STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003)

(THIRTEENTH LOK SABHA)

FORTY-SECOND REPORT

MINISTRY OF PETROLEUM & NATURAL GAS

MERGER AND ACQUISITION OF OIL AND GAS COMPANIES

Presented to Lok Sabha on 08.05.2003

Laid in Rajya Sabha on 08.05.2003

LOK SABHA SECRETARIAT
NEW DELHI

May, 2003/Vaisakha, 1925 (Saka)

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SHRI MULAYAM SINGH YADAV - Chairman

MEMBERS

LOK SABHA

2 Shri Ashok Argal
3 Shri Ramchander Bainda
4 Dr.(Smt.) Suguna Kumari Chellamella
5 Shri Padam Sen Choudhary
6 Shri Khagen Das
7 Smt. Sheela Gautam
8 Shri Paban Singh Ghatowar
9 Shri Bijoy Handique
10 Shri Shriprakash Jaiswal
11 Shri Jagannath Mallick
12 Shri Punnulal Mohale
13 Shri P. Mohan
14 Shri Ashok N. Mohol
15 Dr. Debendra Pradhan
16 Shri Rajesh Ranjan
17 Shri Mohan Rawale
18 Shri Ram Sajivan
19 Dr. Bikram Sarkar
20 Dr. (Smt.) V. Saroja
* 21 Shri Harpal Singh Sathi
22 Shri Shyamacharan Shukla
23 Shri Prabhunath Singh
24 Dr. Ram Lakhan Singh
** 25 Dr. Ramesh Chand Tomar
26 Shri Shankersinh Vaghela
27 Shri Rathilal Kalidas Varma
28 Shri A.K.S. Vijayan
29 Dr. Girija Vyas
30 Shri Dinesh Chandra Yadav

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* ***Nominated w.e.f. 21st February, 2003.***
** ***Nominated w.e.f. 26th February, 2003.***

RAJYA SABHA

31 Shri Balkavi Bairagi
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33 Shri Anil Kumar
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35 Shri Moolchand Meena

36	Shri Dipankar Mukherjee
37	Shri Pritish Nandy
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39	Shri Ahmed Patel
40	Shri Keshubhai S. Patel
41	Shri V.V. Raghavan
42	Ms. Mabel Rebello
43	Shri Yadlapati Venkat Rao
44	Shri Thanga Tamilselvan
45	Prof. Ram Gopal Yadav

SECRETARIAT

1.	Shri P.D.T. Achary	-	*Additional Secretary*
2.	Shri P.K. Grover	-	*Director*
3.	Shri J.N. Oberoi	-	*Officer on Special Duty*
4.	Smt. Madhu Bhutani	-	*Senior Executive Assistant*

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE STANDING COMMITTEE ON PETROLEUM& CHEMICALS

(2003)

Shri Mulayam Singh Yadav - Chairman

2. Shri Dipanker Mukherjee - Convenor

MEMBERS

LOK SABHA

3. Shri Ashok Argal
4. Dr. (Smt.) Suguna Kumari Chellamella
5. Smt. Sheela Gautam
6. Sh. Paban Singh Ghatowar
7. Sh. Bijoy Handique
8. Sh. Ram Sajivan
9. Sh. Shyama Charan Shukla
10. Sh. Prabhunath Singh
11. Sh. Shankersinh Vaghela
12. Sh. Ratilal Kalidas Varma

RAJYA SABHA

13. Sh. Anil Kumar
14. Sh. Rajiv Ranjan Singh 'Lalan'
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3.	Shri J.N. Oberoi	-	*Officer on Special Duty*
4.	Smt. Madhu Bhuntai	-	*Senior Executive Assistant*

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum and Chemicals (2003) having been authorised by the Committee to submit the Report on their behalf present this Forty Second Report on `Merger and Acquisition of Oil and Gas Companies'.

2. This subject was selected for examination by the Standing Committee on Petroleum & Chemicals (2003) . The Committee decided to refer this subject to the Sub-Committee on Petroleum for detailed examination. This Sub-Committee considered the replies furnished by the Ministry of Petroleum and Natural Gas on the subject. The Sub-Committee took evidence of the representatives of the Ministry of Petroleum and Natural Gas, Oil and Natural Gas Corporation Ltd. (ONGC), GAIL (India) Limited, Indian Oil Corporation Ltd. (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL) on 4th February, 2003.

3. The Committee wish to express their thanks to officers of the Ministry of Petroleum and Natural Gas and the representatives of Oil and Gas Companies 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 5th May, 2003.

5. The Standing Committee on Petroleum and Chemicals (2003) considered and adopted this Report at their sitting held on 6th May, 2003. 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
May 7 , 2003
Vaisakha 17 , 1925 (Saka)

MULAYAM SINGH YADAV
Chairman
Standing Committee on
Petroleum & Chemicals.

REPORT

CHAPTER – I

INTRODUCTORY

In India, in 1991, the Government started to deregulate the areas of its operation and subsequently the disinvestment in Public Sector Enterprises was announced. The Industrial Policy of 1991 started the process of de-licensing. The Industrial Policy statement of 24th July, 1991 stated that the Government would disinvest part of its holdings in selected Public Sector Enterprises but did not place any cap on the extent of disinvestment. Nor did it restrict disinvestment in favour of any particular class of investors. The successive Governments since 1991 modified this policy from time to time.

1.2 Presently, the primary objectives for disinvestment in the PSEs are stated to be as follows:-

- Releasing the large amount of public resources locked up in non-strategic PSEs, for redeployment in areas that are much higher on the social priority, such as, basic health, family welfare, primary education and social and essential infrastructure;

- Stemming further outflow of these scarce public resources for sustaining the unviable non-strategic PSEs;

- Reducing the public debt that is threatening to assume unmanageable proportions;

- Transferring the commercial risk, to which the tax payers' money locked up in the public sector is exposed, to the private sector wherever the private sector is willing and able to step in. The money that is deployed in the PSEs is really public money and is exposed to an entirely avoidable and needless risk, in most cases; and

- Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing the PSEs and their time and energy, for redeployment in high priority social sector that are short of such resources.

1.3 As a part of disinvestment process, the Government have decided to disinvest part of its holding in oil companies under the administrative control of Ministry of Petroleum & Natural Gas. The following are the oil and gas companies under its administrative control and Government's share holding in each of it:-

(As on 1st April, 2002)

Government's Share Holding

1	Oil & Natural Gas Corporation Ltd. (ONGC)	84.10%
2	Oil India Limited (OIL)	98.13%
3	Gas Authority of India Limited (GAIL)	67.35%
4	Indian Oil Corporation Limited (IOCL)	82.03%
5	Hindustan Petroleum Corporation Limited (HPCL)	51.01%
6	Bharat Petroleum Corporation Limited (BPCL)	66.20%
7	IBP Company Limited	26.00%

1.4 A brief introduction of these companies is given as under:-

Oil and Natural Gas Corporation Limited (ONGC)

ONGC, engaged in exploration and exploitation of oil and natural gas, was incorporated under Companies Act 1956 on June 23, 1993, pursuant to Government of India's decision to transform the statutory commission into a Public Limited Company, through Oil and Natural Gas Commission (Transfer of Undertaking and Repeal Act), 1993. The authorised and paid-up capital of ONGC as on 31.3. 2002 was Rs. 15000 crore and Rs. 1425.93 crore respectively.

Oil India Limited (OIL)

OIL, a PSU and a national upstream oil company, is engaged in exploration, production and transportation of crude oil and natural gas. OIL was incorporated on 18th February, 1959 with two-third share of Burmah Oil Company/Assam Oil Company and one-third share of Government of India on 27th July, 1961. OIL became a Joint Venture Company with equal share of Government of India and Burmah Oil Company. On 14th October, 1981, OIL became a Government of India Enterprise, a wholly owned Public Sector Undertaking.

The authorised and paid-up capital of OIL as on 31.3.2002 was Rs. 250 crore and Rs. 214 crore respectively.

GAIL (India) Limited

GAIL (India) Limited, set up in 1984, is the largest natural gas processing, transmission and distribution company in India. The authorised and paid-up capital of GAIL as on 31.3.2002 was Rs. 1000 crore and Rs. 845.65 crore respectively.

Indian Oil Corporation Limited (IOCL)

Indian Oil Company was incorporated in 1959. It became Indian Oil Corporation Limited on 1st September, 1964 when Indian Refineries Limited (established in 1958) was merged with the Indian Oil Company. The Company acquired the refining and distribution operations of the Assam Oil Company Limited on 14th October, 1981.

The Corporation's authorised capital is Rs. 2500 crore as against the paid-up capital of Rs. 778.67 crore. The Government share holding in IOC as on 31.3.2002 was 82.03%.

<u>Hindustan Petroleum Corporation Limited (HPCL)</u>

HPCL came into existence on 15th July, 1974 after the take over and merger of the erstwhile ESSO and Lube India Undertakings. Later, Caltex was taken over by the Government in 1976 and subsequently merged with HPCL effective from 9th May, 1978. The paid-up capital at the time of formation of HPCL was Rs. 10 crore. The authorised and the paid-up capital of the company as on 31.3.2002 was Rs. 350 crore and Rs. 339 crore respectively. Government holding as on 31st March, 2002 was 51.01%. Out of remaining share holdings, 22.32% are held by the financial institutions, 13.86% by the Overseas Body Corporates (OCBs), 4.45% by the banks, mutual funds, NRIs and employees and 8.37% by others.

<u>Bharat Petroleum Corporation Limited (BPCL)</u>

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

The current paid-up share capital of the Corporation is Rs. 300 crores, of which 66.20% is held by the Government of India, 5.94% by the Unit Trust of India, 1.43% by the Corporation's employees and the balance by financial institutions/others.

<u>IBP Company Limited</u>

IBP was incorporated in 1909. It became a subsidiary of Indian Oil in 1970. Thereafter, it became an independent Government Company in 1972. It again became a subsidiary of IOC in 2002. IOC and Government now hold 53.58% and 26% of equity respectively. As on 31.12.2002, its authorised capital and paid-up capital was Rs. 100 crore and Rs. 22.15 crore respectively.

CHAPTER – II

REFINING

At present there are 18 refineries operating in the country (16 in Public Sector, 1 in Joint Venture and 1 in Private Sector). The refining capacity as on 1.4.2002 was 116.07 Million Metric Per Annum (MMTPA). Out of 16 refineries in Public Sector, 7 are owned by Indian Oil Corporation with an installed capacity of 38.150 MMTPA. Besides this, IOCL have 3 more refineries as subsidiary units. The present installed capacity of IOC and its subsidiary refineries is as under:-

(In MMTPA)

IOC's Refineries		Installed Capacity (As on 1.4.2002)
Guwahati	:	1.000
Berauni	:	4.200
Gujarat	:	13.700
Haldia	:	4.600
Mathura	:	8.000
Digboi	:	0.650
Panipat	:	6.000
IOC's Subsidiary Refineries		
Chennai Petroleum Corporation Ltd. (2 Refineries)	:	7.500
Bongaigaon Refinery & Petrochemicals Ltd.	:	2.350
Total	:	**47.900**

2.2 HPCL has two operating refineries at Mumbai and Visakhapatnam

Mumbai	:	5.5 MMTPA
Visakhapatnam	:	7.5 MMPTA

2.3 BPCL has one refinery at Mumbai and two refineries as subsidiary units viz. Kochi Refineries Limited and Numaligarh Refineries Limited. Their refining capacity is as under:-

Mumbai	:	9.0 MMTPA
Kochi Refineries Limited	:	7.5 MMTPA
Numaligarh Refineries Limited	:	3.00 MMTPA

2.4 ONGC is also operating a refinery at Tatipaka in Andhra Pradesh with an installed capacity of 0.1 MMTPA.

2.5 In addition to these refineries, four more refineries have been planned and are under execution. These are:-

Paradeep - of Indian Oil Corporation Limited
Bhatinda - of Hindustan Petroleum Corporation Limited
Bina and Lohagarthe (Allahabad) - of Bharat Petroleum Corporation Ltd.

2.6 With the proposed disinvestment in HPCL and BPCL, the future of refineries being executed by these companies has become uncertain. However, Secretary, Ministry of Petroleum & Natural Gas in some other context committed as under:-

> "For the Bina Refinery, the Government's decision is that Bina Refinery shall be built. Even if the owner did not build it up, the Government shall find ways to see that it is built. So, the question is that Bina Refinery has to be built. There is no other way out. The only point is that how it is to be built. We are just going ahead with all the action required and are just now getting the changed investment pattern of BPCL approved from the CCEA. Once this is done, further work on Bina will continue and in case at any stage there is disruption in that, Government will find ways to see that it is built."

2.7 Regarding BPCL's Lohagarthe (Allahabad) refinery, the Ministry of Petroleum & Natural Gas has stated as under:-

> "BPCL has a proposal to set up a 7 million metric tonnes per annum capacity grass root refinery at Lohagarthe, Allahabad……… Actual work of construction of the refinery will be progressed beyond 10^{th} Plan period."

2.8 The Ministry assured the Committee that Bhatinda refinery of HPCL will be implemented either by HPCL or by the Government through an appropriate agency.

2.9 It would be observed that total refining capacity in the Public Sector is around 80 MMTPA which works out to about 70% of the total refining capacity in the country.

2.10 The Government took a principled decision to dismantle Administered Price Mechanism w.e.f. 1^{st} April, 2002 and phase out subsidy on petroleum products gradually. With this decision the future of stand alone refineries became uncertain. The Government in October, 1998 constituted a Committee under the Chairmanship of Dr. Nitish Sen Gupta to study and assess the future scenario of the oil industry and the viability, profitability and prospects of the stand alone refineries and the only stand alone marketing company viz. IBP. This Committee was assigned the task to study changing oil marketing scenario and how these refineries and IBP company be restructured to ensure their continued profitability, viability in the changed scenario and evolve a viable, strong and competitive oil industry in the country and competitiveness in the de-regulated market.

2.11 The Committee assessed the viability of each stand-alone refinery and marketing oil company on the basis of various key success factors with due weightage given to each. Similarly, this Committee analysed and assessed various strategic alliance options on the basis of identifiable key success factors. Most of the oil companies viewed that in the fast changing oil market scenario, it would be necessary for each stand alone refinery company to have a long term strategic marketing tie up with existing integrated oil marketing/refining companies so that the marketing of their products is guaranteed.

2.12 Sengupta Committee finally recommended that:

- ❖ BPCL should buy the entire share holding of Government of India in Kochi Refineries Limited and make it its own subsidiary.

- ❖ IOCL should buy up the entire share holdings of Government of India in Bongaigaon Refinery and Petrochemicals Limited (BRPL).

- ❖ Numaligarh Refinery Limited should continue with Bharat Petroleum Corporation Limited. However, the Committee further recommended that OIL should be roped in as a share holder with 10% share which can be allotted to them as preferential allotment basis out of the share earmarked for public issue thereby creating an integrated oil network in the North-East.

- ❖ The Government should disinvest its shareholdings in IBP in excess of 26% in favour of BPCL.

2.13 This Committee also made an important observation as under:-

"The Committee feels that at a later date, the possibility of a combination of HPC, BPC, IBP, CRL, MRL & NRL should be explored through an Umbrella of a holding company. This new entity will be equal in size to IOCL and would not only provide good competition but could also emerge as a global player in competition with the international oil majors."

CHAPTER – III

DISINVESTMENT IN OIL MARKETING COMPANIES

The Standing Committee on Petroleum and Chemicals in their 28th Report on Disinvestment in Petroleum and Petrochemicals Sector and subsequently in their 36th Action Taken Report on the same subject presented to Parliament on 17th May, 2002 and 20th December, 2002 respectively have examined in detail the objectives of Disinvestment as a matter of policy and their relevance in Public Sector marketing oil companies specially HPCL and BPCL. The Committee had observed that both these companies are engaged in raising infrastructural sectors in the form of creating port facilities, terminals, depots, LPG bottling plants, product pipelines, construction of roads connecting ports, coastal areas etc. The Committee had stated that investment on these works ultimately helps the society and thus these companies are in a manner already fulfilling the objectives of Disinvestment. The Government, however, contended that the view of the Standing Committee that HPCL and BPCL have fulfilled the objectives of disinvestment by raising infrastructure is not acceptable. This Committee rejected the Government's contention and reiterated their earlier observation that investment made by the oil companies in creating port facilities, construction of roads connecting ports, refineries, product pipelines etc. is an investment for raising infrastructural sectors and is in fulfilment of the objectives of Disinvestment Policy.

3.2 This Committee had also stated that these oil companies are already releasing huge amount from their resources to national exchequer for better deployment as the Government deem fit. Oil Sector has already contributed the largest share to the national exchequer through disinvestment. The total receipts from disinvestment of PSUs between 1991-2000 were to the tune of Rs. 26148 crore. Out of this about 49% i.e. Rs. 12867 crore were realised from oil sector. During 1998-2000 only, the oil sector contributed Rs. 7217 crore as against the total of Rs. 9070 crore which amounts to 80% of the total receipts from disinvestment. Thus the oil sector has already contributed substantially to the national exchequer and has fulfilled the objectives of the disinvestment so far as unlocking of the resources of oil companies are concerned.

3.3 The Committee had highlighted the fact that these oil companies have created huge assets without any investment from the Government. In 1974 and 1976 when BPCL and HPCL came into existence as PSUs, the Government had invested less the Rs. 43 crore (Rs. 27.75 crore on BPCL and Rs. 15.20 crore on HPCL). Today the combined paid-up capital of these companies is 15 times more than the original equity. As per an estimate replacement cost on assets of these companies is between Rs. 20000 crore to 25000 crore each. HPCL's Gross Block and Net Block of fixed assets as on 31st December, 2002 was Rs. 10462.02 crore and Rs. 6279.39 crore respectively (unaudited). The Company's other items of infrastructure as on 31st December, 2002 were as under:-

Pipeline Capacity (MMTPA)	:	9.05
Aviation Fuel Stations	:	10
LPG Bottling Capacity (TMTPA)	:	1,892
SKO/LDO Dealerships	:	1,643
Lube Distributors	:	146
LPG Distributorships	:	1,865
LPG Bottling Plants	:	40
Retail Outlets	:	4,799

3.4 The Committee had recommended that both the companies should be allowed to retain these resources and the Government should not go in for disinvestment. The Committee had emphasized that disinvestment in HPCL and BPCL is not in the interest of the economy and also from other angles discussed in the ibid. Report.

3.5 The Committee in their 36th Report had also observed that HPCL and BPCL came into being after nationalisation of some private companies, through an act of Parliament. The act vested the ownership of the assets of erstwhile private companies in the hands of Central Government or Government companies. The Committee had expressed their opinion that for disinvesting these companies formal permission of Parliament was necessary. The Committee had not agreed with the contention of the Government that there was consensus on disinvestment in PSUs since the Government have never come before the Parliament in the form of an explicit policy document in this regard.

CHAPTER-IV

RAISING OF HPCL AND BPCL

(I) Hindustan Petroleum Corporation Limited (HPCL)

HPCL came into existence in 1974 as a result of the Government of India acquiring two companies, namely, ESSO and Lube India Undertakings. The 74% equity share capital of the ESSO Standard Refining Company of India Ltd. and Lube India Ltd. were acquired by Government of India through purchase of shares. However, the undertakings of ESSO Eastern Inc., a foreign company carrying on the business of distribution and marketing petroleum products in India manufactured by ESSO Standard Refining Company of India Ltd. and Lube India Ltd., were acquired through an Act of Parliament, namely, **The ESSO (Acquisition of Undertakings in India) Act, 1974** dated 13.3.1974. The objects clause of the Act, inter alia, reads as follows:

> "Whereas ESSO Eastern Inc, a foreign company, is carrying on, in India the business of distributing and marketing petroleum products manufactured by ESSO Standard Refining Company of India Limited and Lube India and has, for that purpose, established places of business at Bombay and other places in India.
>
> And whereas it is expedient in the public interest that the Undertakings in India of ESSO Eastern Inc should be acquired in order to ensure that the ownership and control of the petroleum products distributed and marketed in India by the said company are vested in the State and thereby so distributed as best to subserve the common good."

4.2 While introducing this Bill in Rajya Sabha on 11th March, 1974 for consideration, the then Minister of State in the Ministry of Petroleum & Chemicals stated as under:-

> "It is our declared policy that the oil industry must be brought under Government's effective control. The oil industry is far too important for the economic development of the country and for national security to be left in the hands of foreign companies. We, therefore, feel that it will be politically wrong and economically incorrect to leave its control in the hands of private companies, much less in the hands of foreign companies…. The Bill itself refers only to the acquisition of the distribution and marketing operations of ESSO in India. It has become necessary to execute this part of the total transaction by means of legislation, because ESSO Eastern Inc. is not a company registered in India, but is only a branch of foreign company operating here. We could have purchased the assets of the company, but the transaction involves the transfer of both the assets and liabilities and for the latter it is necessary to enact a law."

4.3 The acquisition bill provided a total non-recurring expenditure of Rs. 2.59 crore on account of principal and Rs. 35.82 lakhs on account of interest.

4.4 By virtue of the provisions contained in Section 7 of **The ESSO (Acquisition of Undertakings in India) Act, 1974,** the Central Government by notification dated 14.3.1974 transferred the right, title and interest and liabilities of ESSO Eastern Inc., in relation to its undertakings in India, to ESSO Standard Refining Company of India Limited, a Government company. Subsequently, the Lube India Limited was vested in ESSO Standard Refining Company of India Limited and the name of the company was changed to Hindustan Petroleum Corporation Limited (HPCL) w.e.f. July 15, 1974.

4.5 Subsequently, by an Act of Parliament called **The Caltex [Acquisition of Shares of Caltex Oil Refining (India) Limited and of the Undertakings in India of Caltex (India) Limited] Act, 1977** dated 23.4.1977, Central Government acquired the shares of Caltex Oil Refining (India) Limited and acquired and transferred the right, title and interest of Caltex (India) Limited in relation to its undertakings in India w.e.f. 30.12.1976. It may be mentioned that the Caltex Petroleum Corporation, a foreign company, had two subsidiaries, namely, Caltex Oil Refining (India) Limited, an Indian company carrying on the business of refining crude oil and producing petroleum products in India, and the Caltex (India) Limited, a foreign company carrying on the business of marketing and distribution of petroleum products through its undertakings in India. The undertakings in India of Caltex (India) Limited were vested in Caltex Oil Refining (India) Limited, instead of the Central Government; later the Caltex Oil Refining (India) Limited was amalgamated with HPCL w.e.f. 9.5.1978.

The objects clause of The Caltex [Acquisition of Shares of Caltex Oil Refining (India) Limited and of the Undertakings in India of Caltex (India) Limited] Act, 1977 inter alia states that :

> "... *such acquisition is for giving effect to the policy of the State towards securing the principle specified in clause (b) of article 39 of the Constitution as the ownership and control of the material resources of the community, to wit the petroleum products produced by the said Caltex Oil Refining (India) Limited and marketed and distributed by the undertakings of the said Caltex (India) Limited, in India, would by reason of such acquisition become vested in the State and thereby so distributed as best to sub-serve the common good."*

4.6 Kosangas Company, the concessionaires of ESSO in the domestic LPG market, was taken over and merged with HPCL in 1979 through an Act of Parliament **called The Kosangas Company (Acquisition of Undertaking) Act, 1979.** Similarly, Parel Investment and Trading Company Limited (PITCL) and Domestic Gas Private Limited (DGPL) were concessionaires of Caltex in the domestic LPG market; the management of PITCL and DGPL was taken over by the Central Government and HPCL was appointed as custodian through **The Parel Investment and Trading Private Limited and Domestic Gas Private Limited (Taking over of Management) Act, 1979,** pending acquisition of the business of bottling, transporting and marketing of LPG of these two companies. Both these Acts were passed 'with a view to maintaining a service' essential to the life of the community, namely, the bottling, transporting, marketing and distribution of LPG," and "for giving effect to the policy of the State towards securing the principles specified in clause (b) of Article 39 of the Constitution.

(II) <u>Bharat Petroleum Corporation Limited (BPCL)</u>

4.7 BPCL came into being after acquisition of Burmah-Shell. This company was acquired through the Burmah-Shell (Acquisition of Undertakings in India) Act, 1976. The relevant Bill was introduced in Lok Sabha on 16th January, 1976. The objective of the Bill was "to provide for the acquisition and transfer of the right, title and interest of the Burmah Shell Oil Storage and Distributing Company of India Limited in relation to its Undertakings in India with a view to ensuring coordinated distribution and utilisation of petroleum products distributed/marketed in India by the said Company and for matters connected therewith or incidental thereto.

4.8 Moving the Bill, the Minister of Petroleum stated that the Government have declared their intention of acquiring effective control over the oil industry both in refining and marketing as well as in exploration and production of crude oil. He further said:-

> "The first step was taken in this direction in March, 1974 when we acquired the assets and operations of Esso in India. Recently an agreement was signed by Government and the principals of Burmah Shell for the purchase of cent-per cent of the share capital of Burmah Shell Refineries Limited and the transfer and vesting of Indian assets and liabilities of Burmah Shell Oil Storage and Distributing Company of India Ltd. With the taking over of Burmah Shell Oil, Government would be assuming effective control of about 95 per cent of the production and marketing of petroleum products in the country. We would …. be left only with the small assets of Assam Oil Company and the Caltex which are owned and operated by foreign oil companies…….
>
> ……..the Bill refers only to acquisition of the distribution and marketing operations of Burmah Shell Oil, Storage and Distributing Co. of India is not a company which is registered in India. It is a branch of a foreign company which is operating in its home in England…..
>
> ….. this Bill provides that the Central Government may, by notification vest the assets and liabilities in a Government company. As soon as the acquisition of hundred per cent of the shares of the Burmah Shell Refineries in favour of the Government is completed, thereby making it a Government Company, Indian assets and liabilities of Burmah Shell Storage and Distributing Company of India Limited will be vested by notification in the Burmah Shell Oil Refineries Ltd. At that point when both the operations are completed, it is proposed to change the name of the Burmah Shell Refinery to Bharat Refineries Ltd."

4.9 The enactment of the Bill involved a total non-recurring expenditure of Rs. 27.75 crores on account of principal and Rs. 6.09 crores on account of interest.

4.10 Government of India acquired 100% equity shareholding (paid up value around Rs. 15 crore) of Burmah-Shell Refineries Ltd. (BSR), on 24.1.1976 for a consideration of Rs. 9.25 crore; this was done by an agreement and not through an Act of Parliament. BSR was an Indian company having a refinery at Mahul, Mumbai. Simultaneously, Government of India acquired the right, title and interest of Burmah-Shell Oil Storage and Distributing Company of India Ltd. (BSM) in relation to its undertakings in India on 24.1.1976 through an Act of Parliament, namely, **The Burmah-Shell (Acquisition of Undertakings in India) Act, 1976** for a consideration of Rs. 27.75 crore. BSM was a foreign company, established in England, and was carrying on, in India, the business of distribution and marketing of petroleum products. The objects clause of the Act states that -

> *".... it is expedient in the public interest that the undertakings in India, of Burmah-Shell Oil Storage and Distributing Company of India Limited, should be acquired in order to ensure that the ownership and control of the petroleum products distributed and marketed in India by the said company are vested in the State and thereby so distributed as best to subserve the common good; "*

4.11 By notification dated 24.1.1976, the Central Government directed that the right, title and interest and liabilities of BSM shall vest in BSR, a Government company. The name of BSR was changed to Bharat Refineries Limited on 12.2.1976 and subsequently to Bharat Petroleum Corporation Limited (BPCL) on 1.8.1977.

CHAPTER – V

ACQUISITION AND MERGER OF OIL AND GAS COMPANIES

Government of India had constituted a Committee in October, 1998 under the Chairmanship of Dr. Nitish Sen Gupta to study and assess the future scenario of oil industry and the viability, profitability and prospects of the only stand alone marketing company – IBP and stand alone refineries. This Committee had felt that at a later date, the possibility of a combination of HPC, BPC-IBP, CRL, MRL and NRL should be explored through a umbrella of a holding company. In Sen Gupta's Committee view, this new entity would be equal in size to IOCL and would not only provide good competition but could also emerge as a global player in competition with the international oil majors.

5.2 The Standing Committee on Petroleum and Chemicals in their 10th Report on Demands for Grants of Ministry of Petroleum and Natural Gas presented to Lok Sabha on 22nd April, 1999 had also recommended that all Navratna oil sector PSUs should form a big venture, tantamounting to forming a mega company. In context of both these Reports, the Committee sought to know Government's defined policy with regard to merger and acquisition of Public Sector Companies and especially oil and gas companies. The Ministry in its reply submitted in a written note as under:-

> "Wherever necessary, the Navratna companies are forming a consortium to undertake various projects. However, formation of a mega company has not been accepted as a policy for the following reasons:
>
> (a) These are core companies in their areas of operation, i.e., IOC in downstream, ONGC in upstream & GAIL in gas pipeline. Even after their merger, these three will have independent existence in the mega company. Thus, the envisaged benefits on account of saving in establishment cost, manpower and other resources may not be achieved.
>
> (b) Manpower management in a company of such huge proportions would pose problems and difficulties. This may slow down investment and execution of projects by these companies.
>
> (c) The individual company's work culture and environment may lead to difficulties in efficient operations.
>
> (d) Merger may cause a decrease in the shareholder value of the individual companies.
>
> Some important policy decisions taken by the Government since 1999 with regard to merger and acquisition of public sector oil and gas companies are as follows;
>
> (i) To develop business synergy among IOC, ONGC and GAIL, Government allowed them to buy each other's shares from the Government in July 1999.

(ii) Based on Sengupta Committee's Report and the requests of IOC and BPCL, Government gave permission in September, 2000 to IOC to acquire Government's equity in CPCL and BRPL and make them IOC's subsidiaries; Government also transferred its equity in KRL to BPCL, making KRL a subsidiary of BPCL. Further, BPCL was permitted to buy IBP's equity in NRL and to make NRL its subsidiary.

(iii) In the year 2002, Oil and Natural Gas Corporation Limited (ONGC) had approached this Ministry to permit ONGC to acquire Aditya Birla Group's stake in Mangalore Refinery & Petrochemicals Limited (MRPL) amounting to 37%, and for financial restructuring of MRPL. The Government approval of the proposal has since been conveyed to ONGC on 26.2.03.

As per DPE guidelines of July 1997, powers have been delegated to Navratna PSUs under which a Navratna PSU can enter into technology joint ventures or strategic alliances. These guidelines lay down certain limits in terms of equity participation in financial joint ventures and wholly owned subsidiaries in India or abroad. The equity investment of the PSU in such JVs/wholly owned subsidiaries (WOS) should be limited to (i) Rs. 200 crore in any one project; (ii) 5% of the net worth of the PSU in any one project, and (iii) 15% of the networth of the PSU in all JVs / subsidiaries put together.

The policy of disinvestment of Government holding in oil and gas PSUs is laid down by Ministry of Disinvestment. As per the policy, Government disinvested its 33.58% shareholding in IBP in favour of the highest bidder, namely, IOC in February, 2002. Subsequently, in January 2003, Government decided to disinvest its 34.01% equity shares in HPCL through strategic sale and to disinvest its 35.2% equity shares in BPCL through offer for sale to the public in the domestic and international markets."

5.3 When specifically asked as to what action, the Government have taken to create new entity equal in size to IOC as recommended by the Sen Gupta Committee, the Ministry responded as under:-

"Government had set up a Committee under the Chairmanship of Dr. Nitish Sengupta in October 1998 to study the viability, profitability and prospects of the only stand-alone oil marketing company viz., IBP and of the stand-alone refineries, namely, CRL, MRL, BRPL and NRL and how they should be restructured to ensure their continued profitability and evolve a strong and competitive oil industry in the country and competitiveness in the deregulated market. Taking into account the Committee's recommendations, Government have already restructured the stand-alone refineries. With respect to IBP, Government has disinvested its 33.58% shareholding in favour of the highest bidder, namely, IOC.

The recommendation of merging HPCL, BPCL, etc., and creation of a new entity equal in size to IOC was considered but not accepted. Subsequently, Government have decided to disinvest HPCL through a strategic sale and BPCL through public issue."

5.4 The Committee wanted to know whether Government have issued guidelines regarding acquisition of one PSU by another PSU. Secretary, in the Ministry of Petroleum clarified the position during evidence:-

"The Department of Disinvestment, who is the administrative department for this purpose, took a note to the Cabinet and said that there is not much point in Government acquiring Government Undertakings. So in the case of one PSU acquiring the other PSU, they felt that why it should go through this route and appointing advisors and consultants has no meaning because the Government owns both of them. Therefore, they felt that whenever any disinvestment takes place, we should not permit PSUs to participate in the bidding process. This matter went upto the Cabinet and an order was issued on 18th September **(copy enclosed as Annexure-I)"**

5.5 The Committee further wanted information whether Public Sector Companies have authority under the extant rules to acquire the shares of other Public Sector or Private Companies. The Ministry submitted in a written note as below:-

"PSUs while investing in the equity of other companies, public or private, are required to comply with the guidelines issued by Department of Public Enterprises and Ministry of Finance. Under the delegated powers to Navratna PSUs outlined in the DPE guidelines of July, 1997, the Board of Directors of Navratna PSUs have been delegated powers to invest in joint ventures and wholly owned subsidiaries within a specified limit. Navratna PSUs can invest in the equity of another company subject to the condition that the investment should not either exceed Rs. 200 crore in one project, or 5% of its networth in a single project, or 15% of the networth in all such projects put together.

The statutory limitations with regard to merger and acquisitions of PSUs are derived from the relevant provision in the Companies Act. Section 372 A of the Companies Act provides that the Board of Directors can consider and decide proposals of acquisition of securities of any other company provided that all such **investments do not exceed the limit of 60% of the paid up capital and free reserves put together, or 100% of free reserves whichever is higher.**

Besides, acquisition of shares in another company is also regulated by SEBI under its Takeover Regulations. As per these regulations, any person, firm, partnership or company proposing to acquire minimum 15% shares in a company, will have to go for public offer for acquiring a minimum of 20% from the market."

5.6 The Committee recalled that Public Sector oil and gas companies had swapped their shares in July, 1999. Justifying the swapping of shares, Secretary in the Ministry of Petroleum said during evidence:-

"It was felt that the disinvestment process was not doing particularly well in other sectors. Government wanted to raise

resources and also wanted to strengthen the sectors. So, a policy was formed that there should be synergy between all petroleum companies. So, it was decided that the shares of all the three apex bodies, the IOC, GAIL and ONGC may be swapped.”

5.7 The Committee then desired to know the objective of swapping of shares and whether this was done at the instance of the Government. The Ministry replied to this as under:-

“In January 1999, Government decided to allow cross purchase of shares by IOC, ONGC and GAIL. The rationale for the decision was that holding of strategic stake by an oil PSU in another oil PSU would lead to value creation for both the enterprises, develop business synergy among themselves and increase their attractiveness to investors. The details of the decision are outlined below:

(i) ONGC and IOC would buy 10% of each other's equity being held by the Government; ONGC and IOC would each buy 5% of Government equity in GAIL; and GAIL would buy 2.5% in ONGC.

(ii) The transaction price would be determined by the ruling market prices of shares of each of the companies.

(iii) No premium over the market price of each of these companies' shares would be payable.

Based on the above, the prices at which shares of Government in these three companies were sold, were decided by the Government.

Under the delegated powers to Navratna PSUs, there are certain limits in terms of equity participation in financial joint ventures and wholly owned subsidiaries in India or abroad. The cross purchase of Government-held shares by the PSUs required approval of the Government of their decision to purchase Government-held shares and of the price at which purchase was effected.”

5.8 In reply to a question, whether Government have issued any instructions/advice to PSUs oil and gas companies to seek formal approval from the Ministry before initiating any proposal of acquisition or merger of Public Sector Companies, the Ministry replied as under:-

“Government has laid down guidelines vide Office Memorandum No. DPE/11(2)/97-FIN dated 22.7.1997 of DPE outlining powers of Navaratna Boards. Under it, the Boards of the Navaratna Public Sector oil companies are competent to take decision based on commercial consideration and based on their delegated powers to invest in financial Joint Ventures and wholly owned subsidiaries with a limit of Rs. 200 crore in any one project, or 5% of the networth of the PSU in any one project, or 15% of the networth of the PSU in all joint ventures/subsidiaries put together. Apart from this, there is no specific instruction of the Government issued in this regard."

5.9 The Committee further enquired whether during the last five years, PSUs oil and gas companies have approached the Ministry with specific proposals and merger of private or public sector oil companies. The Ministry furnished the information as under:-

"In 1998, Cochin Refineries Limited (now Kochi Refineries Limited) had sent to this Ministry a proposal for merger of Cochin Refineries Balmer Lawrie Limited (CRBL) with Cochin Refineries Limited (CRL). The proposal was considered and approval of Government to the Scheme of Amalgamation of CRBL with CRL was given in March, 2001.

IOC approached MOP&NG to transfer Government's equity in Lubrizol India Ltd. in favour of Indian Oil. Government agreed to IOC's request and the transaction was completed in March, 2000.

Based on Sengupta Committee's Report and the requests of IOC and BPCL, Government gave permission in September, 2000 to IOC to acquire Government's equity in CPCL and BRPL and make them IOC's subsidiaries; Government also transferred its equity in KRL to BPCL, making KRL a subsidiary of BPCL. Further, BPCL was permitted to buy IBP's equity in NRL and to make NRL its subsidiary.

In the year 2002 Oil and Natural Gas Corporation Limited (ONGC) had approached this Ministry to permit ONGC to acquire Aditya Birla Group's stake in Mangalore Refinery & Petrochemicals Limited (MRPL) amounting to 37%, and for financial restructuring of MRPL- Government have since conveyed approval of the proposal on 26.2.03.

Government have been supporting the proposals for acquisition, etc., which make prudent business propositions for oil PSUs."

5.10 The Committee noted that almost all oil and gas companies have been accorded Navratna Companies status. The Committee queried that as Navratna Companies, whether oil and gas companies have been given full functional freedom including the powers to undertake acquisition and merger of other companies. The Committee specifically wanted to know statutory limitations, legal status and/or instructions to these companies, not covered under the Acts/Rules. The Ministry while replying stated as under:-

"Delegated powers to Navratna PSUs have been outlined in the guidelines dated 22.7.1997 issued by the Department of Public Enterprises. Under these guidelines, while a Navratna PSU can decide to enter into technology joint ventures or strategic alliances in accordance with the Government guidelines in this regard, it has certain limits in terms of equity participation in financial joint ventures and wholly owned subsidiaries in India or abroad. The equity investment of the PSU in such JVs/wholly owned subsidiaries (WOS) should be limited to (i) Rs. 200 crore in any one project; (ii) 5% of the networth of the PSU in any one project, and (iii) 15% of the networth of the PSU in all JVs / subsidiaries put together.

The statutory limitations with regard to merger and acquisitions of PSUs are derived from the relevant provision in the Companies Act. Section 372 A of the Companies Act provides that the Board of Directors can consider and decide proposals of acquisition of securities of any other company provided that all such **investments do not exceed the limit of 60% of the paid up capital and free reserves put together, or 100% of free reserves whichever is higher.**

Navratna oil companies are Government owned companies: hence as per the Articles of Association and Memorandum of Association of these companies, Government have the authority to issue directions to these companies in public interest. The Articles of Association of the government oil companies contain provisions which make it mandatory for them to act in accordance with any directives or instructions issued by the President of India. For example, in the case of HPCL, the relevant Clause 146-A of their Articles of Association reads as under:

> "Not withstanding anything contained in any of these articles, the President may from time to time issue such directives or instructions as may be considered necessary in regard to the finances, conduct of business and affairs of the Company and the Company shall give immediate effect to such directives or instructions so issued."

Similar provisions exist in the Articles of Association of the other oil PSUs."

5.11 The Committee specifically enquired whether ONGC/GAIL or IFFCO and KRIBHCO had formally/informally expressed their desire to bid for HPCL; Secretary, Ministry of Petroleum and Natural Gas was candid to admit during evidence:-

"Of course, ONGC had shown an interest in this. This matter was taken up and it was not agreed to."

5.12 He further added :-

"The Ministry felt that it was important that ONGC had this. We supported this point but the Government did not agree to it….."

5.13 In this connection, the Ministry in a written note also submitted as under:-

"ONGC had formally approached Ministry of Petroleum and Natural Gas (MOP&NG) in December 2002 for permission to bid for HPCL. However, GAIL had not done so.

Acquisition of equity in another company by a PSU Is governed by the guidelines of the Government. With regard to Navratna PSUs, these guidelines specify that the Board of Navratna PSUs can decide such investments within the ceiling of Rs. 200 crore in one project or 5% of its networth in a single project etc. Proposals are considered by the Board of Directors of respective companies and if deemed fit, the Board directs that the proposal be submitted to the Government for consideration. Since the bid for HPCL involved an investment of over Rs. 5,000 crore at current market prices for purchasing 34% equity shares of HPCL, which is far above the limits specified in DPE guidelines, permission from Government is required.

Ministry of Disinvestment (MODI), however, have not allowed Central PSUs and Central Government owned Cooperative Societies (i.e. where Government's ownership is 51% or more) to participate in the disinvestment of other PSUs as bidders. Copy of the circular of MODI dated 18.9.2002 is enclosed (See Annexure-I)."

5.14 The Committee then sought to know whether the Ministry had pleaded before the Cabinet for allowing PSU oil and gas companies to bid for HPCL; the Ministry replied in affirmative and stated as under:-

"MOP&NG had informed the Ministry of Disinvestment of the following merits of ONGC bidding for HPCL :

a) ONGC has to generate steady cash flows to meet the investment in exploration of domestic sedimentary basins and in equity oil abroad so as to strengthen oil security in the country. However, in view of the volatility in the international prices of crude oil, it is imperative for ONGC to mitigate the price risks by undertaking refining and marketing activities. Acquisition of HPCL provides the opportunity to ONGC to acquire a refining and marketing company, which is strategically linked to the Mumbai High oil field of ONGC.

b) ONGC has been authorised by the Government to market transportation fuels. Acquisition of HPCL will provide ONGC the required refining and marketing capabilities to ensure its competitive position and maximisation of Enterprise Value.

c) Internationally, all the leading oil majors are vertically integrated. China provides the most recent example of restructuring state-owned oil companies for maximising value addition."

5.15 The Ministry in support of its submission furnished the following note which it had sent to the Cabinet on the above issue:-

"ONGC has made proposal to MOP&NG to participate in the bidding for HPCL with the objective of facilitating vertical integration of businesses in order to be a fully integrated company in the domestic oil sector which will have level playing field while competing with the private companies and MNCs. Oil Sector world over is organised in this manner only. ONGC participation is likely to provide value addition in the bidding process. Moreover, ONGC's participation in the bid for HPCL has to be in light of the following points:-

(a) ONGC needs to mitigate risk and take consequent measures. In pursuance with the broad policy guidelines contained in Hydrocarbon Vision-2025, the Government's drive towards oil security is based on two premises: increase in the indigenous production of crude oil and securing equity oil abroad. ONGC has the responsibility of carrying out aggressively exploration of all sedimentary basins of the country and pursue vigorously equity oil abroad. During the Tenth Plan period, 2002-07, the total outlay on upstream projects of ONGC account for nearly 50% of the total Plan outlay of about Rs. 96,000 crore in the petroleum sector. Such a daunting target can be met by ONGC by ensuring steady growth in its cash flows. However, ONGC's cash flow prospects are severely affected by the volatility in the international oil prices. To mitigate the risk, ONGC needs to diversify to refining and marketing activities. In this regard, acquisition of HPCL provides the opportunity to ONGC to acquire a refining and marketing company, which is strategically linked to the Mumbai High oil field of ONGC.

(b) ONGC has been authorised by the Government to market transportation fuels. 600 retail outlets have been sanctioned to it. In the absence of adequate refining capacity at its command. ONGC's competitive position and value chain is weakened compared to other domestic competitors and foreign oil companies.

(c) Internationally, all the leading oil majors are vertically integrated with the objective of securing a steady cash flow and ensuring market share in a highly competitive and volatile sector. China has recently carried out the restructuring programme of its state-owned oil companies to ensure vertical integration which has resulted in significant value addition in these companies.

(d) Government, at present, hold about 84% and IOC 9.6% of the equity of ONGC. Improvement in the financial strength of ONGC is eventually going to benefit the Government."

5.16 The Committee during evidence specifically wanted to know the impact on bidding of HPCL, had ONGC also been permitted to bid for the same. Secretary responded as under:-

"If ONGC bids for HPCL and how much profit accrues, this is such a question, where we had contended that more the competition, more the price. Last time it was experienced when IOC bid for IBP that Reliance and Shell had made good offers. We had realisation that official valuers had valued the price around Rs. 300-400 crores but against this both these companies had made offer of Rs. 700-800 crore. IOCL offered Rs. 1200 crore and acquired it. So, more the competition, more the bid….."

5.17 The Committee then observed that recently Government had allowed IOCL to bid for IBP. By restraining ONGC or any other PSU to bid for HPCL or BPCL, whether the Government was not being inconsistent. The Ministry clarified its stand as under:-

> "The policy on disinvestment of PSUs is laid down by the Ministry of Disinvestment. Where the Government holds majority share (51% or more) in the PSUs, Government is empowered to lay down the policy regarding investment limits by PSUs, their participation in bidding process of other PSUs, etc.
>
> The strategies of disinvestment by the Government as contained in the Budget speeches of 1999-2000 and 2000-2001 stated that the non-strategic PSUs be privatized through gradual disinvestment or strategic sale. it is the objective of Government to foster greater private sector participation and competition in the market for petroleum products in the country (MOP&NG notified the guidelines on authorisation for marketing transportation fuels in March 2002 to enable private sector entry into marketing).
>
> The approach of Government in fostering competition and stable market growth is to ultimately benefit the people of India who are the consumers of services and products. In light of the above, there is no inconsistency in the policy of the Government nor does it run contrary to the spirit of the Constitution."

5.18 The Committee pointed out that IFFCO and KRIBHCO have been permitted to bid for National Fertiliser Ltd. in the event of its disinvestment whereas earlier they were restrained from doing so. The Committee wanted to know the reasons for this inconsistent policy and the Ministry submitted as under:-

> "The policy on disinvestment of PSUs is laid down by the Ministry of Disinvestment (MODI). As the Government holds a majority share (51% or more) in the PSUs, Government is empowered to lay down the policy regarding investment limits by PSUs, their participation in bidding process of other PSUs, etc.

5.19 The Committee further desired to know whether by issuing directions/directives Government is not eroding the functional authority of Boards. The Ministry responded to this observation as under:-

> "Navratna oil companies are Government owned companies; hence as per the Articles of Association and Memorandum of Association of these companies, Government have the authority to issue directions to these companies in public interest. The Articles of Association of the government oil companies contain provisions which make it mandatory for them to act in accordance with any directives or instructions issued by the President of India. For example, in the case of HPCL, the relevant Clause 146-A of their Articles of Association reads as under:

"Notwithstanding anything contained in any of these articles, the President may from time to time issue such directives or instructions as may be considered necessary in regard to the finances, conduct of business and affairs of the Company and the Company shall give immediate effect to such directives or instructions so issued."

Similar provisions exist in the Articles of Association of the other oil PSUs.

The power of the Government to issue directives is in accordance with the policy in respect of all PSUs in India. This is to ensure that the actions of the PSUs are in conformance with public interest. Government needs to have an effective instrument to discharge its authority. However, this power is used by Government sparingly and carefully without encroaching upon the functional autonomy of Navratna companies."

5.20 From the reply, the Committee observed that powers to issue directions/directives are derived from Articles of Association and Memorandum of these companies. The Committee, therefore, wanted to know Government's concept about creating state owned monopolies in any trade, business, industry or service. The Ministry apprised the Committee as under:-

"In the initial stages of industrial and economic development, the developing countries such as India face lack of infrastructure, capital and technology. Existence of high growth of population and low growth of employment and income also create structural problems for management of the economy. It becomes the responsibility of the Government to create adequate economic and industrial infrastructure pertaining to water, electricity and fuel supply, transport and communication so as to provide the essential intermediate inputs at reasonable tariff to industries and households.

These monopolies become instruments of growth and stability in the economy and create the markets for private sector participation in due course of time.

As competition grows and regulatory mechanism is established, to enhance allocative efficiency and ensure a healthy competitive market and protection of consumer interests, Government gradually withdraws and focuses more on social sector development.

Presently, Government do not have any intention to create monopolies in the Oil and Gas Sector. Government policy is to promote competition in this Sector by allowing private players to participate. However, Government would retain three companies, namely, IOC, ONGC and GAIL (India) as National Oil Companies to maintain oil security, price stability and create infrastructure in the risky, heavy investment fields of exploration and gas pipelines."

5.21 The Committee noted that the Government's policy is to promote competition by allowing private players. In pursuance of this policy, the Committee sought to know whether the Ministry has framed any policy and if so what are its broad features and when was this policy issued. The Ministry in its reply submitted as under:-

"In order to encourage competition in the oil and gas sector, the Government has framed the following policy:

a) Delicensing of refining in 1998;
b) Formulation of New Exploration and Licensing Policy (NELP) in 1999;
c) Guidelines on authorisation for marketing transportation fuels in March 2002.
d) Dismantling of Administered Pricing Mechanism (APM) and gradual reduction in subsidy on LPG and SKO; and
e) Raising the limit of Foreign Direct Investment (FDI) in the various areas of the sector;
f) Rationalisation of duties and taxes on crude oil and petroleum products.

Government of India has also issued detailed guidelines for granting authorisation to market transportation fuels, namely, MS, HSD and ATF to the new entrants including the private sector, vide its Resolution dated **8**'h March, 2002. The MS and HSD (Regulation of Supply and Distribution and Prevention of Malpractices) Order, 1998 has also been suitably amended vide Amendment Order, 2002 dated 15.3.2002. Till then, only Public Sector Oil Marketing Companies, namely, IOC, BPCL, HPCL and IBP were having the authorization to market transportation fuels in the country.

The details of the decision are given below:

(i) Companies investing or proposing to invest Rs. 2,000 crore in exploration and production, refining, pipelines or terminals may be granted authorization to market transportation fuels;

(ii) the eligible investment would be in setting up new refineries, expansion of the existing refineries, exploration and production of hydrocarbons including coal bed methane and associated facilities like crude oil/natural gas pipelines and processing plants, terminals for crude oil/LNG, common carrier natural gas/petroleum products/LPG pipelines, and investments in these activities for setting up additional assets for improvement of product quality to meet environmentally related norms;

(iii) the investment should result in the additionality to the existing assets and/or creation of new assets in the eligible activities;

(iv) in case of companies proposing to invest, a bank guarantee of Rs. 500 crore will be obtained. Further, the time frame for making investment would be 10 years including 5 years earmarked for financial closure;

(v) every eligible company would get only one authorization and it will not be transferable without permission of the Government. The applicant will be required to submit a scheme for marketing to the Government or the Regulatory Board and while granting authorization, the latter may impose conditions in public interest including the obligation to set up retail outlets in remote areas and low service areas and that the eligible company will not encroach upon the retail networks of existing marketing companies;

After the publication of these guidelines, the Government have granted authorisation to market transportation fuels in favour of Oil and Natural Gas Corporation Limited (ONGC) & Numaligarh Refinery Limited (NRL) (both Public Sector Oil Companies) and M/s. Reliance Petroleum Limited & M/s. Essar Oil Limited (both private companies). These companies have proposed to set up a total number of 8,659 new Retail Outlets, including 923 in remote and low service areas of the country, as follows:

Company	No. of ROs proposed
RPL	5849
EOL	1700
ONGC	600
NRL	510
Total	8659

With the dismantling of the Administered Pricing Mechanism in the petroleum sector with effect from 1st April, 2002, marketing operations of the oil companies have been taken out of 'cost plus' mechanism. Further, the pricing of all petroleum products, except for PDS Kerosene and domestic LPG which continue to be subsidized products, has been decontrolled. Thus, in the post APM scenario, the oil marketing companies are free to take decisions based on market considerations and commercial criteria.

As a part of the reform process, Government have also decided to phase out subsidies on PDS Kerosene and LPG (Domestic) over a period of three to five years."

5.22 The Committee wanted to appraise and analyse the role of private players in oil marketing and recalled that HPCL and BPCL before nationalisation were private players. The Committee, therefore, specifically desired to know whether private oil companies came upto the expectations of the Government in 1965 and 1971 when confrontations took place with our neighbouring country. The Ministry submitted the categorical reply as under:-

"During the emergency situation arising out of war in 1965 and 1971, these private oil companies were reluctant to comply with Government directives. To maintain adequate supply of petroleum products throughout the country, it was felt necessary to acquire the assets of these companies."

5.23 When asked further to elaborate what is specifically meant by National Security from Oil Marketing point of view, the Ministry submitted as under:-

"National Security from Oil Marketing point of view means adequate availability of petroleum products during emergency situations particularly during war. During war, oil is required apart from normal economic activities, for movement of troops and supplies to border areas. Oil supplies should be sufficient to cater for at least 45 days from National Security point of view."

CHAPTER-VI

ONGC AND GAIL AS INTEGRATED OIL MAJORS

ONGC, hitherto was a company engaged in exploration and exploitation of oil and gas reserves. Recently, ONGC had set up a small refinery at Tatipaka in Andhara Pradesh. The Company has also expressed its interest in acquiring the shares of AVB in Mangalore Refineries Private Limited. The Committee wanted to know ONGC's plan to enter into downstream sector and become an integrated company. The Committee were apprised as under:-

"ONGC's plan to enter the downstream sector was initiated in April, 2002 when it applied to Government for authorization to market transportation fuels. ONGC has a mini refinery at Tatipaka (Andhra Pradesh), which is a primary distillation facility of 0.1 million metric tonne of crude oil produced from the isolated oilfields. ONGC had planned to set up 600 retail outlets primarily in the three states of Andhra Pradesh, Gujarat and Maharashtra. Government granted authorization to ONGC in May 2002.

Subsequently, ONGC evinced interest in acquiring Aditya Biria Group's stake in MRPL to have access to an existing oil refinery. The proposal would enable the ONGC to become a vertically integrated company having access, apart from production of oil and gas, to oil refining and retail marketing of products. It may be mentioned that world over, oil companies try to become vertically integrated for ensuring profitability on sustained basis.

As per ONGC's assessment, the MRPL refinery, in spite of being technologically superior, had become a loss-making Co. in the post-APM period essentially due to;

(i) Low capacity utilization.

(ii) Rapid increase in domestic refining capacity leading to surplus situation in respect of middle distillates.

(iii) Low refining margins, in domestic & export markets (S.E. Asia).

(iv) High interest burden.

(v) Joint management structure.

(vi) Absence of own marketing network.

ONGC, with its acquisition of majority stake in MRPL coupled with implementation of debt restructuring package, will seek to ensure improved capacity utilization and effect rapid turnaround of this national asset.

Stable cash flows from downstream sector will facilitate ONGC's aggressive pursuit in E&P ventures in upstream sector.

Accordingly, ONGC approached this Ministry to permit them to acquire Aditya Birla Group's stake in MRPL amounting to 37-38% and financial restructuring of MRPL. Government has conveyed approval of the proposal to ONGC on 26.2.03."

6.2 The Committee further wanted to know whether ONGC has to seek formal approval from the Government for entering into retail marketing area. The Ministry replied to this as under:-

"Government of India have issued detailed guidelines for granting authorisation to market transportation fuels, namely, MS, HSD and ATF to the new entrants including the private sector, vide its Resolution dated 8th March, 2002. As per the guidelines, companies investing or proposing to invest Rs. 2,000 crore in exploration and production, refining, pipelines or terminals may be granted authorization to market transportation fuels.

After the publication of these guidelines, ONGC approached the Government in April 2002 for grant of authorization to market transportation fuels. Government have granted the authorisation in favour of ONGC in May 2002, subject to assured sourcing of products. ONGC plans to set up a total number of 600 retail outlets, in Andhra Pradesh, Gujarat and Maharashtra."

6.3 The Committee observed that in corporate's world the trend is integration and synergy in business. The Committee wanted to know oil industry's response in this regard. Chairman ONGC explained the position during evidence:-

"The experience of vertical integration world-wise is that as far as stake holder is concerned, the price of earnings is between 15 and 20. The price earning ratio for ONGC and IOC today is in the range of 5 to 6. So, straightaway we create a value of more than double as far as the shareholder is concerned. Today, ONGC's market capital is Rs. 50,000 crore. On this alone, the market capital alone should reach Rs. 1 lakh crore which would be owned by the Government to the extent of 96 per cent.

Secondly, the integration takes out the transaction costs in different situations and the transfer price advantage comes in. Therefore, there should be total profitability across all the chains. There is no negatives in terms of transaction costs and transfer prices.

Thirdly, it gives us security of pricing and most important thing is that the ONGC is investing in the Tenth Five Year Plan and Rs. 46,000 crore is the Plan investment. Of this, more than 50 per cent is in exploration and overseas venture acquisitions. The exploration and guarantees on overseas acquisitions have to be carried on ONGC balance sheet. No banker funds exploration risks. Therefore, unless ONGC's cash flows have a stability and security, it may not be possible for us to pursue the exploration as well as to provide guarantee for overseas acquisitions."

6.4 The Committee were emphatic that ONGC should be allowed to bid for HPCL which shall make the former an integrated company. This issue again came up for discussion during evidence when Secretary shared the views of the Committee and deposed:-

> "When this matter went up for ONGC, they did not agree with our point of view that ONGC should be allowed. At that time, the Petroleum Ministry had a point of view that for three reasons ONGC should be allowed to participate in this process. Firstly, ONGC is a producing company and the way oil prices are going up and down and the way this business is organised all over the world – it is a vertically integrated business all over the world- the Ministry felt that it would be important that gradually our oil companies should also move towards vertical integration and in case it is not possible for certain administrative reasons or certain other reasons to vertically integrate IOC, ONGC and GAIL for the time being, then at least all the three of them should move towards that.
>
> So, while we started moving IOC towards vertical integration giving them participation in certain blocks outside when OVL was making investment and similarly oil equity was acquired, we said that you go ahead and keep on acquiring oil property so that you have a vertical integration in respect of acquisition of oil. ONGC was granted the marketing rights for 600 marketing outlets and that is the reason why we wanted the Cabinet to have a look at this that there would be a vertically integrated company and they have marketing outlets and so they would be able to service those outlets.
>
> The Government did not accept when the discussion took place and finally it was decided that in case you want vertical integration then you must move for it separately. But as far as the present decision is concerned, they said that this decision has already been taken and it is only a question of what route to adopt."

6.5 The Committee observed that GAIL had been holding the brief that merger and acquisition are part of business growth strategy. GAIL expounded its belief in a written note as under:-

> "The latter part of the last decade has witnessed radical changes in the global oil and gas industries. Firstly, a number of multinational companies have integrated in supply and value chains to create global mega corporations and, secondly, a number of countries have initiated policy steps for deregulation and privatization of the Hydrocarbon sector. At the macro level, integration thrust in the Hydrocarbon sector are driven by increasing competition, consolidation for economy of scale, gaining global market share, protection from cyclicality of business by enlarging business portfolio/product range and ensuring efficient fund deployment strategies.
>
> Similar phenomena have been occurring in the Indian Hydrocarbon sector since the process of liberalization was initiated in 1992. The Hydrocarbon sector has progressively moved away from administrative regime to market related business set up. Government of India is

pursuing the disinvestment process, the APM has been dismantled and Indian and foreign companies have taken strategic positions in the sector. The regulatory system is expected to be introduced shortly which is expected to introduce sharing of assets and capacities.

Historically, the Government of India has administered the Indian hydrocarbon sector whereby state enterprises were created for specific business domains like E&P, gas transmission & marketing and oil refining & marketing. These companies worked exclusively within the sector with clear mandate.

As mentioned above, Government policies of economic liberalization, privatization and deregulation have changed the rules of the game. Like successful international companies, the Indian PSUs are also now showing to transform themselves as integrated companies. This is, perhaps, the most preferred route to consolidate in increasingly competitive market and to ensure substantial growth. Integration would also insulate the companies from volatility of the sector, thereby enabling them to enjoy consistently healthy bottom lines, market capitalization and stakeholders' support. In the above context, and in line with the global trends, merger and acquisition is one of the proven business strategies. Typically, the shorter way to achieve the desired level of integration and market consolidation is to adopt prudent merger and acquisition strategies. Sole reliance on organic growth could be a long and time consuming process which may not be an effective option to grow over medium/long terms.

In the context of today's business reality, GAIL believes in merger and acquisition as a prudent growth strategy. Needless to say, merger and acquisition need a very careful and cautious approach, comprehensive due diligence and financial transactions to satisfy the objective for which these are undertaken. As majority owner in many PSUs, the Government of India should examine the merger and acquisition aspects carefully not only to strengthen the strategic PSUs like ONGC, IOC and GAIL but also empower these companies for competing effectively with large Indian private as well as international majors in their respective areas of core competence."

6.6 The Committee noted the views of GAIL and pointed out that it had also been seeking permission for doing retail business in the country. The Committee wanted to know the latest status of GAIL's request and in the event of granting of retailing rights, what shall be its source for procurement of petroleum products. The Ministry replied this as under:-

"GAIL has been requesting MOP&NG to allow them to enter the LPG retail business for quite sometime.

In its request to the Ministry, GAIL had indicated that sourcing of LPG will be done from its fractionators. GAIL has also requested Ministry to authorize LPG produced from its fractionators for sale in the automotive sector, with equal quantity to be substituted by imports.

Under the existing system, ONGC produces natural gas which is transported by GAIL in HBJ pipeline. GAIL has set up fractionators along the pipeline where LPG is extracted from natural gas. Oil Marketing Companies (OMCs) have set their bottling plants in and around the fractionators and other infrastructure. The argument of OMCs is that their infrastructure is adequate to meet total packed LPG demand up to the end of X Plan. Setting up of the bottling infrastructure by OMCs and fractionators/pipelines by GAIL was approved by Government considering the defined core area of activities. Marketing of LPG by GAIL will lead to breaking of the Core Area Demarcation Concept. Further, the OMCs have contended that providing additional marketing infrastructure by GAIL would result in duplication of infrastructure and will have an adverse impact on viability of existing and planned bottling plants and distributorships affecting customer service. It may have no additional advantage.

A presentation was made before the Ministry by GAIL and OMCs on 8.10.02. Keeping in view the fact that there is a high requirement to lay pipelines, it is felt that GAIL should concentrate on its core activity of laying pipelines. There does not appear to be any special advantage accruing to consumers by allowing GAIL to market LPG. At present, requisite quality and quantity of LPG to consumers is being ensured by adequate competition through existing OMCs. Even private LPG bottlers have desired to join the LPG subsidy scheme of Government. MOP&NG is examining in what further areas GAIL can be enabled to expand and through whom LPG subsidy be channelized such that existing infrastructure is optimally utilized and the core activities are properly looked after. A view will be taken by the Government in due course, after weighing the pros and cons."

6.7 The Committee had earlier also recommended that ONGC and GAIL be given marketing rights. This issue came up for discussion during evidence when Secretary in the Ministry of Petroleum and Natural Gas apprised the Committee as under:-

"We had requests from GAIL and ONGC to market LPG. The request of ONGC was a limited one. But the request of GAIL was on all the three counts. They wanted to market for domestic sale, they wanted to market for commercial purposes, they wanted to market auto-LPG and they wanted to market for industrial purposes. So, when this question came up, they made a representation before the Ministry about this. We also had a representation from the private LPG operators. They had said that they had invested in the hope that we would permit them also to market domestic gas but we are not permitting them and hence, they do not have the level-playing field. So, it was said that all the representations from GAIL, ONGC and from this side would be considered by the Ministry.

So far, no view has been taken on this. We have, as against this, a representation from the other side, from IOC and other marketing companies like BPCL and HPCL. They have said that there is a certain marketing business. They have set up certain marketing outlets, they have set up certain infrastructure and there is not enough business for all of them to continue and in case you permit GAIL, they would, in fact, in any case, take away the gas which they are supplying to us because after all today the gas which is supplied is around 6 million metric tonne. So, one-third comes from fractionators. ONGC gives gas to GAIL and then GAIL supplies. One-third comes from GAIL and ONGC one-third comes from imports and PSU refineries and one-third comes from private refineries. So, in view of this, it was felt that in case they also start, what will happen to their marketing business. The Government has to examine this in totality and no view has been taken on this as yet."

6.8 The Committee took note of the Press Reports that in the event of disinvestment in HPCL, Government may ask ONGC to implement Bhatinda Refinery project. The Committee wanted to know the facts of the case and the Ministry clarified the position as under:-

"HPCL is currently implementing the Bhatinda Refinery Project through its subsidiary. The project has been included in the Tenth Five Year Plan Programme of HPCL and the Tenth Plan has been approved by the Government and the NDC. The project has been found to be viable and is proposed to be completed as planned either by the HPCL or by the Government through an appropriate agency.

Ministry of Disinvestment's proposal was examined in the Ministry of Petroleum & Natural Gas. The views of MOP&NG are that Bhatinda Refinery Project, if separated from HPCL, may face problems with regard to financing and timely completion. Government have decided that the decision on implementation of Bhatinda refinery be left to the new management of HPCL post disinvestment or Government may take up its implementation through an appropriate agency. No decision has been taken to separate the project from HPCL before disinvestment.

Government as majority equity holder in the PSUs have the authority to issue directions to these companies in public interest. The Articles of Association of the government oil companies contain provisions which make it mandatory for them to act in accordance with any directives or instructions issued by the President of India. As explained above, the Bhatinda refinery project is viable and needs to be completed either by HPCL or by Government through an appropriate agency. A final decision on the agency for implementing this project has not yet been taken.

The DFR on the Bhatinda Refinery Project, prepared by HPCL indicates that the project is viable having an internal rate of return of 18.2% (at June 1998 capital cost). It had been evaluated by the PIB in which Planning Commission had participated and it was approved by the CCEA. Financial institutions have also evaluated it and agreed to provide loan of over Rs. 1,000 crore. The project is critical and important for the Northern Region which has the maximum product deficit in the country. The project is included in the Tenth Five Year Plan Programme of HPCL and the Tenth Plan has been approved by the Government and the NDC. Hence, the project is proposed to be completed as planned either by the HPCL or by the Government through an appropriate agency.

Government have decided that the decision on implementation of Bhatinda refinery be left to the new management post disinvestment or Government may take up its implementation through an appropriate agency. No decision has been taken to separate the project from HPCL before disinvestment. Decision on the agency for implementing this project will await further development in disinvestment process."

6.9 The Committee had an obvious query as to why ONGC be asked to execute Bhatinda Refinery Project when it was not a marketing company. The Ministry responded to this query as under:-

"As per the DFR, the Bhatinda refinery project is a viable project. Hence this needs to be completed as planned either by the HPCL or by the Government through an appropriate agency.

It is considered that once HPCL is sold to a strategic partner, it should appropriately be left to the Board of the new company with the strategic partner in control to decide on projects in the interest of the future growth of the company, and decisions would be taken by the new Board on purely financial and commercial terms. After discussing this issue with the prospective bidders and after considering their points of view, one course would be to hive off this project and implement it separately, through ONGC or any other agency. A refinery provides a link between upstream activities such as exploration and production of oil and downstream activities including marketing of petroleum products.

Keeping in view the above, Government have decided that the decision on implementation of Bhatinda refinery be left to the new management of HPCL post disinvestment or Government may take up its implementation through ONGC or any other agency. A final decision on the agency for implementing this project has not yet been taken."

6.10 This issue came up during evidence also when the Committee observed that Bhatinda Refinery was being thrust upon ONGC. Secretary did not agree with this contention and asserted as under:-

"There is no question of thrusting it upon. CMD; HPCL will apprise the Committee of Refinery's viability. Its I.R.R. is 14%. Its products are in demand in North India where there is a product shortage. Every body is indicating that when future market expansion takes place, demand will rise. So there is no question of its non-viability."

6.11 The Committee then pointed out that if refinery was viable, then why it was being de-coupled from HPCL. Secretary argued:-

"First of all, there is no decision to de-couple it with HPCL. The disinvestment is taking place of the entire HPCL. This is very much a subsidiary of HPCL. So, there is no question of de-coupling it."

6.12 He further added:-

"As far as our Ministry is concerned, we are trying to put it in the shareholders agreement. First of all, the whole thing is being sold to a strategic partner. The existing decision of the Government has shown a commitment to implement this project in the eventuality of any problem. It will not be implemented as a stand-alone refinery; it will be implemented as a part of one or the other organisations, which will be fully attached with a marketing outlet, so that it has a full market access. Stand-alone refineries will not be viable at all."

6.13 Chairman ONGC shared his views with the Committee during evidence when he said:-

"Assuming that Bhatinda is detached from HPCL because the strategic investor wanted it, and ONGC is asked to build Bhatinda refinery, ONGC would be investing at today's estimate almost Rs. 9000 crore..... Bhatinda construction from now will take another 4 years. After that, assuming it is ONGC, what happens to the marketing? For IOC, as a largest market share in North India, has Panipat Refinery, which is being expanded to double the capacity to 12 million tonnes. IOC also have the products from Mathura refinery and Baroda refinery. Therefore, it is most unlikely that except for local sales from Bhatinda, IOC would take any type of products from Bhatinda refinery. HPCL's new owners could be drawing product from the Bombay refineries or from third refinery in India or they may import the product. On import, if you realise, there is no sales tax. So, there is a built-in advantage on the import of products being traded, which the Government of course has to take a view in the Exim Policy.... Bhatinda refinery by the time it is completed, will be Rs. 9000 crore plus due to escalation. Four to five years from today, none of the competitors except for BPCL would be interested in drawing any product from this refinery in open market conditions. This is why for ONGC, it will not be an attractive proposition for Bhatinda.... ONGC given Rs. 10,000 crore, given for five years' waiting time, given one or two per cent marketing network by the time in the whole country will not be viable."

CHPATER-VII

IMPORT OF PETROLEUM PRODUCTS

The Government have issued guidelines for granting authorisation to market transportation fuels, MS, HSD and ATF to the new entrants including the private sector vide its resolution dated 8th March, 2002. In accordance with this authorisation, the Government have already allowed two indigenous private companies to set up 7549 retail outlets in the country. One of these private companies has approached the Government for allowing them to import transportation fuels. As per an estimate, it will take about 6 to 8 months for retail outlets to be ready for operation.

7.2 The Committee noted that a proposal is under examination to allow private companies to import transportation fuels when already there is excess refining capacity than demand in the country. The Committee wanted to know the Government's policy with regard to import of petroleum products. The Ministry replied to this as under:-

> "Import of petroleum products is regulated under the Export-Import (EXIM) Policy which is finalized by the Ministry of Industry and Commerce. The current policy is being reviewed by them through a consultative mechanism with various Ministries. From 1.4.2003, the new policy regime will be operational.
>
> Under the existing policy, transportation fuels viz., Petrol, Diesel and Aviation Turbine Fuel (ATF) can be imported through IOC as State Trading Enterprise (STE). Similarly, import of Natural Gas Liquids (NGL) and Light Diesel Oil (LDO) is allowed through IOC as STE. However, import of SKO, Fuel Oil, LNG, LPG, Natural Gas, Crude Oil, etc., is freely allowed.
>
> Representations have been received from various sources including private sector to lift the restrictions on import, to provide a competitive regime. ESSAR Oil Limited which has been granted marketing rights for transportation fuels has approached the Government to allow import of transportation fuels by them to be able to join marketing of transportation fuels. The Indian Petroleum Sector has been deregulated and, therefore, there is a need to gradually relax the extant restrictions on imports of petroleum products."

7.3 The Committee then enquired, whether the Government would like to impose import restriction on the company acquiring HPCL in view of the fact that already there is excess refining capacity. The Ministry expressed its inability and stated as under:-

> "HPCL and all other oil companies are governed by the prevailing EXIM policy regime. Under the existing EXIM policy for petroleum sector, transportation fuels, viz., Petrol, Diesel and Aviation Turbine Fuel (ATF) can be imported through IOC or a State Trading Enterprise (STE).

Similarly, import of Natural Gas Liquids (NGL) and Light Diesel Oil (LDO) is allowed through IOC as STE. However, import of SKO, Fuel Oil, LNG, LPG, Natural Gas, Crude Oil, etc., is freely allowed.

Similar regime as applicable to the petroleum sector, would apply to HPCL also post disinvestment. There cannot be a different regime for HPCL and special dispensation is not required."

PART-II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

The Committee is happy to note that some of the PSUs under the administrative control of Ministry of Petroleum and Natural Gas are showing very good performance. In fact these PSUs are ahead of the private sector not only in terms of sales growth but also operating profit. As per an estimate, while the private sector operating profits grew by 9.8 per cent during 1996-2001, the public sector showed a higher growth of 15.00 per cent. However, PSUs are lacking in utilisation of assets and the reasons can be ascribed to bureaucratic hurdles. There is a vast scope for PSUs to unlock the value in assets turnover. If freedom is given to PSUs to perform, they have the potential to compete with private sector at international level. This Committee are of the opinion that PSUs be categorized in two groups, profit making and loss incurring. Profit making PSUs should be given freedom to perform and should not be disinvested. Government may have a different policy for loss making units but in their case also efforts should be made to revive them.

(Recommendation No. 1)

2. All PSUs under the administrative control of Ministry of Petroleum and Natural Gas are profit making. This Committee had earlier examined the relevance of disinvestment in Petroleum Sector especially in HPCL and BPCL and in their Reports presented to Parliament had dealt with various issues involved in disinvestment. The Committee had observed that oil companies were engaged in raising infrastructure in the form of creating port facilities, terminals, depots, LPG bottling plants, product pipelines, construction of roads connecting ports and other instalations, etc. and as such are fulfilling the objective of disinvestment. The Committee had also pointed out that these oil companies were already contributing huge amount to the national exchequer for better deployment and that the oil sector has already contributed the largest share to the national exchequer through disinvestment. The total receipts from disinvestment of PSUs between 1991-2000 were to the tune of Rs. 26148 crore. Out of this about 49% i.e. Rs. 12867 crore were realised from oil sector. During 1998-2000 as against the total of Rs. 9070 crore realised from disinvestment the oil sector alone contributed Rs. 7217 crore which amounts to 80% of the total. The oil sector has contributed substantially and has fulfilled the objectives of disinvestment so far as unlocking of the resources of oil companies is concerned. The Committee had also highlighted the fact that these oil companies have created huge assets without any investment from the Government. As per an estimate replacement cost on assets of these companies is between Rs. 20000 crores to Rs. 25000 crores each. The Committee had observed that assets created by them are national assets and they should be enabled to retain these assets. The Committee reiterate their earlier recommendation that oil companies should not be disinvested.

(Recommendation No. 2)

3. The Committee in their earlier Reports have been emphasising that oil is a strategic sector and like other strategic sectors oil companies should not be disinvested. The Committee are glad that Minister of Petroleum and Natural Gas himself has admitted that oil is a strategic

sector. The Committee, therefore, would reiterate their earlier recommendation that Government should formally declare oil sector as strategic sector and oil companies should be taken out of the list of PSUs slated for disinvestment.

(Recommendation No. 3)

4. The Committee in their 36th Report had observed that HPCL and BPCL came into being after nationalization of some private companies through Acts of Parliament. These Acts vested the ownership of the assets of erstwhile private companies in the Central Government or Government companies. The Committee would like to draw the attention of the Government towards what the then Minister of State in the Ministry of Petroleum and Chemicals stated in Rajya Sabha on 11th March, 1974 while introducing "The ESSO (Acquisition of Undertakings in India) Act, 1974:

> ***"It is our declared policy that the oil industry must be brought under Government's effective control. The oil industry is far too important for the economic development of the country and for national security to be left in the hands of foreign companies. We, therefore, feel that it will be politically wrong and economically incorrect to leave its control in the hands of foreign companies. "***

The Government expressed their similar views while introducing Burmah-Shell (Acquisition of Undertakings in India) Act, 1976 in Parliament on 16th January, 1976. The then Minister of Petroleum stated that the Government have declared their intention of acquiring effective control over the oil industry both in refining and marketing as well as in exploration and production of crude oil.

5. The Committee would like to remind the Government that private oil companies were acquired for a purpose which was manifested in the form of Policy declaration and the fundamental features of this policy were:

"- that the oil industry is far too important for the economic development of the country and for national security.

- that it will be politically wrong and economically incorrect to leave its control in the hands of the private companies."

In Committee's view, this declaration of policy was endorsed by Parliament when the Bill was passed. The Committee, therefore, feel that any action contrary to this declaration needs to be endorsed by the Parliament. The decision to disinvest HPCL and BPCL means:

(i) Losing Government's effective control over these companies;
(ii) Leaving control in the hands of the private companions.

This decision signals a departure from the declared policy. The Committee, therefore, are of the firm opinion that a departure from the declared policy cannot be made through the Government's executive decision and it is required to be endorsed by Parliament.

(Recommendation No. 4)

6. It is contended that when the Government have transferred the right, title and interests of the acquired companies to Government companies, they have the powers under the Companies Act to divest their holdings. There are legal opinions favouring and opposing this contention. The Committee, however, is of the opinion that so far as HPCL and BPCL are concerned, the Companies Act cannot be interpreted in isolation of the policy declaration made in the Parliament. Acquisition Acts were enacted to achieve the objective namely, that the acquired companies shall remain under the control of the Government. If the very basis of the enactment has to be altered, the Committee feel that sanction of Parliament is mandatory.

(Recommendation No. 5)

7. The Committee would also like to point out that another important factor for nationalization of oil companies was 'that the oil industry was far too important for the economic development of the country and for national security'. The Government have candidly admitted, as under:

> ***"During the emergency situation arising out of war in 1965 and 1971, the private oil companies (which were later acquired) were reluctant to comply with Government directives. To maintain adequate supply of petroleum products throughout the country, it felt necessary to acquire the assets of these companies."***

The Committee would not like to dwell upon the security angle much but feel that national security scenario demands that *status quo* with regard to HPCL and BPCL as Government companies be maintained.

(Recommendation No. 6)

8. Another aspect which the Committee would like to emphasize is that the world economic situation is changing fast and protectionism is giving way to liberalism. With the globalisation of economy, small economic entities are disappearing. Oil and Gas industry is witnessing changes. All the major energy companies in the world are vertically integrated and it is beneficial to have an integration in the various segments of the Hydrocarbon Vision. The Hydrocarbon value-chain is the basis for vertical integration, in the oil and gas industry. The major segments of the value chain are (a) exploration (b) production of oil and gas (c) refining (d) transportation (e) petrochemicals (f) manufacture of lubricants etc. (g) power generation (h) marketing (i) trading and financial services. All global oil and gas majors are vertically integrated covering all the major segments of the value chain. In recent years, there have been mergers of the vertically integrated global majors such as Exxon-Mobil, BP-Amoco-Avco-Castrol, Chevron-Taxaco and Total-Fina-Elf. These mergers create cost efficiencies. If these global companies happen to do business in India, IOCL shall be the only marketing company in public sector to compete with them. To enable IOCL to compete with such global companies, the Committee recommend that it should be given more functional autonomy.

(Recommendation No. 7)

9. **In the globalised context of oil and gas business, the Indian situation is becoming unsustainable after the dismantling of protection mechanism and Administered Pricing Mechanism. The tariff barriers are being governed by WTO norms. Under these circumstances, vertical integration of oil and gas companies is the only way to compete in the world market. The main advantages of vertical integration are:**

(i) Pricing cycles for crude, gas, refining, freight are not synchronized but related, therefore, a vertically integrated business is insured against price volatilities in the global market.

(ii) A vertically integrated company is able to collect the profits in every segment of the value-chain and therefore produce significantly better performance in turnover, leverage and profitability.

(iii) For a vertically integrated business, inter-sector transaction costs are eliminated.

(iv) Inter-sector pricing can be adjusted with the vertically integrated business to secure cash flows.

(v) Economy of scale reached through vertical integration and especially mergers and acquisitions, provides a definite advantage in global competitiveness.

(vi) Unified management enables integration of business plans and optimization of resource allocation among different sectors of the business.

(vii) Vertical integration and mergers create post mergers cost-efficiencies especially in over heads.

In view of the various advantages of vertical integration, the Committee recommend that a Committee of Chairmen of ONGC, IOCL and GAIL be constituted to study and suggest vertical integration of oil and gas companies. This Committee be constituted within one month of the presentation of this Report and the Committee be asked to submit the Report within three months of its constitution.

(Recommendation No. 8)

10. **In the opinion of the Committee, mergers of companies in the oil and gas sector is the need of the hour. It is reported that Government are thinking of merging various financial institutions. In India, oil and gas companies had been engaged in integration earlier also. The first oil company in India, Burma Oil Co. later renamed as Assam Oil Company (AOC) was vertically integrated for exploration and production, refining, transportation and marketing. Government created India Refineries Limited in 1958 for refining business and Indian Oil Company in 1959 for marketing business. Later both these were merged to form Indian Oil Corporation Limited in 1964. There have been several mergers like Kochi Refinery Limited with BPCL, Chennai Petroleum Corporation Limited and**

Bongaigaon Refineries Petrochemicals Ltd. with Indian Oil Corporation within the same sector of refining and marketing. On disinvestment, IBP was taken over by IOCL in the same sector of marketing. HPCL and BPCL together control around 45% of the market but they are not vertically integrated companies. The Committee after careful consideration of various factors recommend strongly that both these companies should be merged.

(Recommendation No. 9)

11. Dr. Sengupta Committee had recommended that the possibility of a combination of Hindustan Petroleum Corporation Ltd. (HPCL), Bharat Petroleum Corporation Ltd. (BPCL), Indo-Burma Petroleum (IBP), Cochin Refinery Ltd. (CRL), Madras Refinery Ltd. (MRL) and Numaligarh Refinery Ltd. (NRL) should be explored through an umbrella of a holding company. As per this Committee, this new entity will be equal in size to IOC and would not only provide good competition but could also emerge as a global player in competition with the international oil majors. The Standing Committee on Petroleum and Chemicals in their 10th Report on Demands for Grants of Ministry of Petroleum and Natural Gas presented to Lok Sabha on 22nd April, 1999 had also recommended that all Navratna Oil Sector PSUs should form a mega company. The Government without ascribing any reason did not agree with this recommendation. The global trend has been on vertical integration followed by mergers of similar companies to create formidable global business. No country with substantive indigenous oil and gas industry operates on the model of sectoral companies. Even in China, the sectoral companies were merged to create integrated majors. The Committee after carefully examining all factors prevailing in the international oil market today, recommend that after merging HPCL and BPCL, modalities should be worked out for their merger with ONGC. This merged company will be an integrated mega venture. Such a move could no doubt generate huge cost savings.

(Recommendation No. 10)

12. The Committee further recommend that Government should extend all help to this mega venture to do business not only in India but at the international level too. This company can have interest in green field investments not only in India but also in other countries where there are unexplored sources of hydrocarbon.

(Recommendation No. 11)

13. Government claim to have taken some important policy decisions with regard to merger and acquisition of public sector oil and gas companies. To develop business synergy among oil and gas companies, Government allowed them to buy each other's shares. However, as per guidelines issued by the Government in July, 1997, Navratna PSUs can invest in the equity of another company subject to the condition that the investment should not either exceed Rs. 200 crore in one project or 5% of its network in a single project or 15% of the network in all such projects put together. The Committee feel that these restrictions have become cumbersome and should be revised to enable the Navratna PSUs to have greater powers in acquiring shares in other companies. The Committee recommend that Government should revise the guidelines in this regard.

(Recommendation No. 12)

14. The Committee feel that guidelines issued to PSUs Navratna Companies limiting equity participation in financial joint ventures and wholly owned subsidiaries in India or abroad is not commensurate with Section 372 A of the Companies Act which provides that the Board of Directors can consider and decide proposals of acquisition of securities of any other company provided that all such investments do not exceed the limit of 60% of the paid-up capital and free reserves put together or 100% of free reserves whichever is higher. The Committee consider guidelines dated 22nd July, 1997 as a hindrance and is violative of Section 372 A of Companies Act. The Committee recommend that PSU companies should have a separate statute with regard to acquisition of one PSU by another. The Government should set up a study group to examine this aspect.

(Recommendation No. 13)

15. The Government have contended that they have powers to issue such directives or instructions as may be considered necessary in regard to the finances, conduct of business and affairs of a company. These powers flow from Articles of Association and Memorandum of Association of these companies. The Committee are in agreement with the Government that they should have sufficient powers to ensure good conduct of the companies. But in the present day context of fierce economic competition at international level, when acquisition and merger of companies has become the basic ingredient of business success, Government should empower the professional management of the companies to take such decisions notwithstanding the outdated regulations and instructions. The Committee, therefore, recommend that Government should use their powers to issue instructions under Articles of Association and Memorandum of Association cautiously. The objective is to empower the professional management to take independent and quick decisions. For this purpose, the Government should set up a study-group to suggest measures to achieve this objective.

(Recommendation No. 14)

16. The Committee note that Government of India, Ministry of Disinvestment vide their OM No. 4 (32)/2002 dated 18th September, 2002 (Annexure-I) have imposed an embargo whereby Central Public Sector Undertakings and Central Government owned Cooperative Societies where Government's ownership is 51% or more are not permitted to participate as bidders in the disinvestment of other PSUs. In accordance with this OM, ONGC was forbidden to bid in the HPCL disinvestment. However, ONGC and the Ministry of Petroleum and Natural Gas had made out a strong case for allowing the former to bid in the process of disinvestment in HPCL. In the Committee's view, Government's embargo is not only arbitrary in nature but in essence negates the very concept of competition. Government in such matters should perform the role of a referee instead of a player. Moreover, Government's policy is not uniform and consistent as they have reportedly allowed IFFCO/KRIBHCO to bid in disinvestment of National Fertiliser Limited. Thus this embargo also runs counter to the essence of right to equality. The Committee strongly disapprove of this approach of the Government and recommend that the above. OM be withdrawn immediately.

(Recommendation No. 15)

17. The Committee 'in principle' oppose disinvestment in any oil company and instead recommend their acquisition and merger as stated earlier. However, in case the Government decides to go ahead with disinvestment in HPCL, the Committee feel that there is no valid ground in restraining ONGC to bid for HPCL and therefore, strongly recommend that ONGC be allowed to bid for this company.

(Recommendation No. 16)

18. The Committee note that ONGC has acquired Aditya Birla Group's stake in MRPL which would enable it to become a vertically integrated company having access, apart from production of oil and gas to oil refining and retail marketing of products. Government have authorised ONGC to set up a total number of only 600 retail outlets, in Andhra Pradesh and Maharashtra as against 7849 retail outlets being set up by private companies. The Committee feel that ONGC's authorisation is only a fraction of what it is capable of. They note that very soon ONGC's refining capacity will be almost equal to BPCL's present refining capacity which has marketing network across the country. The Committee wish ONGC to capture at least 25% of market during 10th Plan and recommend to the Government to extend all assistance to achieve this objective. The Committee also recommend that ONGC be enabled to monetise gas reserves in the marginal, locked up and unexploited fields.

(Recommendation No.17)

19. The Committee note that both the ONGC and GAIL have approached the Government to permit them to do retail business in the country. This Committee had also earlier recommended that their requests should be granted immediately. The Committee, however, were surprised to note that on the pleas of private LPG operators, requests of ONGC and GAIL were kept pending. On the one hand, the Government are allowing private players in retail business and claim creating conditions for generating competition in retailing business in oil industry for the benefit of common consumer and on the other hand decisions on PSU companies are being delayed unnecessarily. The committee do not find any valid reason for delaying decision in this regard and recommend that quick positive decision be taken.

(Recommendation No. 18)

20. The Committee find that Government have not taken final decision on the execution of Bhatinda and Bina refineries and are awaiting the outcome of disinvestment in HPCL and BPCL. Government have assured that these refineries projects will be implemented by these companies or through any other agency. As per press reports, ONGC is one of the agencies being considered for implementation of Bhatinda Refinery project. The Chairman, ONGC was forth right in apprising the Committee that for his company, this refinery would not be an attractive proposition. He has given various analytical reasons for this approach and Committee appreciate the same. The Committee note that already huge amount has been spent on Bhatinda and Bina Refineries. The Committee would like to be assured that both these refineries would not be de-coupled from their parental companies. Under any circumstances these should not be thrust upon any existing oil or gas company.

(Recommendation No. 19)

21. The Committee note that the growth rate in consumption of Petrol and Diesel is not commensurate with the growth rate in refining of these products. Already there is about 20% excess refining capacity than the demand. In addition to this, more refineries are coming up and refining capacity of the existing refineries is also being enhanced. As per an estimate during the 10th Plan, excess refining capacity may exceed 40% than demand. Although oil companies have exported petroleum products during the last few years but the overall scenario of export is not very bright. Added to this, a private company who has been given authorisation to set up retail outlets has sought Government's permission to import petroleum products. The Committee find this emerging situation of supply and demand coupled with permission to import as intriguing and not in the national interest. The Committee, therefore, recommend that Ministry of Petroleum and Natural Gas should take up with the Ministry of Commerce the necessity to impose restrictions on import of petroleum products especially on transportation fuel. The Commerce Ministry should frame the Exim Policy in a manner so as to discourage import of this fuel.

(Recommendation No. 20)

22. The Committee further recommend that only a PSU oil company should continue to remain as State Trading Enterprise for importing these products. The Government should not lift the restrictions presently imposed on import in the name of providing competitive regime.

(Recommendation No. 21)

NEW DELHI; MULAYAM SINGH YADAV
7 May, 2003
*Chairman*17 Vaisakha, 1925 (Saka) *Standing Committee on*
Petroleum & Chemicals

ANNEXURE-I

No. 4 (32)/2002 MoD
Government of India
Ministry of Disinvestment

Block No. 14, CGO Complex,
Lodhi Road, New Delhi-110003

Dated 18th September, 2002

OFFICE MEMORANDUM

Subject: Participation of Central Public Sector Undertakings (PSUs)/Cooperative Societies controlled by the Government in disinvestment of other PSUs.

The undersigned is directed to say that the issue of participation of Central Public Sector Undertakings (PSUs) and Central Government owned Cooperative Societies in the disinvestment of other PSUs has been engaging the attention of the Government for the past some time. Government has examined this issue in the light of policy of the Government on Disinvestment.

2. After careful examination of the various issues, the Government of India has now decided that henceforth, as a general policy, Central Public Sector Undertakings and Central Government owned Cooperative Societies (i.e. where Government's ownership is 51% or more), should not be permitted to participate in the disinvestment of other PSUs as bidders. If in some specific case, any deviation from these restrictions is considered desirable in public interest, the Ministry/Department concerned may bring up an appropriate proposal for consideration of the Core Group of Secretaries on Disinvestment.

3. The Ministries/Department are requested to communicate the above decision of the Government to all the PSUs and the Cooperative Societies under their administrative control.

Sd/-
(T.S. Krishnamachari)
Deputy Secretary to the Government of India
Phone No. 4368523

Fax No. 4366524

To

All the Ministries/Department of Government of India

Copy to:
1. PPS to Secretary (D)
2. JS(PVB)/JS (PDB)/JS(SSA)
3. OSD/DS(R)/DS(B)
4. US(T)/US(C)/US(G)/US(M)

Sd/-
(T.S. Krishnamachari)
Deputy Secretary to the Government of India

ANNEXURE-II

MINUTES

SUB-COMMITTEE ON PETROLEUM

A SUB-COMMITTEE OF THE

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003)

FIRST SITTING

(04.02.2003)

The Sub-Committee sat from 1200 hrs. to 1400 hrs.

Present

Shri Dipankar Mukherjee - Convenor

Members

Lok Sabha

2. Shri Ashok Argal
3. Smt. Sheela Gautam
4. Shri Paban Singh Ghatowar
5. Dr.(Smt.) Suguna Kumari Chellamella
6. Shri Ram Sajivan
7. Shri Shyama Charan Shukla
8. Shri Prabhunath Singh
9. Shri Shankersinh Vaghela
10. Shri Ratilal Kalidas Varma

Rajya Sabha

11. Shri Rajiv Ranjan Singh 'Lalan'
12. Shri Ahmed Patel
13. Prof. Ram Gopal Yadav

Secretariat

1.	Shri K.V. Rao	-	Joint Secretary
2.	Shri P.K. Grover	-	Director
3.	Shri R.K. Saxena	-	Under Secretary
4.	Shri J.N. Oberoi	-	Officer on Special Duty

Representatives of Ministry of Petroleum & Natural Gas

1.	Shri B.K. Chaturvedi	-	Secretary
2.	Shri M.S. Srinivasan	-	Additional Secretary
3.	Shri Shiv Raj Singh	-	Joint Secretary
4.	Shri S. Vijayaraghavan	-	Joint Secretary

Representatives of Public Sector Oil and Gas Companies

1.	*Shri Subir Raha*	*-*	*CMD, ONGC*
2.	*Shri Proshanto Banerjee*	*-*	*CMD, GAIL*
3.	*Shri M.B. Lal*	*-*	*CMD, HPCL*
4.	*Shri N.K. Nayyar*	*-*	*Director (Planning & Business Dev.), IOCL*
5.	*Shri Ashok Sinha*	*-*	*Director (Fin.), BPCL*
6.	*Shri S. Ramulu*	*-*	*Exec. Director (SP&JV), HPCL*
7.	*Shri R.C. Gourh*	*-*	*Director (Onshore), ONGC*

At the outset, Hon'ble Convenor of the Sub-Committee on Petroleum welcomed the Members to the day's sitting. On behalf of the Committee and on his own behalf he welcomed the representatives of the Ministry of Petroleum & Natural Gas and Oil & Gas Companies. Initiating the discussion, he observed that the Committee had been consistently recommending to the Government that oil sector being a core and strategic sector should be viewed differently from routine economic policies of the Government. He further observed that the Committee in the past had made several recommendations on creating mega ventures, acquisition and merger of Oil & Gas Companies, granting marketing rights to ONGC and GAIL making them in reality integral companies but he regretted that Government had been treating all these issues not seriously. He recalled that in 1999, the shares of GAIL, ONGC and IOCL were swapped and stated that the Companies should have freedom to have similar arrangements even now. He further observed that the Government actions proved inconsistency in their policies and actions. Specifically referring to the implementation of Bhatinda and Bina Refinery project, he sought assurance from the Government that these projects would be completed without time and cost overruns.

2. Responding to the observations of the Sub-Committee, Secretary in the Ministry of Petroleum & Natural Gas apprised the Committee of the decision taken by the Government with regard to disinvestment in petroleum companies. The other issues which came up for discussion included participation of PSUs in disinvestment process, efforts made by the Ministry to seek Government's approval for allowing ONGC to bid for HPCL, vertical integration of oil companies, granting of marketing rights to ONGC, acquisition of MRPL by ONGC, merger of stand alone refineries with oil marketing companies, economic viability of Bhatinda and MRPL Refineries, expected proceeds from disinvestment in HPCL, market value of HPCL's shares.

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

The Sub-Committee then adjourned.

ANNEXURE-III

MINUTES

SUB-COMMITTEE ON PETROLEUM

A Sub-Committee of the Standing Committee on Petroleum and Chemicals (2003)

FOURTH SITTING
(05.05.2003)

The Sub-Committee sat from 1500 hrs. to 1530 hrs.

PRESENT

Shri Bijoy Handique in the Chair.

MEMBERS

LOK SABHA

2. Dr.(Smt.) Suguna Kumari Challamella

3. Smt. Sheela Gautam

4. Shri Paban Singh Ghatowar

5. Shri Ram Sajivan

6. Shri Ratilal Kalidas Varma

SECRETARIAT

1.	Shri P.K. Grover	-	Director
2.	Shri R.K. Saxena	-	Under Secretary
3.	Shri J.N. Oberoi	-	Officer on Special Duty
4.	Dr. Ram Raj Rai	-	Assistant Director

In the absence of Convenor, Sub-Committee on Petroleum, the Sub-Committee chose Shri Bijoy Handique to act as Convenor for the sitting under Rule 258 (3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

2. At the outset Hon'ble Convenor welcomed the Members to the sitting and invited them to offer their suggestions on the Draft Reports being considered for adoption.

3. Thereafter, the Sub-Committee considered and adopted the following Draft Reports:-
   (i) Merger and Acquisition of Oil and Gas Companies;

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

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

The Sub-Committee then adjourned.

***** Matter not related to this Report***

ANNEXURE-IV

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003)

SIXTH SITTING
(06.05.2003)

The Committee sat from 1530 hrs. to 1600 hrs.

PRESENT

Shri Mulayam Singh Yadav - Chairman

MEMBERS

LOK SABHA

2. Smt. Sheela Gautam
3. Shri Paban Singh Ghatowar
4. Shri Bijoy Handique
5. Shri Shriprakash Jaiswal
6. Shri Jagannath Mallick
7. Shri Punnulal Mohale
8. Shri P. Mohan
9. Shri Mohan Rawale
10. Shri Ram Sajivan
11. Dr.(Smt.) V. Saroja
12. Shri Harpal Singh Sathi
13. Dr. Ram Lakhan Singh
14. Dr. Ramesh Chand Tomar
15. Shri Ratilal Kalidas Varma
16. Shri A.K.S. Vijayan
17. Dr. Girija Vyas

RAJYA SABHA

18. Shri Balkavi Bairagi

19. Shri Ram Nath Kovind

20. Shri Moolchand Meena

SECRETARIAT

1.	Shri P.K. Grover	-	Director
2.	Shri R.K. Saxena	-	Under Secretary
3.	Shri J.N. Oberoi	-	Officer on Special Duty
4.	Dr. Ram Raj Rai	-	Assistant Director
5.	Shri A.K. Shah	-	Assistant Director

2. At the outset, Hon'ble Chairman welcomed the Members to the sitting and explained the purpose of the day's meeting.

3. Thereafter, he invited the Members to give their suggestions, if any, on the following draft Reports being considered for adoption:-

(i) Merger and Acquisition of Oil and Gas Companies

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

(iii) ** ** ** ** ** ** ** **

4. The Committee, thereafter, authorised the Chairman to finalise the Reports after factual verification from the concerned Ministries/ Departments and present them to the Parliament.

5. The Committee placed on record their appreciation of the work done by the Sub-Committees on Petroleum and Fertilisers of the Standing Committee on Petroleum and Chemicals.

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.

7. ** ** ** ** ** ** ** ** ** ** **

The Committee then adjourned.

** ***Matter not related to this Report***