinders were blacklisted or their purchases were suspended for manufacturing defective cylinders. The reply furnished is as under:—

"None of the LPG cylinder manufacturers now chosen for supply of cylinders were earlier blacklisted. Some of the manufacturers were suspended on Oil Industry account, as per the industry practice based on the identification of manufacturing defects in new Equipments supplied by them and the suspension was revoked after requisite corrective measures were taken by the party in the manufacturing process and after revocation of suspension by BIS."

5.77 The Committee specifically desired to know whether all the formalities related with the purchasing and directions of Chief Vigilance Commissioner were complied with before placing orders, the reply was as under:—

"Public tender were invited on two bid system *i.e.* Technical and Price bid each on net delivered price basis Statewise. 103 tenderers were found eligible for opening of the price bid. Except M/s. Balmer Lawrie (L1) and M/s. Sahu Cylinders & Udyog (L2). Balance 101 tenders were found to have quoted uniform rate of Rs. 890/- per cylinder in all the States alongwith certain conditions.

CVC Guidelines:

1. CVC *vide* communication No. 8(1)(h)/98(1) dated 18th November, 1998 advised that post tender negotiations are banned with immediate effect except in the case of negotiations with L1 (*i.e.* Lowest tenderer).

2. CVC *vide* communication No. 98/ORD/1 dated 18th March, 1999 further clarified the following with respect to post tender negotiations:

'Another issue that has been raised that many a times the quantity to be ordered is much more than the L1 unit can supply. In such cases, the quantity ordered may be distributed in such a manner that the same is done in fair, transparent and equitable manner.'

The tender documents clearly spelt out the distribution and evaluation pattern of the quantity without leaving any ambiguity.

Accordingly, M/s. Balmer Lawrie (L1) were called for price discussions. After discussions, M/s. Balmer Lawrie stated that the price quoted earlier remain unchanged and are firm.

Thereafter, M/s. Sahu Cylinders & Udyog (L2) were offered the lowest rate of M/s. Balmer Lawrie. The tenderer advised that the rates quoted earlier remain firm.

Since the combined capacity of M/s. Balmer Lawrie (L1) and M/s. Sahu Cylinders & Udyog (L2) was inadequate to meet the total requirement the balance 101 tenderers were called in batches. They were offered the lowest rate of M/s. Balmer Lawrie *i.e.* Rs. 777/09 per cylinder and were advised to either match the rate or indicate their revised rate.

Some of the cylinder manufacturers who had participated in the price discussions and offered the revised rates, filed a writ petition in Delhi High Court. After discussions, the Hon'ble Court on 24th August, 2001 passed an interim order. An opinion of Additional Solicitor General of India was also obtained for methodology to be adopted in implementation of the Hon'ble High Court Order.

While placing the orders on the cylinder manufacturers, the interim order of the Hon'ble Delhi High Court of 24th August, 2001, opinion of Additional Solicitor General of India and the tender conditions were observed."

5.78 The Committee were informed that as a result of this practice, Oil Companies would be able to save the following amount:—

	Amount	For No. of cylinders
IOCL	Rs. 146.35 crore	100 lakh cylinders
HPCL	Rs. 80.00 crore	35 lakh cylinders
BPCL	Rs. 60.00 crore	25 lakh cylinders

5.79 When asked, whether the savings shall benefit the consumer ultimately; IOCL stated:—

"There is little scope for downward revision in the security deposit being recovered from the consumer."

HPCL and BPCL however, stated that in the deregulated scenario the issue of passing benefit will be appropriately considered.

5.80 The Committee wanted the Oil Companies to examine the feasibility of buying cylinders from PSU at the rate decided by the Oil Company. IOCL explained the position as under:—

"Prior to the tender process, as per MOP&NG instructions, PSU oil companies were making payment to the manufacturers for a cylinder, based on the pricing formula and the cost of the cylinder was Rs. 645/- excluding taxes, levies and transport cost as well as cost of the valve. On an average, the cost of the cylinders thus supplied was Rs. 805/-. Consequent upon the tender system, the net delivered price in a State varies from Rs. 629/- to Rs. 735/- as per the finalised rate excluding the rate of Rs. 950/- for Andaman and Nicobar where orders have not placed so far. As such, the tender system provides cost benefit to the PSU oil companies which in turn is quoted by the manufacturers based on the business consideration and thus a competitive rate.

While theoretically it is possible to follow the earlier system, experience reveals that it is beneficial to follow the tender system."

E. Parallel Marketing

5.81 The terms "Parallel Marketeer" and "Parallel Marketing System" were defined in the Kerosene (Restriction on Use and Fixation of Ceiling price) Order 1993 when it was originally notified on 2nd September, 1993, on the following lines:

(i) "Parallel Marketing" means any person, firm, company, institution, association of persons, cooperative society or organisation carrying on the business of importing, refining, producing, packing, marketing, distributing and selling kerosene under the parallel marketing system;

(ii) "Parallel Marketing System" means the system other than the public distribution system under which a person imports, transport, packs, distributes or sells kerosene under his own arrangement.

The Committee had learnt that there were cases of parallel marketing and wanted to know the name of the private parties who have indulged in parallel marketing of the petroleum products against the rules and action taken against these companies.

5.82 While the oil companies stated that they were not aware of such cases, but the Ministry reported that there were such cases. The Ministry furnished the following information:—

> "It came to the notice of the Ministry that the RPL was supplying domestically produced kerosene to M/s. A.E. Company, Ahmedabad and it was observed that the definitions of terms "Parallel Marketeer" and "Parallel Marketing System" required to be amended to plug the loophol so that domestically produced kerosene could not be sold in the Parallel Market. According, the Kerosene Control Order was mended *vide* notification issued on 22nd February 2001. The RPL was also advised to desist from supplying kerosene to M/s. A.E. Company, Ahmedabad and also to any other party for any purpose other than for distribution under the Public Distribution System. RPL informed the Ministry that all sales of kerosene obtained by them from their Jamnagar Refinery under the Parallel Marketing System including supplies to M/s. A.E. Company, Ahmedabad have been stopped by them.
>
> Further, the parallel marketeers, being private companies, do not come under the administrative control of the Ministry of Petroleum & Natural Gas and State Governments are authorised to take appropriate action against such companies in case of any cheating of consumers/public."

5.83 The Committee came across press reports that some cases of diesel, kerosene smuggling have been noticed. The Ministry in written reply stated:—

"No such case has so far been reported to the Ministry. However, a mechanism has been put in place to prevent unauthorised sales/ purchase of controlled petroleum products through retail outlets. Field level inspections are also carried out by officers of the oil marketing companies, periodically. Wherever unauthorised sales/ purchase is found, action is taken as prescribed."

5.84 Director (M) of BPCL while tendering his evidence before the Committee said the following in some other context but relevant to the above issue:—

"We find that some amount of products are coming in. In fact, there is a product like the diesel oil which we also sell but Reliance through refineries, has been selling diesel oil to its consumers. We have been told that on a monthly basis, almost 5000 tonnes is being sold. So, some of the customers who have been buying diesel from us for their pump set generators are taking to LDO. They are calling it super LDO as it meets their specifications. They are legitimate in selling to these people and the price is Rs. 2 to Rs. 3 less per litre as against Rs. 16-17 diesel and they sell it at Rs. 13 or Rs. 14. So, that has had some impact on the drop of sale. It is also reported that on the minor ports, some products which are similar to either LDO or otherwise, are coming into the West Coast."

CHAPTER VI

BENAMI DEALERSHIPS

6.1 The Committee have received complaints that many of the ROs and LPG distributorships are being operated under Benami Dealerships. The Committee wanted to know the system of identifying benami dealerships and number of cases identified during the last three years. IOCL furnished the following details:—

"During the regular inspections and visits by Field Officers and other officials of the Corporation, it is ascertained whether the Retail Outlet/LPG distributorship is run by the dealer or by a benami. As and wen benami operation is suspected, the dealership/ distributorship agreement, bank accounts, income tax returns are checked.

Based on the information and/or complaints, investigations are carried out to identify and establish operation of dealership by unauthorised persons. Action is initiated against the defaulting dealers in line with the terms and conditions of the agreement.

During last 3 years i.e. from April, 1997 onwards, IOC has terminated 3 dealerships and 4 LPG distributorships which were found to be operated on benami basis."

6.2 HPCL replied as under:—

"HPCL has instituted a system of inspections by field officers for identifying irregularities/malpractices at the RO/LPG distributorships including benami operation of the distributorship. The following is the salient features of the inspection system:

1. Regular inspections by our field officers once in a quarter;
2. Surprise inspections by Group 'C' and above officers to cover all the distributorships in a year.
3. Surprise inspections by Sr. Managers — 10 percent of the distributorships to be covered in the full year.

Following is the system of verification of benami operations in particular:

- Verification of operation of bank account.
- Verification of income tax returns filed by the distributors and their balance sheet.
- Verification by field officers whether day to day operations of the distributorships is personally look after by the signatories to the dealership agreement.

Through above methods, the benami operations if any existing in any of the HPGAS distributorships are being identified and action taken.

During the last 3 years and April-September 2001, 19 HPC Retail Outlet dealerships have been terminated due to benami operation as detailed below:—

Year	Number of Retail Outlet Dealerships
1998-1999	—
1999-2000	1
2000-2001	18

LPG

The number of cases of benami operation identified during the last 3 years *i.e.* 1998-99, 1999-2000, 2000-2001 and April to September 2001 and action taken thereon are given below:—

Year	State	Location	District	Name of Distributor	Action Taken
1998-99	NIL	NIL	NIL	NIL	NIL
1999-2000	M.P.	Jabalpur	Jabalpur	Jabalpur Gas	Terminated
	Maharashtra	Solapur	Solapur	Asian Gas	Suspended
2000-2001	Goa	TIVIM	Goa	Samir Gas	Suspended
	Delhi	Delhi	Delhi	Traders	Terminated
2001-2002	A.P.	Visakh	Visakh	Jyothi Gas	Show cause issued
	Chhattisgarh	Bastar	Jagdalpur	Shiva Gas	Terminated

6.3 BPCL explained its position as under:—

"During the regular inspections and visits by company officials, checks are carried to ascertain that the RO is run by the Dealership Pump Selling Licence signatories. As and when benami operations is suspected, the bank accounts, Income tax returns and other documents are checked to verify whether the constitution of the firm has changed or not.

During the past three years 9 cases of benami operations were reported and the same were terminated after due process of verification."

6.4 IBP stated its position like this:

"Oil Companies ensure that the dealerships are run by the original allottee/signatory to the dealership agreement. Whenever any deviation is established, stringent action, including termination is initiated by the Oil Companies.

As far as IBP is concerned, only one case of benami operation of one of our Retail Outlets had come to our notice *i.e.* of M/s. Godavari Agro Services, Kamlapur, District Warangal, Andhra Pradesh. The matter regarding benami operation was investigated and it was found that the RO was operated benami. As such said dealership has been terminated by us on 30.04.01."

6.5 This issue came up for oral evidence when representatives of the Ministry of Petroleum and Natural Gas appeared before the Committee when it was stressed that the Committee had been highlighting this factor almost in every sitting. The Committee felt that number of cases detected was too small than the prevalent menace. it was also mentioned that many of ROs and distributorships allotted in the name of SCs/STs have been manipulated and captured by such persons who are operating number of petrol pumps and distributorships. So, whenever any illegality is found in benami operations, mafia person makes the original allottee to suffer. Therefore, the Committee suggested that Oil Companies should by strict and take rigorous measures to identify benami operators. As one step to mitigate the difficulties of SC/ST alottees, the Committee suggested that name of the original allottee should be exhibited in bold letter at identifiable place of the RO and office of distributorships.

6.6 Petroleum Secretary was agreeable to the observations of the Committee and assured that he would look into this matter and endeavour to evolve guidelines making it mandatory for the dealer to exhibit his/her name at prominent place of RO as advised.

CHAPTER VII

EXPORT

7.1 The refining capacity in the country as on 1.10.2001 is 114.67 million metric tonnes (MMT) per annum as against consumption of 99.44 MMT. As per the Report of the Sub-Group on Refining for the X Plan, production availability estimates from domestic refineries and including non-refinery sources for base case production are as under:—

(Figs. in MMT)

Products	2002-03	2003-04	2004-05	2005-06	2006-07
LPG	7545	7989	8823	8749	8635
Naphtha	11878	13447	13753	13521	13333
MS	10478	10994	11470	11676	11580
ATF	3621	4367	4763	4787	4717
SKO	13966	14656	15062	15110	14944
HSD	47258	51921	57625	58007	57593
LDO	877	701	570	570	545
LSHS	4574	4206	3518	3468	3451
FO	7576	7841	7128	6037	5963
Bitumen	3239	3175	3112	3090	3061
LOBS	836	900	900	882	850
Others	8263	9247	10627	11375	11294
Total	120111	129444	137351	137272	135966

Surplus/Deficit position of products is as follows:—

(Figs. in MMT)

Products	2002-03	2003-04	2004-05	2005-06	2006-07
LPG	(1275)	(1587)	(1539)	(2430)	(3391)
Naphtha	1001	2670	5042	4347	4059
MS	2820	2751	2613	2210	1463
ATF	1245	1916	2234	2175	2019
SKO	0	0	0	0	0
HSD	7186	10120	13751	11652	8349
LDO	0	0	0	0	0
FO/LSHS	(487)	(1200)	(3223)	(4920)	(5611)
Butumen	0	0	0	0	0
LOBS	(369)	(348)	(386)	(463)	(539)
Others	2581	3565	4945	5693	5612
Total	12702	17887	23437	18264	11961

7.2 The Committee pointed out that with the availability of petroleum products after commissioning of the PSUs refineries in the pipeline *viz.* BPCL's Bina, HPCL's Bhatinda and IOC's Paradeep and also with finalisation and production expansion projects in refining sector, country shall be having surplus and therefore, there is need to give imetus to export of petroleum products both from the point of view of capturing foreign market and as well as utilisation of refining capacity and consumption of finished products. The Committee wanted to know from the Oil Companies their performance in this sector, their earnings during the last three years, appointment of any specialised cell and the measures initiated to venture into foreign market.

7.3 Chairman IOCL explained his company's position as under during evidence:—

"I would like to submit that unlike the other marketing companies and the private entrepreneurs, IOC refineries are not located in the coastal areas, are not abutted and are not having the advantage for export. With exception of Haldia, all our refineries are away from the point of export. As a result of that it becomes economically unviable if we have to transport our finished product from within the country refinery to the export point and thereafter to export.

Now, with the Chennai Petroleum Corporation having been brought to our control, one more refinery has been added which has a coastal point. We are in dialogue, at the moment, with the Government of Sri Lanka as well as Indonesia where the product is being imported.

We are working on our offer and proposal, and we are hopeful that we should be in a position to get a break-through. If that happens, it will facilitate the movement of surplus target from our Chennai Petroleum Corporation to these places. In the meanwhile, we had also, when the discussion were to be held with the Government of Pakistan, given our note to the Ministry of Petroleum for considering HDC to Pakistan from Panipat onwards. But that is yet to take off.

Now, I would like to submit that presently, there has been a decline in the growth as against the estimated rate which was envisaged to five to six per cent. The growth has dropped by almost 3.1 per cent. Basically, the HDC was 3.4 per cent and kerosene was five per cent. It is with this result that the country's total consumption is lower than the operating level of the refineries. But we are looking forward to see the things to improve and thereby the underutilisation of the refinery to the extent is expected to improve and should be, over a period of time, able to take care of the gap between the production and the consumption."

7.4 IOCL furnished the following details:—

"Quantity of products exported, name of the countries where these products have been exported and foreign exchange earnings from exports (other than from ATF refueling in the country) during last three years is given hereunder:—

	1998-99	1999-2000	2000-01
Qty. exported in TMT	786.12	213.93	351.47
Products exported	Naphtha, NGL, PO and Lubes	Naphtha and Lubes	Naphtha, LDO and Lubes
Countries where products were exported	Naphtha—UAE, Singapore, Korea, Japan, Taiwan, Thailand NGL—UAE and Singapore PO—Singapore Lubes—Kenya, UAE, Sri Lanka and Kuwait	Naphtha—Singapore and Korea Lubes—Kuwait, Malaysia, Sri Lanka, Kenya, Indonesia and Kyrgizstan	Naphtha—Singapore, UAE and S. Korea LDO—Singapore and UAE Lubes—Kuwait, Mauritius, Sri Lanka, Indonesia, Bangladesh, Bahrain and Kyrgizstan.
Foreign exchnge earnings in Million US$	89.053	34.623	81.570

7.5 Indian Oil has opened four offices at Dubai, Kuwait, Malaysia and Mauritius for exploring business opportunities in these areas. Indian Oil has entered into marketing of its Servo brand lubricants in various countries in Middle East, South East Asia, SAARC and CIS region. To promote the brand and remain competitive in SEA market, IOC has entered into a franchise arrangement at Kuala Lumpur. Similar efforts are on in Dubai for East Africa and ME market. In addition Lube Distributors are in operation have been appointed in Bangladesh, Nepal and Sri Lanka.

7.6 HPCL stated its position as under:—

"Foreign exchange earned for the lubricants and bulk products:—

Year	Export Product	FOB Value (Indian Rs. in lacks)
1998-99	Automotive & Industrial Lubricants	14.14
1999-2000	Automotive & Industrial Lubricants	9.68
2000-2001	Automotive & Industrial Lubricants	45.25
	Marine Lubricants	117.90
	Naphtha	3494.3
	Vaccum Gas Oil	148.91
	LSHS	73.51
	Furnace Oil	441.01
	Total (2000-01)	4174.09

We do not have specialized cells in our Zonal/Regional Offices charged with export trade. Our export activities for lubricants and value added products are handled by our international marketing division, Mumbai and bulk product exports are handled by Crude and Shipping Dept., HQC, Mumbai.

After intense exploration of foreign markets in neighbouring countries, we have appointed distributors in Nepal, Bangladesh, Sri Lanka for export of lubricants and other petroleum products. We are in the process of appointing distributors in Kenya, Vietnam, Indonesia. Our officers have also visited Bhutan, Malaysia, Thailand to explore the possibility of appointing distributors."

7.7 BPCL replied to the query as under:—

"BPCL's products and countries where these are being exported are as under:—

Products	Countries
Naphtha	Singapore, UAE, Japan
FO, LSHS	UAE, Mauritius, Seychelles

Earnings

(Rs. in crores)

1998-99	299.34
1999-2000	573.04
2000-01	869.95

Our International Trade Department is headquartered at Mumbai which is currently handling export/import activities of petroleum products as per requirement."

7.8 The Committee wanted to know whether the Government has set up any institutional machinery which can help oil companies to export their petroleum products. In their reply, the Ministry has stated as under:—

"Considering the surplus of certain controlled petroleum products, the Government has already permitted export of Petrol and Diesel. The only requirement being that the exporters of some products need to register the export contract with Oil Coordination Committee. It may be mentioned that export of all petroleum products is allowed except SKO and LPG. There is no specific institutional machinery for this purpose."

7.9 This issue also came up for discussion during evidence of the officials of Ministry of Petroleum & Natural Gas, Secretary of the Ministry said:—

"We would promote exports from India, but basically our focus would be to look at domestic requirements and cater fully to domestic demands. On the export side, if there are any opportunities that come by them, I am sure, we would be able to live there. But this would be left largely at present to the orientation of the export policy and the trade policy of the country which is through various incentives including exchange rate management, significant incentives built in for export of products from India.

So, at the moment, the Government does not intend setting up an Export Cell for petroleum products for these two reasons. One is the comparative advantage for general mass consumption of petroleum products is, *prima facie* not there and the domestic pull is so great and the challenges in trying to meet incremental demand within the country is so great that our focus will still be the domestic market in the petroleum sector. Secondly, currently refining margins are so squeezed that processing crude from outside and re-export is a very-very challenging proposition. So, one should not have too many hopes about major export break through in the petroleum sector."

CHAPTER VIII

REMOTE, RURAL AND HILLY AREAS

Marketing

8.1 Areas are considered as remote/rural as demarcated/specified in the 1990-91 census. As per existing guidelines markets for Retail Outlets are classified as under:—

- 'A' Class Market — Cities having population of more than 10 lacs.
- 'B' Class Market — Cities having population between 2 and 10 lacs
- 'C' Class Market — All other towns and cities not covered under A/B/E markets, excluding National/State highways (NH/SH).
- 'D' Class Market-National Highways & State Highways.
- 'E' Class Market — Remote areas not covered by NH/SH and pockets of consumption having no retail outlets within a radius of 10 Kms. Outlets in this class of market specifically cater to the requirements of agriculturists.

LPG

The parameters to identify rural and remote areas are as per the following criteria:

(a) All places which do not have Municipal Corporation, Municipality, Cantonment Board or notified town area Committee etc.

(b) All other places with a population of 5000.

(c) More than 75% of the male working population engaged in agriculture pursuit.

(d) A density of population less than 400 per sq. km.

SKO-LDO

For distribution of SKO in remote and rural areas, retailers are appointed by State Government who draw products from wholesalers appointed by oil companies.

As per Government's policy, the requirement of petroleum products is to be met in all the areas in the country including rural, remote and hilly areas.

8.2 For petrol and diesel, oil companies identify markets for setting up Retail Outlets in unrepresented areas by assessing trade potential in clusters and viability so that products are conveniently available to consumers.

With improved availability of LPG, all markets covering the following have already been identified for development of LPG distributorships.

(i) All urban locations with a population of 10,000 and above by including potential of adjoining villages falling within the radius of 15 Kms.

(ii) All viable urban locations having population of 5000 and above and by taking into account the potential of adjoining villages falling within 15 Kms radius.

(iii) Viable locations having cluster of villages within 15 Kms radius of nucleus villages having a population of 10,000 (ten thousand) and above.

The Committee sought statistical information from Oil Companies regarding their number of ROs operating in Rural/Remote and hilly areas, percentage of petroleum products marketed in the areas and per capita consumption of these products *vis-a-vis* national average.

8.3 Based upon the information supplied by the Companies, relevant data has been compiled as under:—

Company	Remote & Rural Areas	Percentage of Network	Hilly Areas	Percentage of Network
IOCL	271	6.4%	106	1.4%
HPCL	2359 HSD 950 SKO 218 LPG	51.2% 58.2% 14.88% of population	81 HSD 26 SKO 17 LPG	1.8% 1.6% 4.18% of population
BPCL	1174 125 LPG Distributor 1.6 lakh customers	25.7% 1%	118 64 LPG Distributors	10% of RR Number 7%

Percentage of petroleum products marketed in these areas:

	HSD	SKO	LPG
IOCL	7%	Not Available	10%
HPCL	51.2% Rural 1.4% Hilly	58.2% Rural 1.6% Hilly	3.26% 12.23%
BPCL	22.4%	—	20%

8.4 Regarding per capita consumption of HSD, SKO and LPG in rural, remote and hilly areas *vis-a-vis* national average, oil companies furnished variance data.

"The per capita consumption of kerosene is 13.5 litres per annum and HSD 4.4 litres per annum. The per capita consumption in rural/hilly areas will be higher. In case of LPG, the current rural per capita consumption is 6.6 kg customer per month and the hilly per capita is 7.1 kg customer per month compared to 9.86 Kg/customer per month of all average.

While HPCL furnished the data as under:—

"The per capita consumption in rural and hilly areas for HSD is 29 litres per year for the Industry *vis-a-vis* 16 Ltrs as compared to National average.

Per capita consumption in rural and hilly areas for SKO is 13 Ltrs. per year for the Industry *vis-a-vis* 16 Ltrs per year as compared to national level.

The all-India per capita consumption of LPG is 124 kg./year compared to 94 kg/year in rural area and 100 kg./year in hilly area."

BPCL stated their version as below:—

"The per capita consumption of LPG in case of rural market is around 100 kg/customer/year and in case of hilly market is around 125 kg/customer/year. The national average per capita consumption is 120 kg/customer/year.

The national average per capita consumption of HSD in Retail is approx. 35.40 litres per person per annum and SKO is approx. 13.55 litres per person per annum, assuming a population of 100 crores."

8.5 During evidence of BPCL officials, the Committee wanted to have information relating to their marketing activities in Desert and Tribal areas. The Company, later furnished the information as under:—

No. of R.O. and SKO/LDO Dealerships in Desert and Tribal Areas

	Tribal Area				Desert Area			
	Existing RO	SKO	Proposed RO	SKO	Existing RO	SKO	RO	9
Dungarpur	3	Nil	1	Nil	Nil	Nil	Nil	Nil
Udaipur (Kesariaji)	1	Nil	1	Nil	Nil	Nil	Nil	Nil
Chittorgarh	6	Nil	1	Nil	Nil	Nil	Nil	Nil
Banswara	2	Nil	1	Nil	Nil	Nil	Nil	Nil
Jaiselmer	Nil	Nil	Nil	il	2	Nil	Nil	Nil
Barmer	Nil	Nil	Nil	Nil	4	1	Nil	Nil
Bikaner	Nil	Nil	Nil	Nil	10	Nil	Nil	Nil
Churu	Nil	Nil	Nil	Nil	4	Nil	1	Nil

No. of Ros in Tribal Area

		Existing		Proposed	
Sl.No.	Location	No. of ROs	SKO/LDO	ROs	SKO/LDO
1.	Banaskantha	16	2	2	Nil
2.	Sabarkantha	9	3	1	Nil
3.	Kheda	12	3	—	Nil
4.	Dahod	4	1	—	Nil
5.	Baroda	24	3	2	Nil
6.	Narmada	2	2	—	Nil
7.	Bharuch	3	2	2	Nil
8.	Surat	23	3	2	Nil
9.	Dangs	1	1	—	Nil
10.	Navasari	7	3	—	Nil
11.	Valsad	5	3	—	Nil
12.	Panchamahal	5	2	1	Nil
	Total	111	28	10	Nil

Note: Total ROs in Banaskantha is 16. Banaskantha comes under Tribal as well as Desert Area. Proposed ROs are 2 in Banaskantha District.

No. of ROs in Desert Area

Sl.No.	Location	No. of ROs	Proposed ROs	SKO/LDO	
				Existing	Proposed
1.	Banaskantha	16	2	2	Nil
2.	Kutch	16	—	2	Nil
	Total	32			

8.6 The Committee wanted the Oil Companies to spell out their policy and strategy for marketing in remote, rural and hilly areas.

Broadly, they had uniform approach which is mentioned below:

"For setting up marketing retail network for petroleum products in remote/rural areas, the oil industry follows laid down procedure. Locations in these areas are identified through field surveys by oil industry Sales Officers and incorporated in the marketing plan. Dealerships/Distributorships for retailing MS, HSD, SKO and LPG are then set up after completion of selection process through Dealer Selection Board in such markets.

The infrastructure to support the marketing of petroleum products in remote/rural areas is met through the existing Pipelines, Terminals, Depts and transport network. The requirement of additional infrastructure to support supply/distribution of petroleum products is assessed periodically and additional capacities/facilities are provided as and when required.

LPG

To increase to reach, thrust has been given to appoint distributorship in rural areas. The 1996-98(S) marketing plan has been prepared to cover 139 Industry locations in rural areas out of which HPCL's share is 36. Similarly the 1999-2000 marketing plan has also been developed to cover 707 Industry locations out of which HPCs share is 169.

The strategy for marketing in these areas basically revolves around the 3 critical parameters namely cost, availability and awareness which we are trying to address as follows:

- Introduction of 5 Kg cylinders
- New distributorship to be appointed in Rural Areas

- Communicating and promoting LPG to the rural consumers thru.
- Propaganda van that covers villages, haats and mandis generating excitement and communicating the message of LPG and safety.
- Providing wall paintings, Banners etc. at villages.
- Holding melas at village market places."

8.7 Oil Companies spelt out their marketing schemes as under for penetrating into these areas:—

"The requirement of retail/distributor network for MS/HSD, SKO & LPG to meet the demand for rural/remote areas are identified separately as part of the oil industry marketing plan.

To meet the demand of LPG more particularly in the rural markets we are contemplating to introduce LPG cylinders in 5 kg capacity on a trial basis so that the customer in the rural market will need to spend lesser amount in procuring an LPG cylinder. In order to make petroleum products affordable in remote/rural areas, SKO and LPG are already subsidised by the Govt. of India. Further, to promote usage of LPG and to render financial assistance for obtaining a new LPG connection, certain efforts are underway. For example, co-operative banks have been approached for extending loan facilities to the rural customers to enable them procure LPG connection. Considerable success has been achieved in this direction where these banks have come forward in rendering financial help. The Andhra Pradesh Govt.'s initiative for providing LPG connections in rural areas to housewives by arranging for equipment and releases of new connection in a step in this direction."

8.8 The Committee found that Rural Marketing Vehicles/Skid mounted vehicles have proved beneficial for supply of LPG in remote areas. Therefore, the Committee wanted the Companies to increase their present strength of vehicles. IOCL responded as under:

"IOC has deployed two Rural Marketing Vehicles (RMVs), one each in Tamil Nadu and Uttar Pradesh. IOC has made recommendations to the Ministry for allowing it to be fabricated and operated by a distributor or a contractor directly.

As such, IOC is not planning to increase the number of Rural Marketing Vehicles (RMVs) owned and operated by itself."

8.9 HPCL explained their position like this:

"One skid mounted plant is in operation at village Deodhar, dist. Banaskanta, Gujarat since 1999. Second skid has been installed at Falakata, dist. Jalpaigudi, W. Bengal which is expected to be operational by December, 01."

8.10 While BPCL added the following:—

"RMVs have been introduced, one each in the States of Punjab, West Bengal, Tamil Nadu and Maharashtra."

8.11 The Committee felt that major constraint in marketing in these areas is low potential leading to unviable LPG dealerships and it would become more problematical after dismantling of APM. The Committee wanted to know whether any scheme has been thought upon to overcome these difficulties.

8.12 Responding to this concern, HPCL stated as under:—

"HPCL has chalked out the following scheme to counter the adverse effect of low potential areas leading to unviability of distributorships.

- Introduction of a low unit price product. This can be delivered through introduction of new smaller sized cylinder like 5 kg. sizes.
- Smaller size cylinders will address both initial and recurring costs.
- The other advantage is that they would also soften the blow of price increases that are inevitable after subsidy reduction/elimination.
- Also, they would be stepping stones for new consumers who would, typically, consume lower quantities than average consumers.
- HPCL would also explore the option of running this rural/hilly distribution effort on a no-loss no-profit basis as they would help in future growth and provide an entry barrier to new entrants.
- HPCL would consider incentivising dealers for the incremental transport cost in this operation.
- Another option could be cross subsidisation.

8.13 In the backdrop of this scenario, the Committee, while taking oral evidence of the representatives of Ministry of Petroleum and Natural Gas expressed their apprehensions about meeting with the petroleum demands of rural & hilly areas after dismantling of APM, when private players would not like to go to these areas. Allaying the fears of the Committee, Secretary in the Ministry deposed:—

"As far as supply to far flung and remote areas is concerned, the Government's attention is totally focussed on this subject. The Government's Resolution of 21st November, 1997, has in fact communicated a Government decision which says that the Government will have a scheme of subsidy for far-flung areas. That decision has already been made public. Within that decision we are trying to structure a scheme which will both, respond to the needs of liberalisation as well as compulsion of ensuring supplies. Secondly, Sir, ...it is proposed that a regulatory mechanism will be set up to ensure that supplier or producers, oil companies in private to public sector are obligated in same manner to take care of the remote areas as part of their universal obligation....

8.14 The Committee evaluated the Deepam Scheme launched by Andhra Pradesh Government which provides the refundable security deposit per single bottle connection paid directly by the State Government to the Oil Companies. State Government has provided 10,90,608 LPG connections in rural areas and 2,66,940 LPG connections in urban areas as on 31.10.2001. The Committee enquired from the Oil Companies whether they have approached the other State Governments for similar schemes or cooperative banks for extending credit facilities to poorer sections of the society to enable to have LPG connections.

8.15 The Committee were apprised that cooperative banks in Tamil Nadu, Andhra Pradesh have come forward to extend soft loan facilities.

8.16 The Committee enquired from the Ministry of Petroleum & Natural Gas, its contribution to expand this scheme. The Ministry replied:—

"MOP&NG had written to all the States making them aware about the above scheme of release of additional LPG connections against the surrender of Kerosene quota in order to relieve women of this country of the drudgery of cooking on smoky and less environmentally friendly firewood etc.

MOP&NG besides releasing additional 15 lakhs LPG connections to the Govt. of AP, had also allotted release of additional 8 lakh LPG connections to the State of Maharashtra, 1 lakh to the State of Rajasthan and 5 lakh to the State of Punjab under the above scheme."

CHAPTER IX

QUALITY AND QUANTITY CONTROL (Q&Q)

9.1 The Committee have been emphazing the importance of Quality and Quantity assurance in marketing of petroleum products especially MS and HSD. Q&Q consists of mainly the following characteristics:

(i) To get product as per specification.

(ii) to check quality of product supplied.

(iii) To get full quantity of product for which payment has been made.

(iv) To check measures of dispensing unit.

(v) To get product at correct price.

(vi) To check correctness of price of product supplied.

9.2 There are various products with similar specifications which are easily available in the market and can be used as adulterants such as C9, Slop Oil, MTO, Benzene/Toulene, Raffinates. PDS kerosene can also be used as an adulterant for MS/HSD.

The main factors responsible for adulteration in Petrol and Diesel are as under:—

(i) Significant price differential between MS/HSD and potential adulterants.

(ii) Easy availability of potential adulterants in the market.

(iii) Easy miscibility of potential adulterants with MS/HSD.

9.3 The critical parameters for checking purity of Petrol and Diesel are as under:—

Petrol	Appearance/Colour, Density, Distillation, Gum content and Octane No.
Diesel	Appearance/Colour, Density, Kinematic Viscocity and Distillation.

The Bureau of Indian Standards have prescribed the following specifications for:

Fuel	BIS specifications
Petrol	IS 2796:2000
Diesel	IS 1460:2000

9.4 In order to curb adulteration of Petrol/Diesel at the retail outlets, Public Sector Oil Companies take the following measures:—

(i) Furfural Doping of Kerosene;

(ii) Blue Dying of Kerosene;

(iii) Mobile laboratories and octane testing facilities;

(iv) Density check;

(v) Stock variation;

(vi) Regular/surprise inspections;

(vii) Filter paper test; and

(viii) Accuracy of Dispensing Pumps.

9.5 To ensure quality and quantity of petroleum products, some of the oil companies have launched schemes such as 'Q&Q', 'Pure for Sure' to assure the customers of the purity of the products. The scheme has the following features.

(i) Voluntary participation and Enrolment of Dealers.

(ii) Assured quality and Quantity to the customers.

(iii) Strict adherence to laid down Quality and Quantity and Customer Service Standards.

(iv) Stringent certification and periodic recertification.

(v) Distinct branding of the outlets after certification and clear communication to the customers.

The scheme is voluntary and it is not obligatory for the dealers to join the same.

9.6 The Federation of Petroleum Trades in Memorandum to the Committee have submitted that petroleum products delivered to them are adulterated enroute, tanks are under-filled and they have no scientific system at their ROs to test the purity of product for which they are made responsible. Their grouse is that as per the MS and HSD (Prevention of Malpractices in Supply and Distribution) Order 1990 and 1993 density was the only quality parameter for MS and HSD. However, the MOP Control Order - 1998 has created a major disparity. As per this parameter of matching density has been replaced by Octane value.

9.7 These issues were taken up with oil companies and they have initiated various initiatives to check enroute adulteration. To safeguard the tempering of locks, Abloy locking system has been introduced which is reported to be tamper-proof and no complaints have been received regarding ineffectiveness of this system.

9.8 The Committee wanted to know whether the retailers have the facility at site or nearby to test the basic parameters of product before accepting it. The oil Industry replied as under:—

> "The products are tested for conformity to BIS standards. At the storage points products are tested at regular intervals and samples are retained for 15 days.
>
> The dealers have the facility of checking the density of product through hydrometer and they can also conduct filter paper and furfural test (wherever applicable). However, dealers do not have the facility to check all the parameters in the BIS standards at the Retail Outlets.
>
> Even though dealers do not have all the facilities to check the entire BIS specification, Oil Industry has evolved a comprehensive sampling procedure in order to safeguard the interest of the dealers and to pinpoint whether the adulteration has taken place at the RO or in transit."

9.9 When further asked whether the Oil Industry has any scheme to enable the retailers to satisfy themselves at their place of operation about the quality of petroleum products, they replied in a written note as under:—

"The density of MS & HSD is recorded on the Tank Lorry invoice by the company staff before despatch from the installation. The density of the product is checked by the dealer before unloading the tank lorry and this observed density is tallied with the density recorded by the company on the invoice. If there is a variation in density beyond +/–0.0030, then the dealers have been advised not to accept the product and to contact the Supply Point/concerned Area Field Officer for further instructions. The Tank Lorry is then sent back to the Supply Point and a fresh load despatched to the RO.

A sampling procedure has been evolved to safeguard the interests of the dealer. As per this procedure, the dealer is required to draw samples of the products received by him through tank lorries and retains them in sealed containers till a fresh supply is received. This process enables one to establish the exact point of adulteration *i.e.* supply point/transit/Retail Outlet, Dealers are therefore not penalised if adulteration does not take place at the RO.

Density checks of product in the underground tanks are to be conducted by dealer every morning. These are recorded in their density Register and are open to scrutiny by inspecting authority.

RO Dealers have expressed that oil companies should introduce Marker system to confirm quality of fuel at outlets. An exercise to find out the practicability of this is currently going on in Mumbai. Based on the results of the exercise, action would be taken jointly by Oil Companies."

9.10 Another issue which relates to Quantity Control is that of under-measurement/weighing or tempering with calibrated filler or dispenser. To ensure that a customer gets the right quantity of product, all the Retail Outlets are mandatorily required to keep a calibrated 5 litre measure which is required to be stamped by Weights and Measures Department every year. However, there have been instances where calibrated system has been tampered with both at Depots as well as ROs. Recently, a case has been noticed where a calibration filler delivered 2.175 litres short for every 1000 litres and other filler 1.325 litre short for every 1000 litres inspite of the fact that seals of both the fillers were found to be intact by Weights and Measures Inspector.

9.11 To ensure qualitative and quantitative dispensation of petroleum products, Oil Companies undertake regular/surprise checks. The following are the norms of inspection:—

Inspecting Authority	Norms
Field Officer	All RO/SKO-LDO dealerships once in three months.
Officer in 'C' grade and above	All RO/SKO-LDO dealerships once in a year.
CDM/SDM/DM	5 ROs and 5 SKO-LDO dealerships every month.
Joint Industry Team	20% of RO/SKO-LDO dealerships in any district in a year.
Division's Representative	1% of sample from total No. ROs or a minimum one sample per division every month.
States Offices:	
'C' grade & above Officers from	10% of total no. of Retail outlets and SKO-LDO
Sales Discipline	dealerships in the State Office in a year.
Heads of State Office	5 Retail Outlets and 3 SKO-LDO dealerships every month.

Checks to be conducted during inspection:

During inspection, the following checks are conducted by Inspection Officer:

- **Quality:**

Density is checked and compared with the density record maintained by the dealer.

- **Quantity:**

The delivery of the Dispensing Units is checked through 5 litre measure caliberated by Weights and Measures Dept.

- **Stock reconciliation:** The book stock is matched with physical stock.
- Correct price to be charged by the dealer.

- Statutory requirement — whether observed.
- Availability of mandatory facilities.
- Recorded keeping
- General condition and house keeping
- Customer service
- Behaviour of the Pump Attendants
- Record maintenance
- Other related items

In case of any discrepancy observed, action is taken as per the MDG/Dealership Agreement. Samples are also drawn during the inspection as per the norms/guidelines. In case of failure of the product in density, samples are necessarily drawn and sent for testing in the laboratory. Further action is taken as per the MDG.

Special Vigilance Drive

9.12 In addition to the inspection by the officers of the Corporation, Special Vigilance Drives are also conducted from time to time. The last two Special Vigilance Drives were conducted in the year 1998 and 1999. These drives were coordinated by SLCs at the State Level Coordinators at the State Level.

9.13 The Committee sought statistical information about the number of samples lifted, failed etc. etc. The Oil Companies furnished the following information:—

Company	Samples collected			Samples Failed		
	1998-99	1999-2000	2000-2001	1998-99	1999-2000	2000-01
IOCL	2809	3761	4040	46	83	66
HPCL	*16764	19038	16896	—	—	—
	**476	554	895	49	58	58
BPCL	622	1513	3080	79	94	104

* Grade 'C' level and above

** On routine basis

— Figure not given

9.14 Since Jubilee and COCO ROs are being operated by the COs themselves the Committee sought the same information during the last three years in respect of these outlets. The information supplied is as under:

Company	No. of Samples	No. of Samples failed
IOCL	240	7
HPCL	26+Jubilee 2 COCO	Nil
BPCL	316	Nil

9.15 The Committee were informed that Oil Companies are also having mobile test labs to collect samples and give results instantly. The Committee wanted to know the number of mobile test lab, number of samples collected during the last three years and percentage of that which failed. The following information was supplied:—

Company	No. of Labs	No. of States covered	Samples collected	Failure percentage
IOC	23	15	21379	0.23
HPCL	9	9	11433	0.83
BPCL	10	10	10471 (Till Sept. 01)	0.34

9.16 Oil Companies are also operating Quality Control laboratories where retailers can get their supplies tested at random through Field Officer/Divisional Office. In addition to this, if a sample from a Retail Outlet is allowed to get the counter sample retained by them, rested at Oil Company's laboratory. In reply to a query, the Oil Companies furnished the number of these labs as under:—

IOC	44
HPCL	20
BPCL	10

9.17 Apart from these tests conducted by the Oil Companies, sometimes, special vigilance drives are also undertaken and samples lifted from RO, enroute tankers and even quantity checked at Depots and ROs. Two such drives were undertaken in 1998 and 1999 and broad findings of these drives are summarized below:—

Company	No. of Malpractices/ Irregularities detected		Vigilance Drives Irregularities detected at Terminals, Enroute Tanks (COCO & Jubilee ROs)	
	1998	1999	1998	1999
IOCL	46	167	—	—
HPCL	71	50	—	—
BPCL	37	76	13	11

9.18 Federation of All India Petroleum Trades in a Memo submitted to the Committee brought out the salient features of Special Drive 1998 which have been summed up as under:—

A. Retail Outlets

(a)	Total number of ROs inspected	1364
(b)	No. of cases of short delivery detected	323
(c)	No. of cases of suspected adulteration detected	68
(d)	No. of cases of sample failures	29

B. LPG Distributorships

LPG Distributorships

Total number of LPG Distributors inspected	626
Irregularities detected	
Diversion of domestic LPG cylinders	61862
Defective cylinders noticed	2438

C. Enroute checking of TTs

Total number of TTs checked	1289
Number of irregularities detected	113

D. Checks at Terminals

No. of Inspections carried out	110
No. of irregularities detected	60
No. of cases of Improper/loose sealing	47
No. of cases of over/under filling	12
No. of cases of improper fitting	1

E. Checks at LPG Bottling Plants

No. of Bottling Plants inspected	40
No. of cylinders checked	13420
No. of defective cylinders found	701
Percentage of defective cylinders	5.2%

9.19 During the course of examination of the subject, the Committee found that there are various acts and guidelines regulating the quality and quantity of petroleum products. The Committee felt that these statutes and guidelines are overlapping and there should be one single act regulating the marketing discipline. Responding to these observations, IOCL submitted:—

"The different Acts have been introduced to ensure customers get correct quality and quantity of products at all times. There may be some areas of overlap in some of the Acts that can be consolidated to cover various provisions and guidelines to simplify the enforcement."

9.20 The Committee specifically referred to the complaints alleging that the field officers transgress the provisions of the statutes/guidelines and execute their own styled guidelines causing harassment to the dealers.

9.21 HPCL was candid to admit that there have been complaints against the Oil Companies that they transgress the provisions of the statutes/guidelines. This is usually motivated and made by the unscrupulous dealers when surprise inspection is made/samples taken and show cause notice issued/action taken under Dealership Agreement. For instance:

(i) Samples should be taken only when density is beyond the permissible limit.

(ii) Oil Companies cannot take action against dealers for short deliveries/tampering with Weights and Measures Seals; this can be done only by Weights and Measures Authorities.

9.22 The Committee thought that the existing statutes/guidelines are inadequate to deter the dealers against adulteration, short delivery and even benami operations. The Committee wanted the reaction of the Ministry of Petroleum & Natural Gas towards their suggestions that above mentioned offences should be summarily tried and there should be suitable provision for this in the existing guidelines. The Ministry replied as under:—

> "The Marketing Discipline Guidelines issued in April, 2001 lay down the penalties/punishment for adulteration and short delivery of MS and HSD. Principles of natural justice will have to be followed for taking action against the erring dealers/distributors. In addition to this, dealership/distributorship agreement provide for taking suitable action against the benami operation of dealers/distributors."

CHAPTER X

DE-REGULATED MARKET

As per Government's policy decision taken in November, 1997, administered pricing mechanism on petroleum products shall be dismantled *w.e.f.* 1.4.2002. The Committee wanted to know from the Oil Companies their perception about the challenges occurring on account of de-regulation of market. An Oil Company submitted in a written note as under:—

"The broad areas are:—

Free Market Pricing

Pricing is expected to be driven by supply/demand in the market place and implementation of pricing system is very critical for profitability. The processes and systems to support free market pricing had been identified and implementation is under way so as to be ready by April, 2002.

Supply/Distribution

Currently Oil Industry follows the Supply/Distribution Plan as laid down by the *i.e.* OCC. This Plan ensures all Oil Companies obtain product as per the Supply Plan entitlement irrespective of the supply source. The mode of transportation, freight costs and taxes are part of in the OCC Plan and results are inbuilt with administered pricing of the products. Post APM Oil Companies would have to have an independent supply/distribution plan for sourcing and distributing product till the retail point which includes the mode of transport and optimisation of the delivered cost.

Branding

Branding would assume great significance in a free market as competition would shift focus to the consumer in order to attract them to a particular Oil Company Retail Outlet. In competition scenario *i.e.* expected to be ushered in Post APM, acquiring retail fuel customers and ensuring their royalty will be marketing strategy.

Non-Fuel Revenues

HPCL has identified business opportunities in non-fuel areas that would synergise the need of the consumer as well as provide an opportunity for revenue generation. This would not only address customer expectations but also will improve the profitability from retail network once fuel margins are squeezed in a competitive market. The action taken include the following:

(i) Setting up of Convenience Stores

(ii) Banking Services

(iii) Multiple Associated Facilities at Highway Outlets

(iv) Tyres/Accessories sales and service.

(v) Expensing and retention of Retail net-working.

(vi) LPG

LPG

The following are the opportunities and challenges for LPG Marketing upon deregulation.

Opportunity

- Growing demand of LPG for Rural areas (LPG) likely to replace fire wood & kerosene as primary domestic fuel) and automotive fuel.

- Better credibility compared to parallel marketers and a perception of basic trust for PSU by the public (pure profit motive not attributed).

- Significant potential to leverage exiting network to drive penetrations—especially in the rural markets.

- Impending deregulation.

Challenges

- Higher attrition rate of skilled manpower expected due to opening of economy and consequent opportunities.

- Entry of multinationals in bottling/marketing.

- Competing with small Domestic Parallel marketers operating in limited geographies.

- Enhanced customer expectation and awareness towards higher level of quality and service.

- Substitution of LPG with CNG"

CHAPTER XI

MISCELLANEOUS

11.1 Resitement and reconstitution of dealerships are mainly dealt with by the concerned Oil Companies but in such cases which fall outside the guidelines laid down by the Ministry, cannot be decided by the OMCs themselves, they forward such cases to the Ministry for approval. The Committee wanted to know the number of requests for resitment and reconstitution received and disposed off during the last three years. The following information was furnished:—

Company	No. of Resitement proposals received	No. of proposal approved	Pending with Ministry	No. of Reconstitution proposals received	No. of proposal approved
IOCL	147	111	7	391	247
HPCL	215	178	4	476	414
BPCL	125	124	1	176	164

11.2 The Committee wanted to know whether there are some case where restited dealers have continued to operate from more than one retail outlet. IOCL replied as under:—

"The resited locations are commissioned only after decommissioning of the facilities (stoppage of sales) and surrender of Explosive License at the old location). However, in two cases of IOC, operations are continuing at both new and old sites on account of Court Orders."

11.3 The Ministry added further information as under:—

"The guidelines laid down by the Ministry for resitement of retail outlet dealerships provide *inter-alia* that commissioning of the resited location will be done after decommissioning of the facilities at the old site. The Oil Marketing Companies are expected to strictly ensure compliance of this provision in the guidelines.

In spite of above, there have been cases of violation resulting in dual operation of certain retail outlets. After this came to the notice of the Government, the OMCs were asked to carry out country-wide inspection of the resited outlets and to stop the dual operations."

11.4 The Committee came across some cases where Oil Companies allowed addition of HSD sales alongwith the existing lone MS Retail Outlet. IOCL has added HSD facilities at 57 lone MS/2-3 wheeler Retail Outlet where as HPCL did so in 15 cases. BPCL had added this facility at some of the retail outlets but has withdrawn later.

11.5 HPCL justified their action and submitted as under:—

"With the changing scenario *i.e.* the large scale conversion of petrol driven vehicles to diesel driven, particularly in cases of taxis, 3 wheelers and light commercial vehicles, there was an essential need to add HSD facility to the lone MS outlets in order to avoid inconvenience to the consumers. Since early 1996, the Oil Industry Members have brought this fact to the attention of the Ministry through various references. Based on the deliberations, all Industry members expected approval from MOP&NG for providing HSD facility to lone MS outlets where need was felt consequent to the conversion from MS to HSD driven vehicles and where there was additional space for provision of HSD facility. In anticipation of the approval from MOP&NG, Oil Industry provided HSD facility to some of the Lone MS outlets. Should MP&NG decide against addition of HSD facility at the lone MS outlets, immediate action will be taken for removal of HSD facility from these outlets where the facility has already been added, in connection and coordination with other Industry Members."

PART II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

Amongst the various activities of Oil Companies, marketing segment occupies spinal position in their organisations as a whole. From time to time public sector Oil Companies have been restructuring their marketing organisational network. The Committee have observed that all PSU Oil Companies have restructured their marketing organisation during the last five years. Obviously, the structuring has been done to meet the needs of changing marketing requirements. The Committee find that none of these companies have made an independent study to assess the results of restructuring. The Committee recommend that these companies should conduct an independent study better through reputed management consultants to study the impact of restructuring and assess future requirements.

2. The present coordination system in oil industry was developed in 1981 and since then the same system is continuing which is reported to be successful. The Committee hope that coordination is not confined to mere exchange of correspondence amongst the parties but is effective for all purposes. In this high-tech information system, coordination system is ought to be prompt. In the deregulated scenario, the relevance and importance of this system may undergo change. The Committee feel that an expert study is needed to examine this system and tune it with technological developments. Also in the wake of dismantling of APM, there is a need to have more inter-action amongst the PSUs Oil Companies and also State agencies at all levels in the State.

3. The Committee are happy to note that distribution of petroleum products in the country is systematized. The Committee would like the Oil Companies to have an inter-company mechanism to assess the needs of efficient and prompt distribution system for all times and all weather. The Committee have taken note of the technological upgradation of distribution system being carried out by each of the Oil Companies. The Committee would like that technological upgradation in the distribution system should be of international level and for this, if necessary, services of international expert professionals be requisitioned.

4. The Committee note that no comprehensive and independent study has been made to make the distribution system cost effective and less time consuming. The Committee feel that there is a need for it and recommend that same.

5. The Committee have also noted that with the introduction of green fuel concept, quality of Petrol and HSD has been vastly improved especially from the pollution angle. Still, it is reported that our quality of petroleum product does not compare favourably with some advanced countries. The Committee would like that a Task Group be constituted to look into the aspect of improving quality of petroleum products and suggest measures to technologically update the refineries.

6. The PSU Oil Companies are operating Terminals, Bottling Plants at various places as per the demands of the respective areas. The Committee while endorsing their functional autonomy to establish marketing network as per requirement would like them to establish an inter-company mechanism to oversee the actual requirements of big installation at a few places. The aim should be to spread these installations throughout the country and companies have inter-hospitality arrangements to use them.

7. Each Oil Company establishes its marketing logistics and distribution infrastructure such as port facilities and terminals etc. etc. Companies do not feel the need to pool these logistics for use for all PSU Oil Companies on inter-hospitality basis. However, the Committee feel happy to note that HPCL has agreed with the suggestion of the Committee that such logistic facilities and also product pipelines be pooled for common use. The Committee would like HPCL to undertake a detailed study on the subject and submit a paper for adoption and implementation for all the Oil Companies.

8. The Committee are happy to note that the Government have succeeded in wiping out the waiting list for LPG connections. The Committee would like the Government to penetrate into remote, rural and hilly areas and draw up a proper plan for this purpose.

9. The Committee were apprised that there are three major modes of transportation of controlled petroleum products in the country *viz.* Rail, Road and Pipeline. The Committee find that there is variance between HPCL and BPCL over the per unit per Km cost of transportation of petroleum products by above mentioned modes but the established fact is that transportation by pipeline is much cheaper. Apart from economic factor, transportation by pipeline is eco-friendly, secure and avoids congestion of road traffic. The Committee were informed that Public Sector Oil Companies are engaged in spreading pipeline network which requires a big thrust and major investment. As per policy decision, all new pipelines are to be put up by Petronet India Limited, a Joint Venture Company. The Committee appreciate the efforts being made in this regard by Oil Companies and Petronet India Limited but feel the need to quicken the pace of laying the product pipelines. The Committee recommend that Petronet India Limited draw up long term perspective Plan covering the entire country in a time bound programme and implement the same phase-wise on priority basis. Finance should not be allowed to come in the way of implementation of this Plan.

10. The Committee take note of the assurance tendered by the Petroleum Secretary that the Government is considering a scheme to treat to some extent the pipelines as common carriers with open access with regulatory control. The Committee would like the Government to decide the issue early.

11. The Committee would like the Ministry of Petroleum & Natural Gas and also the Oil Companies to examine the proposal of Railways offering their land for right of use running nearby their rail tracks. In the Committee's view, Oil Companies/Petronet India Limited should seize this opportunity as land nearby railway track for laying pipelines is more safe than somewhere else.

12. For transportation of petroleum products by road, Oil Companies jointly float public tenders for engagement of Tank Lorries. The Committee learnt that the rate paid to the different transporters varies from State to State but the average rate paid is Re 1.00 per Kilolitre (KL) per kilometer (KM) equivalent of Rs. 12 per Km per tanker of 12 KL capacity. These Oil Companies also maintain their own fleet of tankers and as per the information furnished to the Committee the cost of operation varies from Rs. 1.39 to Rs. 1.60 per KL, per Km *i.e.* almost one and half times more than the cost being incurred otherwise. Economic prudence demands that dependence on one's own fleet of tankers should be reduced to minimum. The Committee hope that Oil Companies will keep their fleet to the barest minimum needed for contingency operations.

13. It has often been alleged that transporters deliberately quote the rates less but make up their losses by indulging in malpractices like adulterating petroleum products enroute to retail outlets or secure excess deliveries in league with oil companies' staff. Oil Industry should undertake a survey through experts to assess the actual cost of transportation per Kilometre and decide the tendered cost on the basis of this study. If Oil Industry feel that the rate quoted is much lower than the workable actual/honest cost, the Industry should see the reasons for it and ensure that transporters do not resort to unfair means. The Oil Industry should take stringent action such as blacklisting the transporters including the vehicles used for indulging in malpractices.

14. Petroleum products are broadly segmented into two major categories *i.e.* regulated and unregulated products. Regulated products are MS, HSD, SKO and LPG (domestic) whereas unregulated products are Naphtha, LDO, FO/LSH, Lubes, Bitumen, etc. etc. In order to make product available throughout the country and to develop dealership/distributorship for retail selling of regulated products in a planned manner in different class of markets, PSU Oil Companies prepare marketing plan which is approved by the Ministry of Petroleum & Natural Gas. Further, Government issue policy guidelines from time to time governing the appointment of dealers/distributors by PSU Oil Companies. The retailers and distributroships outlets emerging out of the implementation of marketing plan are appointed as per laid down procedure. The concept of marketing plan was introduced in June, 1980. In the event of dismantling of APM, the Committee find that the controls imposed by the Government as well as the preparation of the marketing plans have no relevance. The Committee, therefore, recommend that the Oil Companies should be given absolute freedom to prepare their own marketing plans on commercial considerations. The marketing plan under operation as of now should be disbanded and Oil Companies should be given freedom to prepare their own plan prior to 1.4.2002.

15. The Committee were apprised that as on 15th October, 2001, the marketing plan up to and including 1999-2000 was in operation. As per this plan, 7268 locations were available for selecting the retailers/distributorships. Out of these the letters of intent (LOI) in respect of only 2068 locations were issued i.*e*. in about 30% cases. The Committee find that the job of selection is being done at a very low speed. In the free economy slow speed is a negative factor from the commercial point of view. The Committee do not see any relevance in continuing with the selection process of these locations as a very short period is left in dismantling of APM. The Committee, therefore, recommend that instead of pursing these allotment of selections of these locations the Oil Companies should be given freedom to choose their dealers included in this plan.

16. From the data furnished to the Committee, it is gathered that per capita consumption of LPG in India is almost half of that of China and 1/5th of Thailand. Similarly, per capita consumption of HSD is lowest in India as against China, Philippines, Thailand, Pakistan and Vietnam. The Committee feel that in the years to come the per capita consumption of LPG and HSD and also other petroleum products is bound to rise. The Committee note that indigenous availability of LPG is less than demand, therefore, desire that a long term perspective plan anticipating the demand and supply factor be prepared and work on this plan be started at the earliest.

17. The Committee find that for finalisation of marketing plan the *Volume Distance Norms* is an important element. The norms were framed in 1980. Since then many types of changes — demographic as well as economic have taken place. The Committee feel that these norms should have been revised long back. The Committee understand that the oil industry have made recommendations to the Government to revise these norms. The Committee, however, are of the opinion that in the free economy these norms have no relevance. The Committee, therefore, desire that the *Volume Distance Norms* should be withdrawn *in toto* and the Oil Companies should be given free hand to decide their own norms in identifying the locations. In case, the Government still feel the necessity of adopting the *Volume Distance Norms* for regulatory control of the market, the Committee recommend that the objective of the revised Norms should be customer oriented than dealer oriented.

18. The Committee were informed that with a purpose of reviewing the marketing policies, Ministry of Petroleum & Natural Gas frame certain policies in consultation with Oil Coordination Committee (OCC) and Oil Companies. The Ministry also provides clarification and interpretation of policies wherever required for effective implementation. Marketing intelligence is gathered by Oil Coordination Committee through an institutional system. The Committee appreciate the role of OCC. The Committee desire that OCC should continue its role till the time the free marketing comes fully operational. The Oil Companies should be effectively associated with the OCC in gathering the marketing intelligence and then disseminating the information to the lowest level of the marketing organisation.

19. In the free market, there are live issues which are quite different from the regulated market. The Committee are glad to know that the Oil Companies have started introducing new concepts as a part of their marketing strategy in the post-APM era. The Committee would, however, advise the Oil Companies to pool their resources in identifying the new areas and train staff to cope with the challenges in the free market. For this purpose, PSU Oil Companies may explore the possibility of establishing a common training institute with the State-of-art facilities. Regular training of the marketing personnel contributes to the success of any marketing strategy.

20. In Golden Jubilee Era of Independence, the Government decided to provide retail outlets on highways having *Multiple Associated Facilities* (MAF). These ROs were named as Jubilee Retail Outlets. The Ministry of Petroleum & Natural Gas envisaged at least 51 Jubilee Retail Outlets to begin with as a pilot scheme. The outlets were to be set up and run by the Company on Company Owned Company Operated (COCO) basis and were stipulated to be put up on 5 acre plot. In pursuance of the decision, the Oil Companies established Jubilee Retail Outlets as per the following details and incurred the expenditure as indicated against the name of the Company below:—

Name of the Company	No. of Jubilee Outlet	Expenditure incurred (Rs. in crore)
IOCL	89	217.04
HPCL	46	32.00
BPCL	39	59.57
IBP	53	17.47

The Committee find from these details that whereas IBP spent on an average Rs. 33 lakhs on a Jubilee Retail Outlet, IOC spent Rs. 2.45 crore for the same type of establishment. Amongst the other Oil Companies also there is wide variation in the expenditure incurred in establishing a Jubilee Retail Outlet. The Committee do not find any rationale in this abnormal wide variation. The Committee, therefore, recommend that the Director (Finance) of IOCL, HPCL and BPCL should conduct special audit of the expenses incurred on setting up Jubilee Retail Outlets and also economics of establishing these Jubilee Retail Outlets to get at the reasons of wide variation inter alia average net rate of return on investments and apprise the Committee of their findings within 3 months. The Committee, thereafter would form their opinion after the receipt of the report.

21. As a part of marketing strategy, IOCL has launched Top-Gear Fuel Station and has commissioned one Station at Mumbai by upgrading a Retail Outlet. The Company plans to set up more such model ROs to be developed in various metros and major towns including State capitals for bench marketing the level of service. IOCL has invested an amount of Rs. 297.48 lakhs in establishing the Top-Gear which was commissioned in March, 2000.

The volume of sales of MS and HSD combined at this RO 3 months before and after the commissioning is as under:—

Before commissioning		After commissioning	
August, 1999	262 KL	April, 2000	354 KL
September, 1999	285 KL	May, 2000	364 KL
October, 1999	212 KL	June, 2000	396 KL

(From October, 1999 till March, 2000, the RO was closed for modernisation)

The Committee do not find increase in sales after modernisation commensurate with the expenditure incurred. The Committee would like to be assured that return on investment is taken care of before launching these types of expensive schemes. In this case also, the Committee would like Director (Finance) of IOCL to go into the economics of the whole scheme taking into account all sorts of expenses incurred for operation of Top-Gear and ensure 18% return on investment and net profit earned per month. The Committee are of the opinion that there should be rationality in establishing expensive units in the name of sales promotion.

22. The Ministry of Petroleum & Natural Gas decided to discontinue with the Jubilee Retail Outlet scheme with effect from 24th November, 2000 with immediate effect. But still some of the Oil Companies went ahead with the commissioning of the same even after the closing date. Although, the scheme has been discontinued yet the BPCL has introduced another scheme named as *One Stop Truck Shops* (OSTS). These shops are company controlled. The Committee learn that already 20 such shops have been commissioned at the rate of Rs. 1.15 crore per shop. The BPCL has further stated that the concept in establishing this OSTS is similar

to the Jubilee Retailing concept. The Company did not feel the necessity of seeking prior permission from the Ministry as they thought that these outlets were very much on the lines of Jubilee Retail Outlets, as such no separate permission was called for. The Committee do not find any rationale in the BPCL submissions. When the Government decided to discontinue the Jubilee scheme, the BPCL should have followed this direction in letter and spirit. The Committee would not like to stop the company in commissioning the new such shops but would surely recommend that the Director (Finance) of the Company should go into the economics audit of expenses incurred on setting up OSTS and also the working of this scheme and apprise the Committee of his findings for further appreciation of the case. The Committee would also like the Government to examine the submissions of BPCL regarding the need to seek their prior permission before launching this scheme in view of the fact that Jubilee scheme was discontinued.

23. COCO and Jubilee Retail Outlets are operated through contractual labour as per guidelines given by the Ministry. The contractor's selection is done through interviews, conducted by a Committee through a system of evaluation adopted by the Oil Companies. The Committee recommend that an institutional system aiming at transparency be developed for the appointment of contractors.

24. The Committee find that the Oil Companies operate their Jubilee and COCO Retail Outlets on contractual basis and the per kilolitre cost of operation is as under:—

Company	Charges
IOCL	Rs. 373.42 on MS and Rs. 191.83 on HSD
BPCL	Rs. 424.00
HPCL	Rs. 294.64 to Rs. 2309.28 Varying from State to State
IBP	Rs. 384.02

The Committee were further apprised that an expenditure of approximately Rs. 45 lakhs each, is incurred in developing a COCO and 'A' category outlet. In addition to this, an amount of Rs. 30 lakh is spent for upgradation and modernisation of these types of outlets. No time frame is fixed for incurring expenses for periodical maintenance of this type of outlet. However, the net profit per kilolitre on MS, HSD sold through Jubilee and COCO ROs per the Company's report varies from Rs. 25 per kilolitre to Rs. 67 per kilolitre. The Committee do not have exact figure regarding amount of profit being earned from COCO outlet but on the basis of the average profits as intimated by the Oil Companies gather the impression that operation of these type of outlets is economically not sound. The Committee would like Director (Finance) of HPCL to carry out a study about the economics of working of Jubilee, COCO Retail Outlets. In Committee's assessment, the net returns on investment should be 18%. Director (Finance) HPCL while conducting a study should take into account all sorts of input costs while calculating the average net profit and net returns. The study should also look into the volume of expenses being incurred on upgradation and moderation and returns on these investments and devise policy guidelines including periodicity of maintenance in this regard.

25. Oil Companies operate mainly 3 types of retail outlets — 'A', 'B' and 'C' types of outlets. In case of 'A' type of sites, movable and immovable assets are owned by Company whereas in case of 'B' sites only the movable facilities like pump, tank, etc. are owned by the Company. In case of 'C' sites, all movable and immovable assets are owned by the dealer. As of now, the IOC has 36% of 'A' type of retail outlets whereas HPCL has 56% and BPCL 59%. The Committee have the apprehension that in the deregulated era, the private companies can lure away the 'B' 'C', type of retail oulets to their network. The Committee, therefore, recommend that the Oil Companies should set a target to convert 'B' type of targets into 'A' target and within the next 3 years all companies should have 75% of their retail outlets as 'A' category. The Oil Companies should examine the possibility of offering 'B' site deals such types of guarantees which they desire to protect their interests before converting their outlets into 'A' sites. The agreement may *inter-alia* include the provision that the site of dealer after the expiry period shall be returned to him and the new agreement shall be executed purely on commercial terms.

26. The Committee are glad to note that with effect from 10th November, 2001, the Government have revised the dealers' commission on petroleum products. The Federation of Petroleum Traders Association had been demanding the realistic commission since long. The oil Industry apprised the Committee that for retail outlets for being economically viable, the minimum sales volume has to be MS 60 kilolitre, HSD 600 kilolitre in case of 'A', 'B', 'C' and 'D' class of market and 300 kilolitre HSD in case of 'E' class of market per annum. However, as against this basis, the average sales per RO taken into account for working the revised dealer commission is 734 kilolitre MS and 2592 kilolitre HSD per annum. As against this norm, the average sales of IOC's ROs is 475.2 kilolitre MS and 1962 kilolitre HSD. From this the Committee form an impression that average sales of IOC retail outlet is much lower than the sales per retail outlet taken into account for dealer commission. The Committee also form an impression that as per the *Volume Distance Norms* approved by the Ministry for the economically viable retail outlets, the minimum sales volume of 60 kilolitre MS and 600 kilolitre HSD per annum has no relevance with the practicality. It also adduces that all the retail outlets selling less than this volume of MS and HSD are economically non-viable. The Committee gather the impression that an expert independent study is needed to go into the whole gamut of economic viability and dealer commission. The Committee, therefore, recommend that an independent expert study in the whole case be constituted.

27. Presently, the Government takes into account the following parameters for fixing the dealer commission:—

(i) Return on net fixed assets.

(ii) Return on working capital.

(iii) Operating cost.

(iv) Operating product cost.

The dealer's commission has been revised from time to time but in the deregulated era this type of mechanism is not practical. The Committee, therefore, recommend that an independent regulatory authority be appointed who should be charged with regulating the dealers' commission on taking into account the broad policies of the Government.

28. The Committee note that the demand for LPG (domestic) is rising in the country fast with a 9% growth in the first half of the current year and is expected to rise further with a 15% increase in the later half of the same year. As per the present estimates, the demand for the year 2002-03 is expected to be 8776 TMT which is going to rise to 11966 TMT in the year 2006-07. The deficit is to be met through imports. The Committee note that the PSU Oil Marketing Companies had proposed to develop LPG import capacity of 2400 TMT per annum during 9th Plan but later reviewed this plan and decided to develop import facility of the capacity of 600 TMT only. The Committee would like to caution the Government that the development of the import infrastructure is a time consuming process and a perspective plan should be prepared to develop adequate infrastructure for import of around 3500 TMT in the next 5 years.

29. The setting up of the new bottling plants is linked with demand phenomena of the concerned areas. All the PSUs have their own plans for setting up new bottling plants. The Committee would like the Oil Companies that they should plan their future schemes in such a way that distance between one plant and another should not exceed 300 kms. subject to other economic considerations. The Oil Companies amongst themselves should institutionalise a system of hospitality arrangements if required for the use of these bottling plants.

30. Currently, domestic LPG (marketed by Oil PSUs) is under Administrative Price Mechanism but is schedule to be deregulated *w.e.f.* 1st April, 2002. However, Government propose to continue subsidising 15% of the cost of the domestic LPG even after dregulation. The Committee find that the domestic LPG cylinders are diverted for non-domestic use. The wide price difference between domestic and non-domestic LPG cylinder is temptation for non-domestic use. Although, the Oil Companies in their report have intimated that there are very few cases of non-domestic use but the Committee are not convinced with their version. During the last 3 years, the IOCL detected 346 cases whereas HPCL has detected only 33 cases. Surprisingly, in the special drive conducted in 1998, 61862 domestic LPG cylinders were found diverted. The Committee would, therefore, like the Oil Companies to strengthen their inspection system to ensure that LPG cylinders meant for domestic use are not diverted for some commercial use. For this purpose they may like to revise the prevailing guidelines.

31 The Committee found that the cases of spurious/fake cylinders have been noticed in the bottling plants. During the 2000-2001 only BPCL have received 1719 spurious cylinders in their plants. The Committee take this phenomena as a serious one and would like the Oil Companies to frame stringent rules to deter the distributors to make them cautious about the need to have foolproof security in their network. The cases of fake cylinders should be viewed seriously and defaulting distributors should be given exemplary punishment.

32. The Committee were apprised that LPG Cylinder Compensation Scheme has been discontinued *w.e.f.* 1st April, 1998. Subsequently, a new scheme of compensation so as to reimburse 16.21% book depreciation and return on investment has been approved by the Ministry of Petroleum & Natural Gas. However, the Oil Companies have not been given the compensation on the revised formula since 1998-99. The Committee do not see any reason in withholding this compensation amount and would like the Government to release the compensation on yearly basis and in case it is withheld, the Government should pay interest upon the principal amount.

33. The Committee found that an amount of Rs. 7527.37 crore was lying with the Oil Companies as security amount received from customers for issuing LPG cylinders and equipment. This accumulated amount is taken as part of overall cash in-flow and out-flows of the Oil Companies and exact usage of this amount is not identified. The Committee find this amount as a considerable one and would recommend that the Oil Companies should utilise this amount exclusively for the customers cause, such as increasing the insurance cover, etc. etc.

34. The Committee note that hitherto the practice of buying LPG cylinders was on the basis of Ministry of Petroleum & Natural Gas pricing formula but effective from April, 2001, the Oil Companies have switched over to procurement of cylinders through tendering system enabling them to save Rs. 186.35 crore for purchase of 160 lakh cylinders. During the course of the examination, the Committee learnt that during the process of tendering the bid of M/s. Balmer Lawrie was the lowest (L1) followed by M/s. Sahu Cylinders & Udyog (L2). However, the Oil Companies preferred to bring down the rates of other competitors lower than M/s. Balmer Lawrie (L1). The Committee were assured that the system of negotiation after

opening of tenders was officially correct and all the guidelines were followed before negotiations. The Committee would tend to agree with the contention of the Oil Companies but would like to observe that the very sanctity of tendering system is gone once the buyer decides to negotiate the prices after opening the tender. The Committee attach importance to Balmer Lawrie which is Public Sector Undertaking and whose operational credentials had been of high order whereas this has not been in the case of other manufacturers whose operations were suspended by Oil Companies on identification of manufacturing defects. As per Government's policy, Public Sector Oil Companies should accord purchase preference on certain norms to other Public Sectors including Balmer Lawrie. The Committee regret to learn that Balmer Lawrie's LPG plant is lying idle for want of orders from Oil Industry. The Committee have the impression that Oil Companies have not followed the CVC guidelines in true spirit in negotiating prices after opening the tenders. The Committee recommend that this case be referred to CVC for his looking into the propriety of procedure and purchase. Meanwhile, the Committee recommend that oil companies should place orders on Balmer Lawire for procurement of cylinders and the pricing aspect be left to Ministry of Petroleum and Natural Gas, Oil Industry and Balmer Lawrie for mutual agreed decision.

35. The Committee learnt that some private companies/company were indulging in parallel marketing violating the statutory orders. The Committee are of the opinion that deliberate violation of statutory orders is not at all a business activity ethical or unethical but simply a challenge to Government authority. The Committee have taken serious note of the submissions made by the Ministry with regard to indulgence in parallel marketing and also of Director (Marketing) BPCL. The Committee regret to note that no action has been taken against the violators and the Government has simply passed on the burden to State Government. The Committee feel that Government have not done its duty in this case and recommend that it should be strict with violators and penalise them. Wherever the action on the part of State Governments is called for, Central Government should monitor the progress to ensure that the guilty is brought to justice.

36. The Committee have been repeatedly drawing the attention of Oil Companies and Ministry of Petroleum and Natural Gas to the menace of Benami Dealerships. The Committee have found that during the last three years Oil Companies identified 36 cases of Benami Dealerships and action taken as per Marketing Discipline Guidelines (MDG). The Committee have, somehow the impression that identified cases are a fraction of the menace. Reportedly, the worst sufferers are SC/ST dealers whose allotments have been manipulated by influential persons. The Committee recommend that Oil Companies should undertake special drive and involve local police also to identify Benami dealers.

37. With an aim to identify the genuine dealer, the Committee also recommend that it should be made mandatory for each dealer to mention his/her name at a prominent place in Retail Outlet/LPG Distributorship in bold and identifiable letters in national and local languages. In addition to this, if the dealership has been allotted under any reserved category, it should also be mentioned along with the name.

38. The present refining capacity in the country is 114.67 million metric tonnes (MMT) per annum as against consumption of 99.44 (MMT). As per the estimates, the production is likely be around 136 MMT by 2006-07 whereas consumption may be less. In view of the emerging scenario of demand and supply, the Committee feel that it would be appropriate if Oil Companies explore the foreign market. The Committee are happy to note that these companies have already started export of their products but institutional impetus to these efforts is yet to be given. Petroleum Secretary painted a bleak picture when he submitted before the Committee that we should not have too many hopes about major export breakthrough in the petroleum sector. There are many petroleum products such as Naphtha, Lubes, FO, automotive and industrial lubricants which are being exported presently. The Committee feel that there is scope of export of these items and other products in neighbouring and other small countries in Asia. The Committee, therefore, recommend that each Oil Company should set up a separate cell in Head Office which should be charged with the responsibility of exploring foreign market. The Committee also recommend that Ministry of Petroleum & Natural Gas should extend all help in this regard by developing an institutional system with Ministry of Commerce and Oil Companies.

39. The Committee find that although the availability of controlled petroleum products especially SKO and LPG (domestic) has been made possible in small cities, yet this has not reached remote rural and hilly areas. From the data furnished on the subject, the Committee found that major Oil Company like IOCL is operating only 271 ROs in remote and rural areas and 106 in Hilly areas. There is need to reach out to the far flung areas to uplift living standard of the people and also assimilate them in the mainstream of the nation. The Oil Companies should open their ROs in remote and Virgin areas but this objective may become difficult after dismantling of APM, because the Companies would operate, obviously, on economic viability basis and the private players may find it difficult to enter into these areas. The Committee, therefore, recommend to the Government to develop mechanism making it mandatory for all/oil companies to set up specific number of ROs in these areas and the number should have some proportion to the turn over. The mechanism should take care of the present cross subsidy schemes to compensate high inventory and freight cost. The subsidy should be equal for all players *viz.* PSU Oil Companies and also for private companies. The Committee are glad that they have been assured that even in the deregulated era, freight subsidy would continue.

40. The Committee find negligible marketing net work in tribal and desert areas and even in proposed Marketing Plan, these areas have not been given due weightage. The Committee would like the Government to study the problems of these areas and extend financial benefits to enable people to have purchasing power to avail the basic facilities like LPG connections etc. Financial benefits for these areas should be similar to that of available for the people in North-East.

41. The Committee have special concern for poor people living in the areas where kerosene is the only kind of fuel for their daily needs. Kerosene is made available to them through public distribution system. The Committee recommend that Oil Companies should provide exclusive Kerosene depots in the interior markets for effectively meeting Kerosene needs of rural population.

42. The Committee note with satisfaction that Oil Companies are endeavouring to increase the reach of LPG in far flung areas including hilly areas. In 1996-98 and in 1999-2000 marketing plans, 139 and 700 locations have been identified in respective marketing plans. To popularize the use of LPG in such areas, cost and availability factors are important. An awareness about the benefits of this fuel is pre-requisite for implementing the marketing plans. The Committee, therefore, recommend that Oil Companies should undertake exclusive mass awareness programme to popularise use of LPG in these areas.

43. The Committee are happy to note that Government have decided to introduce 5 kg Cylinders. This will go a long way in targetting those people who like to switch over to LPG fuel system but find it difficult for the reasons that initial cost of new LPG connection is beyond their reach. The introduction of 5 kg Cylinder will obviously not only reduce the initial cost but refilling prices shall be considerably lower. Besides this, consumer can save the delivery price of small Cylinders as he can carry the same on his own. The Committee recommend to the Government to give wide publicity to this scheme when it is launched.

44. The Committee appreciate the initiative taken by Andhra Pradesh Government in launching Deepam Scheme under which about 14 lakh connections have been released. The Committee expect the other State Governments to launch similar schemes in their States. The Committee recommend that top officials of Oil Companies should pursue the State Governments to adopt and implement these types of schemes. Ministry of Petroleum & Natural Gas at its level should approach Chief Secretaries in States for similar purpose.

45. The Committee are glad to note that officials of Oil Companies are in contact with Cooperative Banks in the States to extend loan facilities to the rural customers to enable them to have LPG connections. The Committee recommend that Ministry of Petroleum and Natural gas should approach NABARD, Ministry of Poverty Alleviation and also Ministry of Rural Development to prepare schemes to enable Oil Companies to expand their network in interiors and give soft loans to the people to subscribe LPG connections.

46. To ensure all time availability of LPG Cylinders in far flung areas, distributors should be permitted, rather prompted to set up number of sub-distributorships in their area of operation. The Committee would like that even the grocery shops in villages be allowed to store/keep minimum number of Cylinders in their shops just like other saleable items with full safety requirements. The Ministry should examine the possibility of marketing 5 kg. LPG Cylinders through fair price shops. For this relevant acts may be amended.

47. Another step initiated by the Oil Companies is introduction of Rural Marketing Vehicles (RMV)/Skid Mounted Vehicles which supply LPG at village door step in rural and remote areas. While IOCL and HPCL each have two vehicles, BPCL has four. IOCL has made recommendations to the Ministry for allowing RMV to be fabricated and operated by a distributor or a contractor directly. The Committee endorse this recommendation and would like the Government to take decision quickly. Alternatively, each oil company should have at least one RMV for rural population of 25 lakh.

48. During the course of examination of the subject, the Committee during interactions with the representations of Oil Companies have been stressing the need to ensure Quality and Quantity standards of petroleum products especially MS, HSD and LPG. Oil Companies in their responses have been apprising the Committee of steps taken to achieve the objectives yet an impression remains that MS and HSD lack purity standards and perhaps this led the Supreme Court to voice concern over fuel adulteration and issued directions to conduct surprise checks at petrol pumps, oil depots and tankers to collect samples of contaminated diesel. The Committee find that only two special drives were undertaken during the last three years which is not enough. The Committee recommend that such vigilance drives be undertaken at least once a year.

49. The Committee find that the results of special drives are at variance from the routine anti-adulteration checks. During special drive of 1998, out of 1364 ROs inspected, 323 No. of cases of short delivery were detected. Similarly, 110 checks were conducted at terminals and irregularities in 60 terminals were detected. However, during the whole year of 1998, oil companies, IOCL, HPCL and BPCL could detect only 154 cases of malpratices. The Committee would like the oil companies to establish the credentials of their checking system. The Committee would, therefore, recommend that oil companies should evolve a credible checking system upon which the Public should have trust.

50. The Committee note that during special drive in 1998, out of 1364 Retail Outlets inspected 323 No. of cases of short delivery were detected *i.e.* about 25% cases were of short delivery. The Committee view this situation very alarming. The Committee desire that Company's sales officer should check the RO's dispensers periodically and formally certify their correctness. Sales officers/checking staff should be trained in checking the accuracy of dispensing units as per provisions and methods of Weights and Measurement Department, petroleum rules. Cases of short delivery have also been found at depots and terminals. The calibrated tower must be calibrated with the same standard as is available at RO for checking the accuracy of delivery at RO.

51. The dealers receive MS and HSD from the nationalised Oil Companies through tanker trucks after verifying the quantity by dip measurement. The dealers have alleged that Oil Companies discriminate on the issue of reference temperature and ambient temperature between retailers and COCO outlets. This issue is pending long for resolution although the Ministry while revising dealer's commission recently has tried to address this also yet there is need to examine this aspect further. The Committee recommend that this issue should also be referred to the REGULATOR for in depth examination whose institution has been recommended earlier in some other context.

52. As part of the marketing promotion the Oil Companies have launched various schemes like *'Quality and Quantity'*, *'Pure for Sure'* highlighting the qualitative features of their product. The Oil Companies have reported that their schemes are very successful but number of retail outlets covered under these schemes are very few. The Committee would like the Oil Companies to bring maximum number of ROs under these schemes (say 75% within next 2 years) and for this purpose Companies may give incentives to the retailers who opt to adopt these schemes.

53. The Committee were informed that the Oil Companies in combination have got only 42 mobile labs and 74 quality control laboratories. The retailers do not have any testing facility nearest their retail outlets. The Committee find the number of the mobile labs very less and would recommend that at least one mobile lab should be available in each commissinery of the country. The Committee further want that the testing facility both mobile and quality control labs should be made available to all Oil Companies irrespective of their ownership on hospitality basis. The number of quality control laboratories should also be increased considerably. The Committee also recommend that retailers should be given facilities to get petroleum products at their choice tested at reasonable cost.

54. The Committee find that there are various Acts, statutory provisions, guidelines, aiming at quality and quantity control. Various types of agencies are involved in implementing the controlling measures with the result that the enforcement authorities are often confused with regard to their sphere of power and sometimes these authorities allegedly even transgress their jurisdiction. The Committee have the impression that Oil Industry enforcement staff very often face difficulty in collecting samples of short supply (under-weighing) as the dealers insist that this activity falls under the jurisdiction of Weights and Measures Department. The different Ministries/ Departments in the Central Government issue circulars from time to time guiding the agencies to act in accordance with the prescribed rules and procedures. Reference in this context is invited to Government of India letter no. P-21025/2/95-DIST, dated 12th September, 1996 and WM 8 (1)/98, dated 22nd October, 2001 enclosed as Annexure 6 and 7 respectively. The Committee are of the opinion that dispensing of Petrol, HSD etc. etc. should be regarded as an integral part of retailing and all related activities be monitored centrally. The Committee would therefore, recommend to the Government to constitute an expert study to go into the whole gamut of all the existing regulations, guidelines and statutory provisions and explore the possibility of issuing compact order, implementable by one agency. The Government may revise the existing Marketing Guidelines accordingly after this study is completed.

55. The Government has taken policy decision in November, 1997 that the Administered price Mechanism would be dismantled *w.e.f.* 1st April, 2002. The Finance Minister in the next year's budget may announce some fiscal measures before the actual implementation of this decision. The Committee have full confidence in the competitive strength of the PSU Oil Companies that they would compete in the new deregulated era successfully but for that, level playing field is required which the Government can only provide by legislation or by regulation. One of the area demanding the attention of the Government is the economics of the North-East refineries. These refineries are very small and do not have the minimum scale of economy. The crude production in North-East is of the order of 5.5 MMTPA against the refining capacity of 7 MMTPA. Since the demand in North-East is much less than the refining capacity, most of the refined products have to be moved out of the North-East over long distances to centres of demand. Given the surplus product situation in the country and more competitive sources of supply within the country, these refineries cannot dispose off their product without incurring huge losses. The Committee, therefore, recommend that special fiscal measures such as freight subsidy, transport subsidy, etc. etc. be given to these refineries till the consumption/demand in these areas rise to the extent of the production capacity of the refineries.

56. In all likelihood, the private players may import MS/HSD of high quality. Our indigenous refineries have already made substantial investments for upgrading the quality of MS and HSD and may have to invest more to upgrade the quality even further at international level. Since the import parity price differential for MS and HSD as per the current specification is extremely low, there is practically little or no returns for the heavy investments being made to improve the fuel quality. The Committee, therefore, would recommend to the Government to give fiscal concessions to the oil industry such as nil duty on capital goods (exemption of custom and excise duties), soft loans from financial institutions, internet free financial assistance from OIDB benefits under the Income Tax Act, etc. etc.

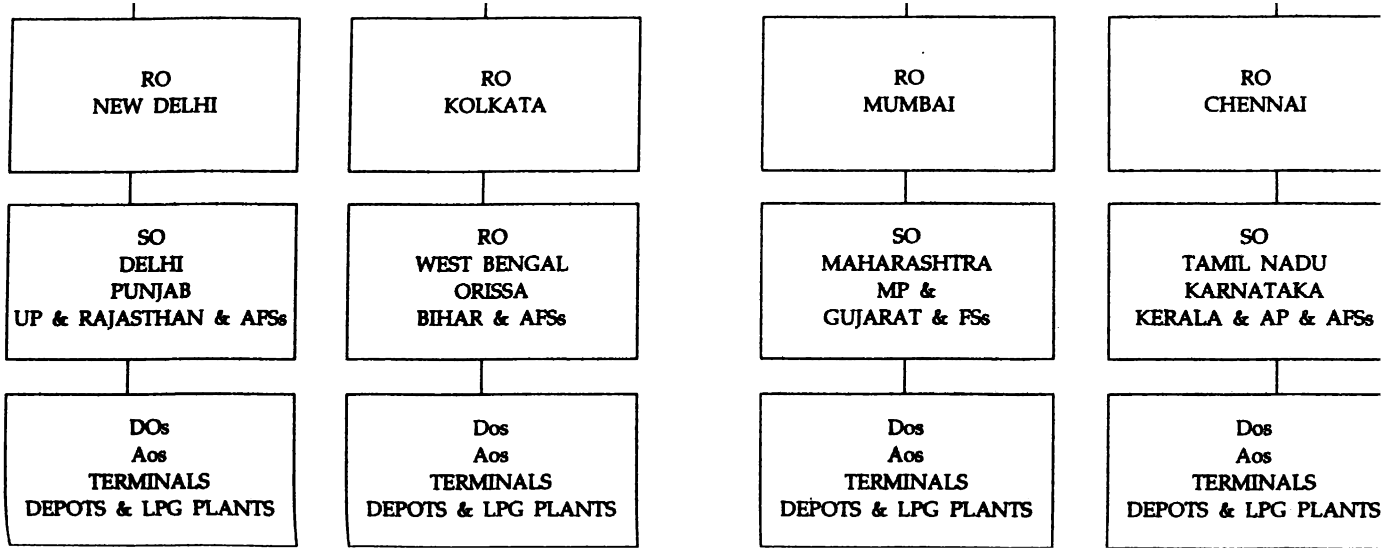
57. The Public Sector Oil Companies are subjected to scrutiny at multi level, which are not applicable to private sector companies. There are number of administrative orders of the Ministry of Petroleum & Natural gas which are only followed by PSU Oil Companies. The private companies are supposed to have a field of their own choice. The Committee would like that PSU Oil Companies also enjoy the same type of autonomy as the Private Oil Companies do. The Committee would like the Government to review all the existing statutory requirements, guiding principles so as to govern less and less. The Government should enable the PSU Oil Companies to take their decisions instant.

58. The Committee find that under APM, same storage point prices are applicable for oil refinery based marketing installations. In the deregulated period the position might change. There is a need to have different prices at different refinery installations depending upon locations. The Committee would like that during the period leading to 31st March, 2002, the differential pricing for storage points at different locations be gradually introduced by OCC to avoid one time sharp rise. After April, 2002 *i.e.* in the deregulated era, the recommendatory selling price may be specified by the regulator on the pattern of maximum retail price specified on a number of general products in the country. However, suitable scheme has to be formulated for supplies to be made in the remote, rural and hilly areas.

59. Currently IOCL has the maximum number of refineries followed by HPCL and BPCL having only one refinery at Mumbai. Since no single marketing company has its own source of supply in all parts of the country, in the deregulated market, the PSU Oil Companies will have to tie up their own exchange arrangements to avoid wasteful criss-cross transportation charges and to ensure continuity of supply. The Committee advise the Oil Companies to develop an institutional system in league with OCC or amongst themselves to put in place such system before deregulation begins.

60. The different States have a different set of taxes applicable to refining as well as marketing. The Committee would like that the Central Government should impress upon the States to have uniform type of taxation on petroleum products so that the private companies may not be tempted to market only in those States where they find the taxation less.

New Delhi;	MULAYAM SINGH YADAV,
December 20, 2001	*Chairman,*
Agrahayana 29, 1923 *(Saka)*	*Standing Committee on*
	Petroleum & Chemicals.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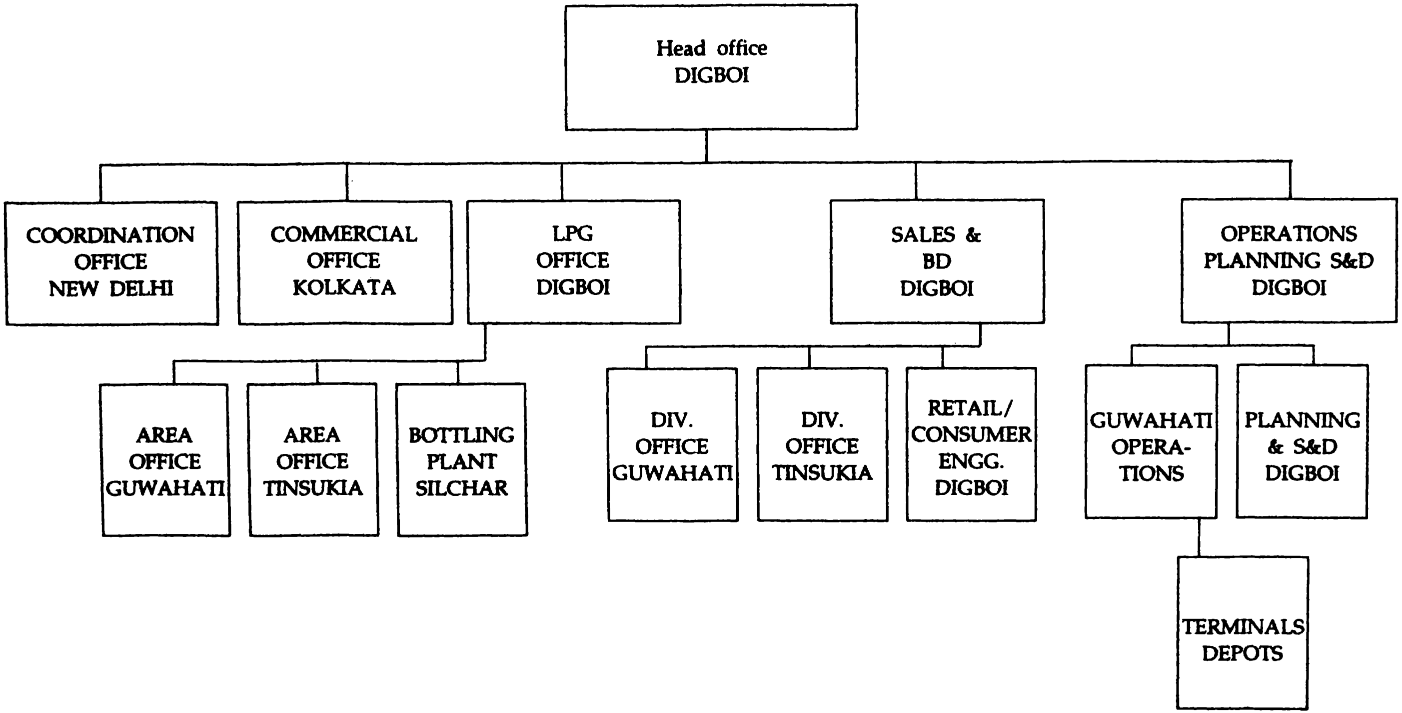
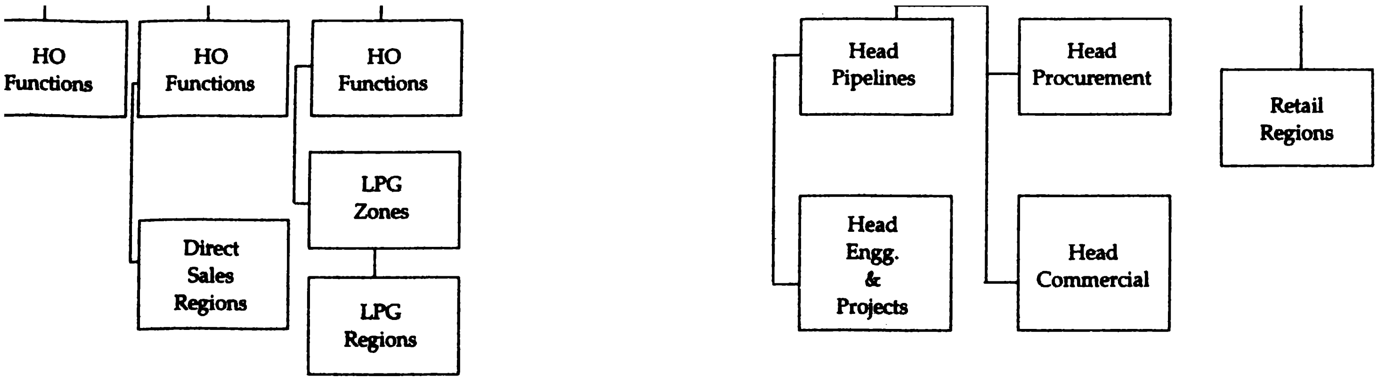
MARKETING ORGANISATION STRUCTURE—IOC (AOD)

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Direct Sales Regions
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LPG Zones
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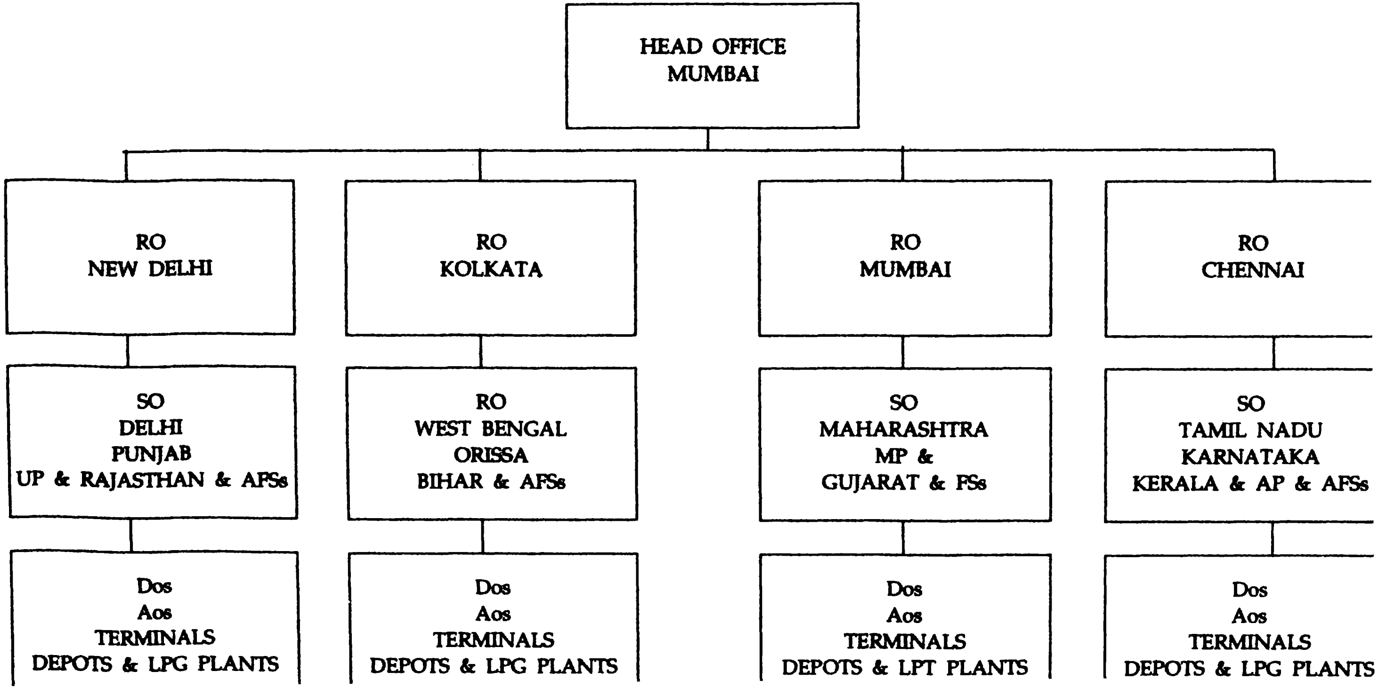
Head Pipelines
Head Engg. & Projects
Head Procurement
Head Commercial
Retail Regions

MARKETING ORGANISATION STRUCTURE—BPCL



Class	Definition	Norms	Potential
1	2	3	4
'A' Class	Cities having a population of over 10 lakhs as per 1981 census	1. Metropolitan cities and other cities (including 15 km. periphery from municipal limits). 2. Average combined MS/HSD thruput (within a radius of 3 km) should not be less than 80 KL per month. 3. No restriction for earmarked sites by Town Planning authorities.	1. Lone HSD: Should yield a min. of 50 kl per month during second year of operation. 2. Combined MS/HSD: HSD-25 KL/PM MS-30 KL/PM During second year of operation
'B' Class	Cities having a population between 2 lakhs and 10 lakhs as per 1981 census	1. Average combined MS/HSD thruput within 5 kms of Municipal Limit should not be less than 80 kl per month. 2. No restriction for earmarked sites by Town Planning authorities.	1. Lone HSD: Should yield a min. of 50 kl per month during second year of operation 2. Combined MS/HSD: HSD-50 KL/PM MS-5 KL/PM During second year of operation.

1	2	3	4
'C' Class	Other Towns	Average combined thruput within a radius of 5 km from the existing outlet should exceed 80- KL per month.	1. Lone HSD: Should yield 50 kl per month during second year of operation. 2. Combined MS/HSD HSD-50 KL/PM MS-5 KL/PM During second year of operation.
'D' Class	National/State Highways	Combined thruput per retail outlet within 15 km (either sider of the proposed outlet) should exceed 80 KL per month.	1. Lone HSD: Should yield 50 kl per month during second year of operation. 2 Combined MS/HSD: HSD - 50 KL/PM MS-5 KL/PM
'E' Class	Remote areas not connected by NH/SH and pockets of agricultural concentration having no retail outlet within a radius of 10 KM.	In these markets, only Low Cost retail outlets are developed. In the vicinity of NH if the distance is 10 kms or more and in the vicinity of SH if the distance is 5 kms or more provided minimum potential available.	1. Lone HSD: 25 kl per month during second year of operation.

Lone MS:

Class	Norms	Potential
'A'	—	Min. 30KL/PM during second year of operation
'B'&'C'	Average trade of retail outlets should not be less than 35 kl per month within 5 kms radius	
'D'	Average trade of retail outlets should be less than 35 kl per month within 15 kms along the highway.	

Addition of MS to Lone HSD:

MS can be added to an existing Lone HSD RO to provide th minimum potential of 5 KL. However, HSD cannot be added to th existing MS retail outlets.

SKO-LDO Distributorships:

(a) Potential of minimum 75 KL/PM for creation of nev dealership.

(b) New dealership can be created at un-represented block HQ, Taluka HQ.

(c) In case of DHQs proper justification is to be given fo creating new dealership.

No. P-21025/2/94 Dist.
Government of India
Ministry of Petroleum & Natural Gas
New Delhi

To Date : 12th Sept. 1996

The Secretary,
Dept. of Food & Civil Supplies
Govt. of All States/UT

Sub: M.S. and H.S.D. (Prevention of Malpractices in Supply and Distribution) Order, 199-Regarding density test of Petroleum products at Retail Outelts.

Sir,

Representation and complaints have been received in the Ministry from Retail Outlet Dealers from different parts of the country regarding harassment of dealers by some of officials empowered to take certain actions under the M.S. and H.S.D. Control Order. It has been represented that these officials draw the samples of testing purposes without justification and their samples are generally being sent chemical laboratories for testing and purity, after many days of drawal of the samples, it has been reported that samples are drawn and sent even when the conform to the specifications which causes necessary harassment to the dealers.

2. The matter has been considered by the Ministry it is emphasised and should be ensured that in the interest of natural justice, the inspecting officials test the product for quality and density at the Retail Outlet itself in the presented of the dealer with necessary equiments such as filter paper, hydrometer Outlets and record density at the R.O. by the given method and only if the density not found in order, then only in such cases the samples would be drawn and sent to the laboratory, for test purpose immediately and latest within 10 days of the drawal thereof. This time limit has been fixed under the Order and is emphasised in order to obviate chances of em in the test results due to loss of lighter fractions of the product with the passage of time.

3. You are therefore requested to issue necessary instructions as above your inspecting authorities/officials for checking and determing the density of the product and taking samples and sending them for testing in accordance with the above procedure.

Yours faithfully

Sd/-
(Sunil Uk)

Dy. Secretary to the Govt. of India

Don't find fault, find remedy. Henry Ford

SANTOSH NAUTIYAL
Additional Secretary
TEL: 3383027
FAX: 3386575

No. Wd/S(1)/98

To,

The Controller of Legal Metrology,
All States and Union Territories.

Subject: Notification and sealing of totalizer attached to the fuel dispensing pumps.

Sir,

As you are aware, the provisions of the Weights and Measures Acts apply to all measuring instruments including those used in the commercial transaction, industrial production and protection. Since the totalizer attached to a fuel dispensing pump is a measuring instrument, its regulation was taken up under the W&M laws *vide* GSR No. 892 (E) dated 24th November 2000. The step was taken in public interest to minimize mal-practice adopted at retail outlets with regard to quantity as well as quality of fuel.

Earlier, based on a request from M/s. Bharat Petroleum Corporation, a circular dated 2nd February 2000 was issued permitting additional sealing of totalizer by the Oil companies. However with the said notification, the regulation of the said instrument rests with the Weights and Measures Department. The issue has been reviewed in consultation with the Ministry of Petroleum and major oil companies. On the basis of the review, it has been decided that measuring Unit and the totalizer of the fuel-dispensing units shall be verified and sealed only by the Weights and Measures authorities in the States. The Oil companies may, if necessary, seal parts other than the totalizer units and metering units.

You are therefore requested to ensure proper regulation of the fuel dispensing pumps in your State. In case any local issues relating to the totalizer come up, these should be resolved quickly in co-ordination with the oil companies and if necessary in the Oil Coordination Committee in the respective States.

The Action taken in this regard be communicated to this Department.

Yours faithfully,

Sd/-
(S. NAUTIYAL)

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

Third Sitting

3.10.2000

The Sub-Committee sat from 11.00 hrs. to 12.30 hrs.

PRESENT

Dr. Girija Vyas—*Convenor*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Smt. Sheela Gautam
4. Shri Pawan Singh Ghatowar
5. Shri B.K. Handique
6. Shri Prabhunath Singh
7. Shri Tarlochan Singh Tur
8. Shri Ratilal Kalidas Varma

Rajya Sabha

9. Shri Ahmed Patel
10. Prof. Ram Gopal Yadav

SECRETARIAT

1. Shri J.N. Oberoi — *Under Secretary*

Representatives of Federation of All India Petroleum Traders (FAIPT)

1. Shri Ashok Badhwar, President —FAIPT
2. Shri Baldev Sethi, Hony. General Secretary— FAIPT
3. Shri J.P. Khanna, Chairman—Coordination Committee
4. Shri G.S. Kohli, Dy. Chairman—Coordination Committee
5. Shri K.N. Kedar, General Secretary—U.P.P.D.A.
6. Shri B.S. Suri, President—D.P.D.A.
7. Shri Suneet Bagai, President—R.P.D.A.
8. Shri Ishwar Saran, General Secretary —D.P.D.A.

At the outset, Hon'ble Convenor of the Sub-Committee on Petroleum welcomed the Members to the sitting and proposed that before the representatives of Federation of All India Petroleum Traders are invited for discussion, the Sub-Committee may have an internal discussion on recent price rise on petrol and other petroleum products. The Sub-Committee then had discussion on it and observed that the increase in prices of petrol, diesel, LPG and kerosene oil is steep and unbearable for the common man. The Sub-Committee recommended that Hon'ble Chairman of Standing Committee on Petroleum & Chemicals may take up this issue at an appropriate level with the objective that the increase in prices is rolled back.

2. The Sub-Committee then invited the representatives of the Federation of All India Petroleum Traders Association. After welcoming them, Hon'ble Convenor observed that the menace of adulteration in petrol and petroleum products is a cause of worry not for the Committee but for the entire society as a whole and requested the Federation representatives to enlighten the Committee about the causes of adulteration and suggestions as how to check this.

3. The representatives of the Federation put forth their views which are summarised as under:—

- There is general impression that the petroleum dealers' are exclusively responsible for the adulteration in petrol and petroleum products which is not factually correct.

- Petrol, diesel, etc. etc. is often adulterated during its transportation from terminal to retail outlet and retailer is in no position to check its purity before it is unloaded into the underground tank.
- Oil Company officers and the staff in connivance with the transporters indulge in adulteration practices and malign the retailers.
- The retailers should be provided the basic technical facilities like the mini lab or marker etc. so that they can test the products before it is unloaded in their underground tanks.
- Some of the petroleum dealers do resort to adulteration practices which the Federation condemns and endeavours to restrain them in doing so in future.
- The commission for sale of petroleum and petroleum products is too meagre to even operate the retail outlet.
- They have apprised the Ministry of their grievances and difficulties many a time but these have not been addressed.

4. The verbatim record of the proceedings has been kept.

The Sub-Committee then adjourned.

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2001)

Third Sitting
10.05.2001

The Sub-Committee sat from 15.00 hrs. to 16.30 hrs.

PRESENT

Dr. Girija Vyas — *Convenor*

MEMBERS

Lok Sabha

2. Smt. Sheela Gautam
3. Shri Mohan Rawale
4. Shri Shyama Charan Shukla
5. Smt. Kanti Singh
6. Shri Tarlochan Singh Tur
7. Shri Ratilal Kalidas Varma

SECRETARIAT

1. Shri Ram Autar Ram	—	*Joint Secretary*
2. Shri Brahm Dutt	—	*Deputy Secretary*
3. Shri J.N. Oberoi	—	*Under Secretary*

Representatives of IBP Co. Ltd.

1. Shri S.N. Mathur	—	C&MD
2. Shri R.S. Guha	—	Director (P)

At the outset, Hon'ble Convenor of the Sub-Committee on Petroleum welcomed the Members of the Sub-Committee and representatives of IBP Co. Ltd. to the sitting of the Sub-Committee. She explained the objective of the day's meeting and stated that the Sub-Committee would like to be acquainted with the Company's views on emerging scenario after the dismantling of Administered Price Mechanism (APM) and other issues related with Marketing and Distribution of Petroleum products including Natural Gas with special reference to Rural and Hilly Areas'.

2. The Sub-Committee took the oral evidence of representatives of IBP Co. Ltd. and the main issues which came up for discussion included adulteration in petroleum products, the steps taken to check this menace, quality and quantity assurance scheme launched by the company, positive results emanating from this scheme, need to develop inter-relationship amongst the oil sector PSUs in the field of marketing, present structure of dealers Commission, functioning of jubilee retail outlets and Coco basis outlets, procedure for acquiring land for these scene emerging in the wake of dismantling of APM, readiness of the company to face this situation.

Hon'ble Convenor thanked the Members and representatives of IBP.

3. The verbatim record of the proceedings has been kept.

The Sub-Committee then adjourned.

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2001)

Tenth Sitting
07.11.2001

The Sub-Committee sat from 11.00 hrs. to 12.30 hrs.

PRESENT

Dr. Girija Vyas — *Convenor*

MEMBERS

Lok Sabha

2. Smt. Sheela Gautam
3. Shri Pawan Singh Ghatowar
4. Shri Shyama Charan Shukla
5. Shri Tarlochan Singh Tur
6. Shri Sankersinh Vaghela
7. Shri Ratilal Kalidas Varma

Rajya Sabha

8. Shri Ahmed Patel

SECRETARIAT

1. Shri Brahm Dutt	—	*Deputy Secretary*
2. Shri J.N. Oberoi	—	*Under Secretary*

Representatives of BPCL

1. Shri S. Behuria	—	Director (Mktg.)
2. Shri M.B. Lal	—	Director (Refinery)
3. Shri R.K. Chaturvedi	—	Executive Director (Retail)
4. Shri S.S. Ramgarhia	—	Executive Director (Cordn.)

At the outset, Hon'ble Convenor welcomed the Members to the sitting and had a brief discussions on the issues being examined with the representatives of BPCL. The Sub-Committee also decided to prepone the evidence of the representatives of HPCL from 1500 hrs. to 1230 hrs. that day. After preliminary discussions with the Members of the Sub-Committee, the representatives of BPCL were ushered in. Hon'ble Convenor on behalf of the Sub-Committee and on her own behalf extended them welcome. In her inaugural speech, she referred to the ensuring dismantling of Administered Price Mechanism and stated that analytical discussions on the subject being examined has assumed more importance in the light of this. She expressed the concern that growth rate in consumption of petroleum products is declining and in fact for some of the products it was negative. She also observed that there was a decline in profit of Oil Companies and in case of BPCL it has earned profit of 181.9 crore as compared to Rs. 358.9 crore in the same period last year (1st quarter of the year). She also observed that in the de-regulated market the Oil Companies' objective would be to operate commercially whereas Parliamentarians would like to ensure availability of petroleum products, especially LPG, SKO and LSD across the country at affordable prices. She wanted the representatives of the BPCL to think at the right earnest to strike a balance between these two approaches.

2. Responding to the observations of the Hon'ble Convenor, Director (Marketing) of BPCL explained the reasons for decline in the profit and outlined the strategy of his Company in the marketing arena. The main issues which came up during the discussions; were the adequacy of marketing system and infrastructure to cater to the needs in the de-regulated market, the efficacy of distribution system, confirming to the needs of all sections of the society, the ways and means to cost of transportation of petroleum products, ensuring quality and quantity of petroleum products, the existing weaknesses in marketing plan and need to correct these, the need and commitment to make available petroleum products in rural and hilly areas. The Sub-Committee discussed the Deepam Scheme launched in Andhra and impressed upon the BPCL officials to persuade other State Governments also to launch similar schemes in their States.

3. A verbatim record of the proceedings has been kept.

The Sub-Committee then adjourned.

ANNEXURE XI

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2001)

Eleventh Sitting
07.11.2001

The Sub-Committee sat from 12.30 hrs. to 14.00 hrs.

PRESENT

Dr. Girija Vyas — *Convenor*

MEMBERS

Lok Sabha

2. Smt. Sheela Gautam
3. Shri Pawan Singh Ghatowar
4. Shri Shyama Charan Shukla
5. Shri Tarlochan Singh Tur
6. Shri Sankersinh Vaghela
7. Shri Ratilal Kalidas Varma

SECRETARIAT

1. Shri Brahm Dutt	—	*Deputy Secretary*
2. Shri J.N. Oberoi	—	*Under Secretary*

Representatives of HPCL

1. Shri H.L. Zutshi	—	C&MD
2. Shri D.S. Mathur	—	Director–Refineries
3. Shri N.K. Puri	—	Director (Marketing)
4. Shri Arun Balakrishnan	—	CGM–Direct Sales

The Hon'ble Convenor welcomed the representatives of HPCL to the sitting and explained the purpose of the day's meeting. She stated that the Committee was examining the subject of *"Marketing and Distribution of Petroleum Products including Natural Gas with special reference to rural and hilly areas"* and the day's meeting was in contact of examination of the same subject. In her inaugural speech, she expressed concern over declining profit of HPCL. She specifically observed that HPCL has posted at 36.95% fall in the profit of Rs. 140.3 crore for the quarter ended September, 30 this year as compared to Rs. 222.54 crore for the corresponding period last year.

2. Responding to the observations of the Hon'ble Convenor, Chairman, HPCL explained the reasons for decline in profit and stated that the major reason was payment of arrears on account of revision of wages and salaries of the officers and staff of Company. The other issues which came up for discussions included the need for spreading marketing infrastructure in rural, remote and hilly areas, ensuring quality and quantity of petroleum products, the need to make transportation cost of petroleum products economical, to extend the schemes like Deepam Scheme in other States of the country and preparedness of the Company to face the challenges in the de-regulated market.

3. The verbatim record of the proceedings has been kept.

The Sub-Committee then adjourned.

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2001)

Twelfth Sitting
22.11.2001

The Sub-Committee sat from 15.00 hrs. to 16.15 hrs.

PRESENT

Dr. Girija Vyas — *Convenor*

MEMBERS

Lok Sabha

2. Shri Pawan Singh Ghatowar
3. Shri B.K. Handique
4. Shri Mohan Rawale
5. Shri Shyama Charan Shukla
6. Shri Prabhunath Singh

SECRETARIAT

1. Shri Brahm Dutt	—	*Deputy Speaker*
2. Shri J.N. Oberoi	—	*Under Secretary*

Representatives of IOCL

1. Shri M.A. Pathan	—	Chairman
2. Shri A.K. Arora	—	Director (Refineries)
3. Dr. A.K. Bhatnagar	—	Director (R&D)
4. Shri P. Sugavanam	—	Director (Finance)
5. Shri M.S. Ramachandran	—	Director (Planning & Business Development)
6. Shri A.M. Uplenchwar	—	Director (Pipelines)
7. Shri P.K. Agarwal	—	Director (Marketing)
8. Shri A.K. Mitra	—	Director (HR)

At the outset, Hon'ble Convenor welcomed the Members of Sub-Committee to the sitting. She, then on behalf of the Sub-Committee and on her own behalf, welcomed the Chairman and other officials of the Indian Oil Corporation (IOCL) to the sitting. She explained the objective of the day's meeting and stated that Indian Oil Corporation was a major player — both in refining and marketing in petroleum sector, having about 54% marketing share in the country. She expressed her happiness that the Company has taken initiative in exploring the foreign markets. She wanted Chairman of IOCL to enlighten the Committee specifically on the following subjects:—

(i) How to cut the transportation cost of the finished petroleum products.

(ii) The Company's proposal of laying pipelines across the country for transportation of finished petroleum products.

(iii) Efforts made by the Company to ensure quality and quantity dispensing at the retail outlets.

(iv) Future planning to export surplus petroleum products to other countries.

(v) Any special scheme to penetrate into remote, rural and hilly areas.

2. Chairman of IOC while dwelling upon the above-mentioned issues apprised the Sub-Committee of the efforts being made in enhancing the number of mobile testing laboratories, special drive with a view to ensure quality and quantity dispensation of petroleum products, Company's plan of expanding pipeline network etc. etc. Amongst the other issues which came up for discussion included reasonable dealer commission, *volume distance norms*, need to set up mobile testing laboratories at commissionery level.

3. The verbatim record of the proceedings has been kept.

The Sub-Committee then adjourned.

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (2001)

Thirteenth Sitting
05.12.2001

The Sub-Committee sat from 15.00 hrs. to 16.30 hrs.

PRESENT

Dr. Girija Vyas — *Convenor*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Pawan Singh Ghatowar
4. Shri Shyama Charan Shukla
5. Shri Prabhunath Singh
6. Shri Ratilal Kalidas Varma

SECRETARIAT

1. Shri Brahm Dutt	—	*Deputy Secretary*
2. Shri J.N. Oberoi	—	*Under Secretary*

Representatives of M/o Petroleum & Natural Gas

1. Shri V.N. Kaul	—	Secretary
2. Shri Naresh Narad	—	Additional Secretary
3. Shri S. Vijayaraghavan	—	Joint Secretary
4. Shri Shivraj Singh	—	Joint Secretary
5. Shri Ravi Saxena	—	Joint Secretary & F.A.
6. Shri G. Prasanna Kumar	—	DG (Anti-Adulteration Cell)

At the outset, Hon'ble Convenor welcomed the Members and also the officials of the Ministry of Petroleum & Natural Gas to the sitting and explained the objective of the day's meeting. She stated that the meeting was being held in connection with the examination of subject *'Marketing & Distribution of Petroleum Products with special reference to Rural and Hilly Areas'* and the Sub-Committee has already held discussions with the representatives of Oil Companies.

2. In the discussions, the issues included the identification of areas in the marketing segments where the oil industry needs real and more autonomy, the reasons for decline in growth rate of consumption of petroleum products, scientific testing of the future projections of growth, the role of Oil Coordination Committee (OCC), its mechanism of functioning in relation to Oil Companies, exploring the foreign market for petroleum products, top priority in laying the pipelines for transportation of petroleum products, the distribution of Super Kerosene Oil (SKO) and their availability in remote areas, quality control and the need to mention the name of the retailer at prominent place of the retail outlet—especially in case of retail outlets allotted for SCs/STs.

3. The verbatim record of the proceedings has been kept.

The Sub-Committee then adjourned.

ANNEXURE XIV

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (2001)

Fourteenth Sitting

19.12.2001

The Sub-Committee sat from 15.30 hrs. to 16.00 hrs.

PRESENT

Dr. Girija Vyas — *Convenor*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Smt. Sheela Gautam
4. Shri Shyama Charan Shukla
5. Shrimati Kanti Singh
6. Shri Tarlochan Singh Tur
7. Shri Ratilal Kalidas Varma

SECRETARIAT

1. Shri Brahm Dutt — *Deputy Secretary*
2. Shri J.N. Oberoi — *Under Secretary*

At the outset, Convenor, Sub-Committee on Petroleum welcome the Members to the sitting of the Sub-Committee and explained th purpose of the day's meeting.

2. Thereafter, the Sub-Committee considered and adopted the following two Draft Reports:

** ** ** **

(i) Marketing and Distribution of Petroleum Products with special reference to Rural and Hilly Areas.

3. The Sub-Committee authorised the Convenor to finalise the Reports and submit these to the Chairman for consideration by the Standing Committee on Petroleum and Chemicals.

The Sub-Committee then adjourned.

** Matters not related to this Report.

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2001)

Twelfth Sitting

20.12.2001

The Committee sat from 09.30 hrs. to 10.00 hrs.

PRESENT

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Padam Sen Choudhary
4. Shri Dilipkumar Mansukhlal Gandhi
5. Smt. Sheela Gautam
6. Shri Shriprakash Jaiswal
7. Smt. Nivedita Mane
8. Shri Punnulal Mohale
9. Dr. Debendra Pradhan
10. Dr. Bikram Sarkar
11. Shri Shyama Charan Shukla
12. Smt. Kanti Singh
13. Shri D.C. Srikantappa
14. Shri Tarlochan Singh Tur
15. Shri Ratilal Kalidas Varma
16. Shri B. Venkateshwarlu
17. Shri Rajesh Verma
18. Dr. Girija Vyas

Rajya Sabha

19. Shri Anil Kumar
20. Shri Ram Nath Kovind
21. Shri Daya Nand Sahay
22. Shri Dipankar Mukherjee
23. Shri K. Kalavenkata Rao
24. Shri Rajiv Ranjan Singh 'Lalan'
25. Shri P. Soundarajan

SECRETARIAT

1. Shri Brahm Dutt — *Deputy Secretary*
2. Shri J.N. Oberoi — *Under Secretary*

At the outset, Hon'ble Chairman welcomed the Members to the sitting and explained the purpose of the day's meeting. He conveyed his thanks to the Members of the Committee for the cooperation extended by them in conducting the business of the Committee smoothly during the tenure of two years. He specifically mentioned the achievements of the Committee in presenting the 24 Reports during his tenure and gave the full credit of this achievement to three Sub-Committee of the Committee.

2. Thereafter, he invited the Members to give their suggestions, if any, on the draft Reports being considered for adoption.

** ** ** **

Another Member stated in general terms that some of the recommendations of Twenty Third Report need to be more elaborate. He made some verbal suggestions which were accepted by the Committee. The Committee then considered the following draft Reports:—

(i) ** ** ** **

(ii) ** ** ** **

(iii) Twenty-Third Report on 'Marketing and Distribution of Petroleum Products with special reference to rural and hilly areas'; and

(iv) ** ** ** **

3. After some consideration, the Committee adopted the Reports subject to modification as above.

4. The Committee, thereafter, authorised the Chairman to finalise the Reports after factual verification from the concerned Ministries/ Departments and present them to Hon'ble Speaker before completion of the term of the Committee *i.e.* on 31st December, 2001 under the Rule 71-A of Directions of the Speaker, Lok Sabha.

5. The Committee placed on record their appreciation of the work done by the Sub-Committees on Petroleum and Fertilisers.

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

The Committee then adjourned.

**Matters not related to this Report.

COMPOSITION OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

Shri Mulayam Singh Yadav — *Chairman*

Members

Lok Sabha

2. Shri Ashok Argal
3. Shri Ramchandra Bainda
4. Shri Ananda Mohan Biswas
5. Shri Ajay Singh Chautala
6. Dr. (Smt.) C. Suguna Kumari
7. Shri Padam Sen Choudhary
8. Shri T.T.V. Dhinakaran
9. Shri Dilipkumar Mansukhlal Gandhi
10. Shrimati Sheela Gautam
11. Shri Pawan Singh Ghatowar

*12. Shri B.K. Handique

13. Shri Shriprakash Jaiswal
14. Shrimati Nivedita Mane
15. Shri Punnulal Mohale
16. Shri P. Mohan
17. Shri Ashok Pradhan
18. Shri Mohan Rawale

**19. Dr. Bikram Sarkar

20. Shri Shyama Charan Shukla
21. Shrimati Kanti Singh
22. Shri Prabhunath Singh
23. Shri D.C. Srikantappa
24. Dr. Ramesh Chand Tomar
25. Shri Tarlochan Singh Tur
26. Shri Shankersinh Vaghela
27. Shri Ratilal Kalidas Varma
28. Shri B. Venkateshwarlu
29. Shri Rajesh Verma
30. Dr. Girija Vyas

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*Nominated in lieu of Shri Vilas Muttemwar, M.P., Lok Sabha, *w.e.f.* 24th January, 2000.

**Nominated to serve as Member of the Committee *w.e.f.* 26th July, 2000.

Rajya Sabha

*31. Shri Ram Nath Kovind
32. Shri Anil Kumar
**33. Shri Mool Chand Meena
34. Dr. (Smt.) Joyasree Goswami Mahanta
**35. Shri Dipankar Mukherjee
36. Shri Ahmed Patel
37. Shri mukesh R. Patel
**38. Shri Suresh Pachouri
**39. Shri Ravi Shankar Prasad
40. Shri K. Kalavenkata Rao
41. Shrimati Basanti Sarma
**42. Shri Rajiv Ranjan Singh
43. Shri Gaya Singh
44. Shri P. Soundarajan
45. Prof. Ram Gopal Yadav

SECRETARIAT

1. Dr. A.K. Pandey — *Additional Secretary*
2. Shri John Joseph — *Joint Secretary*
3. Shri Brahm Dutt — *Deputy Secretary*
4. Shri J.N Oberoi — *Under Secretary*
5. Smt. Madhu Bhutani — *Sr. Executive Assistant*

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* Nominated to serve as Member of the Committee *w.e.f.* 16th May, 2000.
** Nominated to serve as Member of the Committee *w.e.f.* 5th May, 2000.
*** Nominated to serve as Member of the Committee *w.e.f.* 24th April, 2000.
**** Nominated to serve as Member of the Committee from Committee on Defence *w.e.f.* 5th May, 2000.

COMPOSITION OF THE SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

Shri Mulayam Singh Yadav — *Chairman*

2. Dr. Girija Vyas — *Convenor*
3. Shri Ashok Argal
4. Smt. Sheela Gautam
5. Shri Pawan Singh Ghatowar
6. Shri B.K. Handique
7. Shri Ahmed Patel
8. Shri Mohan Rawale
9. Shri Shyama Charan Shukla
10. Smt. Kanti Singh
11. Shri Prabhunath Singh
12. Shri Tarlochan Singh Tur
13. Shri Shankersinh Vaghela
14. Shri Ratilal Kalidas Varma
15. Prof. Ram Gopal Yadav