

Oil & Gas Update

I N D I A

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More Sudanese Crude

ONGC Videsh Limited (OVL) is talking to its two other partners (Petronas of Malaysia and the Chinese National Oil Company) in the Greater Nile Oil Project (GNOP) in Sudan for the purchase of their share of crude oil to ensure supplies for India.

OVL recently acquired 25 per cent stake in the project from **Talisman Energy** of Canada for US\$ 720 million. The project produces around 12 MMT of crude every year. With 25 per cent stake in the project, OVL's share comes to 3 MMT annually. Cost considerations prevent Petronas and Chinese National Oil Company from supplying their domestic markets and they sell the crude from the project at international prices.

If OVL succeeds in striking a deal, India will have an assured supply of Sudan crude even though it will have to pay international price for it. The first tanker carrying OVL's share of Sudanese crude is expected to reach the Mangalore port within a month.

The crude will be processed at **Mangalore Refinery and Petrochemicals Limited (MRPL)**. The sweet crude oil from GNOP has a high demand in the market and is currently selling at

about US\$ 30 a barrel. Two new commercial discoveries have been added to the project during the period OVL carried out negotiations.

Tapti, Panna Fields

The managing committee of the two fields has approved a US\$ 145 million development plan for the Tapti and Panna oil and gas fields. The managing committee comprises representatives of the **Oil and Natural Gas Corporation (ONGC)**, **Reliance Industries Ltd (RIL)**, **British Gas Exploration and Production India Ltd**, and the director-general of hydrocarbons.

The plan is expected to yield an additional 18.5 million barrels (2.47 MMT) of oil and around 2.15 billion cubic metres of gas. The development plan for the Tapti field is estimated to cost around US\$ 660 million and produce an additional 10-12 mmscmd of gas.

British Gas will contribute US\$ 241.5 million to the plan, while the two Indian partners, ONGC and RIL will contribute the remaining 70 per cent. The plan was put on hold following the operatorship dispute after **Enron** sold its 30 per cent stake in the fields to British Gas for around US \$350 million.

Oil in Rajasthan

Oil and Natural Gas Corporation (ONGC) has struck oil and gas in Rajasthan. The discovery was made in the South Kharatar block in Jaisalmer district at a depth of 1,900 metres in the new well, Chinnawala Dibba, spudded in the area about two months ago.

While the oil is said to be of good quality, it could not be confirmed if it was sweet crude. Gas flowed out at 80,000 cubic metres through a 6-mm beam.

When the beam size was increased to 8 mm, the flow of the gas increased to 130,000 cubic metres. The gas is also high grade with methane content of around 80 per cent. Other gas finds in Rajasthan contain only 40-45 per cent methane.

Norms on Natural Asset Companies

The Union government is working on guidelines to categorise 'natural asset companies' in order to minimise opposition to privatisation. The key criterion in this particular exercise is the 'depletability' of natural resources.

The Ministry of Disinvestment (MoD) is preparing guidelines for the privatisation of mineral-based or natural asset companies. These will help identify unique factors in the course of privatisation in such companies.

An important aspect of natural asset companies is that they tend to damage the environment; often fears are expressed that after privatisation the damage may increase. The guidelines will try to mitigate such fears. Since most of these companies are in backward areas, MoD intends to link divestment proceeds from their sale with the development of such areas.

Allocations to these areas would come from the disinvestment fund, which Finance Minister Jaswant Singh proposed to set up in the Budget speech. The modalities to set up this fund are also being worked on.

The allocations to the areas in which natural asset companies are based would supplement the development efforts of state governments and would also be used to rehabilitate the retrenched workers. Further, public sector undertakings (PSUs) are involved in a lot of 'peripheral development.' A great deal of opposition to the privatisation of such companies is because people in the region feel that after the sale they would be deprived of the benefits of peripheral development.

Insurance Cover

Oil and Natural Gas Corporation (ONGC) has obtained an insurance cover of US\$ 11.13 billion for its offshore assets for 2003-04. The insurance comes at a premium of US\$ 36.58 million, as compared to US\$ 51 million paid by the corporation last fiscal. **United India Insurance** has been mandated as the lead Indian insurer for policy renewal. Simultaneously, the company has opted for a rupee cover for its onshore assets including joint venture properties, resulting in substantial savings.

NELP-IV

The defence ministry has suggested that companies from China, Pakistan, Myanmar, Indonesia, Malaysia, Bangladesh and the entire Arab world be kept out of the bidding process for certain oil and gas blocks due to security concerns. The suggestion to prohibit companies from certain countries from operating in the Andaman offshore area came during the inter-ministerial consultations to finalise oil and gas blocks to be offered under the fourth round of **New Exploration Licensing Policy (NELP)** later this month.

The ministry also wanted Indian firms to lead the consortiums bidding for blocks in Andaman offshore, as majority shareholders. The petroleum ministry was, however, opposed to the blanket ban. Regarding Indian firms leading consortiums bidding for blocks in Andaman offshore area, the petroleum ministry stated that foreign firms may not be willing to give majority share to Indians since deepwater oil exploration involves huge risk capital and specialised technologies. The government is likely to offer 25 oil and gas blocks, including a couple in the Andaman offshore area, under NELP-IV.

Crude Stock

In order to reduce dependence on the Persian Gulf, the government is planning to import and float at least 15 days' inventories for public sector refineries by hiring very large crude carriers. Fifteen days of crude requirement of public sector refineries works out to around two million tonnes.

The government is planning to import crude from regions outside the Persian Gulf and may enter into contracts with oil exporting countries like Norway, Nigeria, Angola, Egypt, Venezuela, Yemen, Oman, Russia and Malaysia. According to the estimates made by **Indian Oil Corporation (IOC)**, inventory-carrying costs will come to Rs 250 million a month, floatation costs will be Rs 400 million a month, and costs due to inferior yields and higher freight will be Rs 2,250 million.

The corporation has declared that the costs of holding such inventories, including the interest on capital blocked for this purpose, demurrage and other incremental costs incurred, should be reimbursed by the government as these companies are carrying inventories and taking other measures to ensure the supply of crude to the country.

The crude refining capacity in the country is around 115 MMTPA. However, domestic crude production is in only 30 MMTPA. The shortfall of about 85 MMTPA has to be met through imports. Public sector oil companies account for about 47 MMTPA of the crude imported, while private sector companies account for 38 MMTPA.

While about 60 per cent of India's crude imports come from here Asia, the balance is imported from countries like Malaysia, Nigeria, Venezuela, Mexico and Egypt.

Cairn's Gas Block

GAIL India Ltd (GAIL) is keen on acquiring oil and gas properties of **Cairn Energy plc** in India and Bangladesh. A GAIL team is likely to visit Cairn's data room containing information about its oil properties for due diligence.

The corporation is interested in acquiring Cairn's one trillion cubic feet Krishna-Godavari (KG) gas field and the Cambay basin block CB-OS/2 where five oil and gas discoveries have been made so far. It is also interested in Cairn's stake in the Sangu gas field in Bangladesh.

Revised Rates for Oil Exploration

The government has increased the security deposit rate, annual licence fee and mining lease fee with effect from April 1 to boost oil exploration. These rates were last revised in 1989.

The revision includes doubling of security deposit for grant of exploration licence to Rs 100,000 (US\$ 2,000) and security deposit for mining lease to Rs 200,000 (US\$ 4,000). The yearly licence fee, which ranged between Rs 8 and Rs 600 earlier, will range between Rs 50 and Rs 1,000 depending upon the number of years.

Importing Petroleum & Products

Essar Oil plans to import an initial parcel of 20,000 tonnes of diesel in May for sale in the local market. This will mark the entry of Essar in the petroleum products market, though the fuel would be supplied to bulk consumers.

Under the new Exim Policy, private refiners with marketing licence are permitted to import petroleum products directly. So far, import of petrol and diesel were canalised through **Indian Oil Corporation (IOC)**.

However, oil sector analysts are of the view that Essar would find it difficult to match the local price, as there is a 20 per cent duty on imported product. Besides, given the excess supply situation in the domestic market, local refiners may undercut any importer-supplier. Though Essar had received marketing licence six months ago, it could not tie up for supply of products.

Indian refiners reportedly did not entertain Essar's request. However, the company has again approached Indian oil companies for regular supply of products for retailing through its proposed network. Essar has to depend on local refiners or imports until its own refinery is commissioned.

Work on Essar's proposed refinery in Gujarat has been held up for the past four years. Meanwhile, the company is busy setting up a network to retail petroleum products.

Bharat Petroleum Corporation Ltd (BPCL) plans to use more of imported crude in its Mumbai refinery to reduce the dependence on the **Oil and Natural Gas Corporation (ONGC)** supply. BPCL has been buying most of its crude for the nine million-tonne Trombay refinery from ONGC's Mumbai Highfields. But with lower crude availability from Mumbai High, coupled with the supply needs of **Kochi Refineries** and **Numaligarh Refinery**, which entered the BPCL stable in March 2001, BPCL has been slowly increasing its dependence on imports.

After IOC ceased to be the canalising agent for crude imports for oil PSUs, BPCL entered into term contracts for roughly 7-8 MMT of crude imports, on its own every year. BPCL's emphasis on searching for supply sources abroad has also increased with

ONGC – Net Profit

Oil and Natural Gas Corporation (ONGC) has reported a 68 per cent jump in net profit for 2002-03 at Rs 104.36 billion. From Rs 238.57 billion last year the turnover increased 50 per cent to Rs 358.21 billion during the financial year. After adjusting losses in **Mangalore Refineries Petrochemicals Ltd (MRPL)**, net profit of the ONGC group stands at Rs 102.82 billion.

The mega-corporation made six new discoveries, at Vasai west (oil and gas), the western offshore GS-49 (gas) and GS-KW (oil and gas), Krishna Godavari offshore, Chinnewala Tibba (gas) in Rajasthan, Laipling-gaon (oil and gas) and Banamali (oil), both in Assam. The preliminary estimates indicate 240 million barrels of in-place oil plus oil-equivalent gas at Vasai west and 100 million barrels at Laipling-gaon.

MRPL was taken over by ONGC through the acquisition of 37.4 per cent equity from the **Aditya Birla Group** followed by debt restructuring, with a total investment of Rs 6.6 billion. With 51 per cent equity being held by ONGC, MRPL is now subsidiary company of ONGC.

The growth in turnover was attributed to the highest ever production of natural gas as well as the deregulation of crude and product prices. ONGC, which was being paid at the cap price of US\$ 16 per barrel in the administered pricing era, benefited from the upwardly mobile international prices. Crude production for the year increased 5 per cent to 26 million tonnes.

For 2002-2003, the company has already declared an interim dividend of 170 per cent. The refiners have frozen the prices of LPG since October and that of kerosene since December. ONGC has lost Rs 1500-2000 million in the last four months, due to non-realisation of global market prices. In the next financial year, ONGC is looking forward to the deregulation of natural gas prices and plans to launch retail marketing of transportation fuels in addition to further upsides in exploration, production and refining.

The corporation has urged the petroleum ministry to seek Prime Minister Atal Bihari Vajpayee's intervention in recovering its outstanding sales receivables and loans to public sector undertakings (PSUs), which stood at a staggering Rs 50.2 billion on December 31, 2002.

The outstanding amount includes Rs 21.85 billion from regular customers within the allowed credit period and Rs 13.24 billion on account of loans to PSUs, beyond the permitted credit period. It also includes Rs 15.11 billion for which claims have not yet been approved.

ONGC has also sought the petroleum ministry's directive on an outstanding loan of Rs 19.41 billion from consumers of gas in Gujarat. It has urged that the PSUs involved in the distribution of gas in Gujarat be brought at par with private parties to avoid adverse impact on recovery. The corporation also wants proper accounting treatment for such dues in its books, including the management tax-implications.

ONGC's ambitions to enter refining and retailing of petroleum products. The proportion of imported crude in the BPCL basket has been going up consistently for the last few years. Imported crude formed only 28 per cent of the total throughput in BPCL's Trombay refinery in 1999-2000.

In 2000-01, the ratio had gone up to 32 per cent while 2001-02, it was up to 41 per cent. Up to February 2003, the company had already imported 8.6 MMT of which 3.6 was for the Trombay refinery while the rest was imported for Kochi Refineries.

ONGC Rigs

- New Safety Systems

The Mehsana asset of the **Oil and Natural Gas Corporation (ONGC)** has implemented the International Safety Rating System (ISRS) at its two drilling rigs — IPS-700-V and IPS-700-VII - deployed for drilling at Mehsana.

The Mehsana asset plans to extend the ISRS management system to two more rigs during 2003-2004 and also has plan to achieve higher rating for previously ISRS-audited rigs.

Growth in Petroleum Consumption

While diesel consumption climbed a mere 0.4 per cent in 2002-03, from the previous year, the overall consumption of petroleum products was 2.8 per cent higher at 103.29 MMT from 100.43 MMT in 2001-02. According to the latest estimates of the demand for petroleum products during 2002-03, the consumption of diesel moved up marginally to 36.68 MMT from 36.55 MMT in 2001-02.

Meanwhile, the consumption of petrol grew 8.6 per cent to 7.61 MMT during 2002-03 from 7.01 MMT the previous year. The highest growth in consumption at 23.2 per cent was witnessed by light diesel oil, which touched 1.96 MMT against 1.59 MMT in 2001-02.

The sales of lubricants also grew 22.9 per cent to 1.4 MMT from 1.14 MMT. During 2002-03, the consumption of naphtha and natural gas liquid went down 6.4 per cent to 11 MMT from 11.75 MMT in 2001-02. The growth in the consumption of furnace oil and low sulphur heavy stock also fell to 12.74 MMT from 12.98 MMT.

Lanka IOC

Lanka IOC Pvt Ltd, a wholly-owned subsidiary of **Indian Oil Corporation (IOC)** in Sri Lanka, has completed the task of taking over 100 petrol retail outlets from **Ceylon Petroleum Corporation (CPC)** and made an interim payment of US\$ 2 million to the Sri Lankan Government, pending final valuation. The company will press ahead with its plans of exploring the lubricant, LPG and aviation fuel market in the island nation.

More than profit making, 'the mission statement of this strategic alliance between IOC and the Sri Lankan Gov-

ernment is to provide energy security for Sri Lanka with access to 10 IOC refineries. Against India's annual consumption of 110 MMT, Sri Lanka's consumes only 3.75 MMT.

Lanka IOC entered Sri Lanka last year when the government decided to liberalise the oil sector to cut the accumulated losses of state-owned CPC. Lanka IOC taking over 100 of the 150 planned with outlets the Sri Lankan Government has decided to invite bids from a third player for the rest.

Developing the Trincomalee harbour, one of the finest natural harbours in the world, is among one of the company's long-term plans. Another long-term plan of IOC in Sri Lanka is to lay a pipeline from Madurai to Colombo.

Crude Imports

The country's crude oil import bill for 2002-03 has risen by Rs 60 billion to an estimated Rs 840 billion because of higher international prices. Crude prices, which stood at US\$ 19-20 per barrel in February 2002, are currently close to US\$ 36 per barrel. India imports 70 per cent of its 110 million-tonne crude requirements.

Full Market Prices

Very soon oil refiners will get full market prices for the petrol, diesel, LPG and kerosene they sell to oil marketing companies. The prices paid to refiners on kerosene and LPG were capped in November last year. From February 15 onwards, capping was done on petrol and diesel prices also. By capping the prices, the burden of under-recovery of costs from consumers was being partly shared by refiners also. This was because the government restrained marketing companies from raising prices of LPG and kerosene while global crude and product prices kept rising.

This move will directly improve revenues of **Reliance Petroleum Ltd (RPL)** and **Mangalore Refineries and Petrochemicals Ltd (MRPL)** since they are the only stand-alone refiners. The other refineries are either integrated with marketing companies like **Bharat Petroleum Corporation Ltd's (BPCL)** refineries or aligned to it as in the case of **Chennai Petroleum Corporation Ltd (CPCL)**, a subsidiary of **Indian Oil Corporation (IOC)**.

IOC Leads the Way

The first year of deregulation in the petroleum sector witnessed **Indian Oil Corporation (IOC)** refineries achieving a record crude oil throughput of 43.39 MMT during the year 2002-03.

While the seven IOC refineries together registered the highest ever crude throughput of 35.1 MMT in 2002-03, surpassing the previous best of 33.8 MMT achieved in 2001-02, its subsidiary refineries — the **Bongaigaon Refineries and Petrochemicals Ltd (BRPL)** and **Chennai Petroleum Corporation Limited (CPCL)** together processed 8.29 MMT, taking the total to 43.39 MMT during the last fiscal.

The crude and product pipeline network of IOC recorded a combined throughput of 40.38 MMT during the referred year. The crude oil pipelines achieved the highest ever throughput of 24 MMT compared to 23.07 MMT last year.

The company's pipeline network was further expanded with the addition of 507 km of new pipelines. During the year 2002-03, IOC achieved a product sales of 45.7 MMT. In the aviation fuel business, it maintained its lead with 68 per cent market share.

The year also saw the entry of IOC in the branded transport fuel segment with the launch of new generation fuels IOC Premium and Diesel Super. Four new Indane LPG bottling plants were commissioned at Aligarh, Lucknow, Jhunjhun and Leh taking the total number to 82 bottling plants across the country. More than 270,000 new Indane customers have been enrolled during the last fiscal, the total number of customers in the country now stands at 34.95 million.

A significant marketing initiative towards reaching out to more people was the introduction of five kilo-gram Indane LPG cylinders in 75 rural and hilly markets, covering 11 states.

In order to enhance the customer choice, 21 auto LPG stations were set up and 197 new distributorships were commissioned during the year. The R&D centre of the company developed 80 formulations, which include 37 new product formulations and 43 revised ones. Thirty-two products got approvals from original equipment manufacturers, which include 23 national and nine international organisations.

GAIL Net up

GAIL India Ltd (GAIL) has registered a net profit of Rs 15.65 billion in 2002-03, a 32 per cent increase over the 2001-02 figure of Rs 11.86 billion. Turnover increased 11 per cent to Rs 117.63 billion as compared to Rs 105.53 billion in the previous year. GAIL will invest Rs 200 billion over the next five years.

BG India - Plans for LNG

BG India plans to link the price of its imported LNG to the price of coal and sell it at 'flat rates' to Indian consumers.

The company is currently in talks with suppliers in Iran to import LNG at its planned 2.5 million-tonne Pipavav terminal, with coal-linked price indexation. This will be the first of its kind LNG sale in the price-conscious Indian market and is expected to lower LNG prices considerably.

Most Indian gas consumers currently purchase natural gas from Indian players, **Oil and Natural Gas Corporation (ONGC)** and **Gail India Ltd (GAIL)**, at around US\$2.7 to US\$2.8 per million British thermal units (mmbtu).

This includes gas costs of around US\$ 1.75 per mmbtu and transmission charges of roughly US\$ 0.7 to US\$ 0.8 per mmbtu. Imported LNG, on the other hand, is expected to cost anywhere between US\$ 4-5 per mmbtu and US\$ 7-8 mmbtu after accounting for transportation, liquefaction and taxes. Linking these prices to coal could bring down the prices to between US\$ 3-4 per mmbtu.

While most Asia-Pacific countries have crude oil-indexed LNG import contracts, the more evolved gas markets, especially in Europe have been moving towards prices linked to mixed baskets of oil products and coal.

A coal-linked price would not only mean reduced prices, it would also mean that other Indian players would have to rethink their pricing strategy.

The move could also mean tough competition for other imported LNG projects, especially for **Petronet's** imported LNG, which is scheduled to reach the Dahej terminal from Qatar by December-end.

Petronet has not been able to rake in even a single supply contract for its LNG, which is linked to Japanese crude oil basket, considered one of the most expensive.

Major gas consumers **Natural Thermal Power Corporation (NTPC)**, other power and fertiliser producers in Gujarat (the location for four planned LNG import terminals) and the rest of the country have consistently iterated they will not pay more than US\$ 3.5 mmbtu for the fuel.

Product Prices Falling

Oil marketing companies have reduced prices of petrol and diesel by a little more than a rupee per litre from midnight of April 15. While petrol prices will be lower by Re 1 to Rs 1.08 per litre, diesel will be reduced by Rs 1 in Delhi and Rs 1.18 per litre in Mumbai.

According to the revised prices, petrol will be sold at Rs 32.49 per litre in Delhi, Rs 34 per litre in Kolkata, Rs 37.52 in Mumbai and Rs 35.48 in Chennai. Diesel will sell at Rs 21.12 per litre in Delhi, Rs 23.52 a litre at Kolkata, Rs 26.70 per litre in Mumbai and at Rs 23.55 at Chennai. The revised prices are not at import parity levels at all places.

While, the recovery is higher in the coastal regions, it is lower at the inland locations. There is scope to lower prices by another 75 paise or so per litre, if the current trend continues.

Naphtha prices are lower than crude and ATF prices too are falling. Last month ATF prices came down by Rs 1,000 per kilo-litre. In one of the biggest downward revision of prices in recent months, the price of naphtha has been reduced by a staggering 15.65 per cent. The pricing committee of the four public sector oil marketing companies decided to reduce the ex-storage point price of naphtha for non-fertiliser use from Rs 19,350 a tonne (ex-Mumbai) to Rs 16,320 a tonne.

Furnace oil prices globally are expected to slide down by anywhere between US\$ 5-10 per tonne and are expected to settle down at less than US\$ 130 per tonne. There has been a steady drop in the price of fuel since mid-February when it cost US\$ 197.50 per tonne. It declined to US\$ 176 per tonne in March and to US\$ 134 in first week April. The ex-storage point price of fuel oil for non-fertiliser use has been lowered from Rs 11,730 a kilolitre (ex-Mumbai) to Rs 10,690 a kilolitre - a reduction of 8.86 per cent.

Similarly, the ex-storage point price of low sulphur heavy stock for non-fertiliser use has been cut by 8.91 per cent. The price of low sulphur heavy stock (ex-Mumbai) has been brought down from Rs 12,560 a tonne to Rs 11,440 a tonne.

Natural gas prices, both for domestic and industrial use, are expected to come down.

GAIL, Botas - Gas Pact

GAIL India Ltd (GAIL) and Turkey's **Botas Petroleum Pipeline Corporation** will sign a pact to jointly build cross-country pipelines and gas retailing projects. After signing the agreement, the two firms will identify projects, which could be jointly implemented in India, Turkey and other countries. Separate project-specific agreements will then be entered for such projects. The proposed agreement also envisages cooperation in distributing compressed natural gas (CNG), developing gas processing facilities, retailing gas in residential areas and underground gas storage projects in the two countries.

GAIL, BG Expand Ties

British Gas India has approached **GAIL India Ltd (GAIL)** to further their alliance beyond Mahanagar Gas, their distribution business in Mumbai. The two have been exploring the possibility of the British firm offering a strategic stake of 15-25 per cent in **Gujarat Gas Ltd (GGL)** to GAIL. Talks are also on for British Gas India and GAIL to form a joint venture for the latter's gas distribution business in three cities in Gujarat. The companies have been discussing a joint bid for exploratory blocks under the fourth round of NELP.

GAIL, Haldia Petro in Marketing Pact

Ahead of a Rs 2 billion equity investment by **GAIL India Ltd (GAIL)** in **Haldia Petrochemicals Ltd (HPL)**, the two companies have announced a product exchange tie-up to bolster each other's marketing efforts. Under the terms of the agreement, GAIL will market 35,000 tonnes of HPL's polypropylene in the domestic markets while HPL will take 35,000 tonnes of pentane to be used as an alternative fuel feedstock for its petrochemical unit.

In addition, the two companies that account for 43 per cent share in the country's petrochemical production, will swap nearly 40,000 tonnes of

polyethylene to cater to both domestic and export markets.

The two companies could pare off nearly Rs 1,000 per tonne as transport costs by taking advantage of each other's production units to push products into regions where marketing logistics prevent them from taking full advantage of their networks.

GAIL produces polyethylene at its Pata plant in Uttar Pradesh and finds it difficult to cater to the eastern markets. HPL, with its plant at Haldia, has difficulty in transporting the product to the northern and western markets.

The agreement between the two companies outlines other potential areas of cooperation including long-term propylene offtake agreement of 7,000 tonnes, joint procurement of chemicals and catalysts for the Mitsui plant, grade optimisation, joint venture in setting up of SBR (styrene butadiene rubber) plant and sale of surplus Butene-1 by GAIL to HPL.

ONGC - Subsidy Burden

The government is actively considering a proposal to transfer some of the subsidy burden onto **Oil and Natural Gas Corporation (ONGC)**, which is currently allowed to recover full market price for the crude it sells to refining companies.

Another option lies in regulating the price that ONGC realises for the domestic gas sold by it.

The marketing companies pay the company for the 1.2 MMTPA LPG (15 per cent market share) produced from natural gas.

Indian Oil Corporation (IOC), with around 55 per cent of the domestic retail market, recently informed the government that only the refining and marketing companies were bearing the brunt of the political decision not to raise LPG and kerosene prices during the entire year, even as international crude and product prices soared.

It sought sharing of the burden with the upstream oil producing companies, which have made hay during the year with high crude price realisation. In a sense, it is a return to the regime prior to the dismantling of the APM in the petroleum sector on April 1, 2002.

During the APM regime, ONGC was remunerated a flat US\$ 16 per barrel for the crude sold to refiners.

NG Price Revision

Gas companies in the country are fighting hard to convince the people in power that an increase in the prices of natural gas is necessary to keep their existing operations afloat. After **GAIL India Ltd (GAIL)** sought upward revision in its gas transportation prices, **Oil and Natural Gas Corporation (ONGC)**, too, joined the bandwagon. It is now seeking an increase in price realisation of natural gas.

ONGC's revenue from gas is lower than its cost of production by about Rs 800 per mcm. This has put ONGC in a spot as it is finding it difficult to make investments in old fields in view of the present negative rate of return.

The price of gas charged by private sector players and joint venture partners, is higher than the price of domestic gas supplied by ONGC and **Oil India Ltd (OIL)**.

The gas from Raava field is available at US\$ 3 per mmbtu, which translates into Rs 5,800 per mscm. The prices for gas from Raava satellite gas basin is US\$ 3.3 per mmbtu (Rs 6,385 per mscm), Panna-Mukta-Tapti at US\$ 3.11 per mmbtu (Rs 6,015 per mscm). Compared to this ONGC and OIL supply gas at US\$ 1.47 per mmbtu, which translates to Rs 2,850 per mscm.

The price of domestic gas has remained static at this level since October 1999. GAIL has struck its first ever gas supply contracts at market determined rates of US\$ 3 per mmbtu (basic gas price) as against the earlier subsidised rate of US\$ 1.44 per mmbtu under the administered price regime.

Gas supplies from the Krishna-Godavari basin, are being sold to customers in Andhra Pradesh at a delivered rate of US\$ 3.62 per mmbtu, (inclusive of taxes and transportation charges). The three major consumers to whom GAIL will be supplying the gas from the satellite Ravva fields are **Nagarjuna Fertilisers**, the **Lanco group** for its power project in Kondapalli and **GVK's Spectrum** power project. With the government making moves towards market-determined price regime in the gas sector as well, GAIL was directed by the petroleum ministry to begin selling gas from joint venture fields at market rates.

Total production of gas in the country is around 81.4 mmscmd annually.

Of this, 60.7 mmscmd is recovered from offshore wells, while 20.7 mmscmd is recovered from onshore wells.

The contribution of the joint ventures and the private sector is around 15 per cent. The demand on the other hand is around 120 mmscmd. Among the natural gas users, power sector is the biggest with 40 per cent consumption. Fertiliser industry comes a close second with 34 per cent of total gas consumption in the country.

Reacting to the request made by ONGC, the power ministry is learnt to be of the view that the existing gas prices are comparable to wellhead prices in most of the developed countries and do not need revision. ONGC, on the other hand, claims that taking an average of October 1997 to December 2002 prices, the US wellhead prices come to around US\$ 2.85 per mmbtu.

The power ministry is also concerned that the State Electricity Boards (SEBs) will not be able to realise increase in cost of power due to increase in gas prices.

Meanwhile, the fertiliser ministry has informed the government that as per current retention price mechanism for fertilisers, any increase in gas prices will lead to increase in subsidy for fertilisers. It has stated that the price of gas should allow for adequate compensation while remaining affordable.

With the committee (the group of ministers) set up by the Government of India, submitting its proposals to the government, a decision will be taken shortly. The final decision could have a far reaching impact on the future of public sector players in the gas industry. As per the Hydrocarbon Vision 2025, the demand for gas is likely to increase to 231 mcmd in the year 2006-07.

HPCL, Dairy Den Tie up

After a tie-up with oil marketing major **Hindustan Petroleum Corporation Ltd (HPCL)**, Gujarat-based ice-cream parlour chain **Dairy Den** is setting up around 90 outlets across the country by 2004. It has been leased retail space at petrol pumps and will have to pay fixed rental to HPCL. It will make an average investment of around Rs 2.5 million per parlour including installation of machines, interiors of the outlet, manpower and service.

SHV Energy Proposes Moratorium

SHV Energy's proposal seeking one-year moratorium on divestment of 26 per cent stake in its downstream subsidiary appears to have hit a roadblock, with the government questioning the company's seriousness in completing the mandated divestment.

According to the entry conditions imposed on SHV, the company must divest 26 per cent stake in downstream ventures within five years from the date of approval i.e. by April 20, 2003. Earlier, a similar proposal by soft drinks giant Coca-Cola for a five-year moratorium was rejected by the government.

In its meeting held on March 21, the Foreign Investment Promotion Board (FIPB), while deferring the consideration of SHV's proposal, asked the company whether it was seriously contemplating divestment.

In its application to the FIPB, the company cited losses, depressed stock markets and low investor interest in primary markets to contend that it would be difficult to locate a strategic partner willing to invest in the subsidiary **SHV Energy South East** during 'this short span of time'.

SHV Energy was granted approval to set up a wholly-owned subsidiary for operation of LPG terminals, blending and bottling plants, manufacturing glass cylinders, etc. The company was also granted approvals to set up nine downstream ventures.

However, these approvals were subject to the condition that the company divest 26 per cent equity to Indian residents over five years.

In its application, SHV said restructuring of downstream subsidiaries was being done, which would result in only two operating companies left for carrying on the business of LPG terminals, blending and bottling plants. These two would be SHV Energy South East and **SHV Infrastructure; SHV Energy North West** will be amalgamated.

IOC Reward Scheme

Indian Oil Corporation (IOC) has launched IOC Xtra, a cash- customer reward programme. The card will enable a customer to enrol for the My Shoppe card, a smart card that records and stores reward points for every cash transaction at IOC retail outlets as well as at certain other shops.

At each cash purchase the co-branded My-Shoppe card will be credited with points that can be redeemed at other My Shoppe-member establishments such as grocery stores, chemists, restaurants, etc. Managed by **One-to-One Marketing Solutions**, the cash reward programme includes over 2,000 diversified establishments across 20 cities and has 250,000 card-holders.

Low-sulphur, Branded Fuels

Indian Oil Corporation (IOC) has launched its low-sulphur and branded fuels in all its retail outlets in Bangalore. The IOC Premium petrol, the first in India to offer 91 octane rating, and Diesel Super come with multi-functional additives for extra mileage and low emissions. The branded petrol will be Rs 1.30 more than regular petrol and Diesel Super will cost 30 paise more in Bangalore. Part of the Bharat-II emission norms, the green fuels have 0.05 percent ultra low sulphur content and are already in use in the metros and major cities. This is well below the 0.25 percent sulphur in the other green fuels.

Co-branded Lubricants

Bharat Petroleum Corporation Ltd (BPCL) and Hindustan Motors Ltd (HM) have announced the launch of a range of co-branded lubricants in Kolkata. To be marketed under the 'MAK-HM' brand, the lubricants will be launched elsewhere in the country in a phased manner.

The tie-up with HM will enable HPCL to sell an additional 1,000 kl of lubricants over the next one-year period. The MAK-HM brand of lubricants has been customised to meet the specific requirements of the Hindustan Motors' product variants, especially the Ambassador, Contessa and special utility vehicles (SUVs).

Notice on Oil Sector Sell-off

The Supreme Court has issued a notice to the government on a petition challenging its decision to privatise **Bharat Petroleum Corporation Ltd (BPCL)** and **Hindustan Petroleum Corporation Ltd (HPCL)** without seeking parliamentary approval. A petition filed by the **Centre for Public Interest Litigation** has contended that the decision to privatise the two oil companies could have come only through an Act of Parliament.

The government had announced on January 26 its decision to sell 34.01 per cent stake in HPCL to a strategic investor and divest 35.2 per cent in BPCL through a public offer after Attorney General Soli Sorabjee said Parliament's approval was not needed for the same.

HPCL and BPCL were nationalised through an Act of Parliament in the 1970s and the petitioner contended that disinvestment of the two oil companies could be done only by repealing or amending the Act.

Contending that Parliament was supreme in matters related to the Constitution, the petitioner said no executive action could be taken in violation of parliamentary enactment. The petitioner cited a report of the standing committee of petroleum ministry, which said that disinvestment of oil companies could not be done without Parliament passing a bill approving the move. The committee had opposed oil sector disinvestment plan and when the MPs raised the issue, the government had sought Mr Sorabjee's opinion.

SARS Delays Disinvestment Process

The **severe acute respiratory syndrome (SARS)** has delayed presentations to be held for appointing advisors for **Bharat Petroleum Corporation Ltd's (BPCL)** disinvestment. Foreign investment bankers based in Hong Kong and Singapore have asked the disinvestment ministry to put off the event. Now, the presentations are slated to be held by middle of May.

Usually, in disinvestment mandates, the presentation is held within 15-20 days of the expression of interest

Strategic Sale of PSUs — Norms for Management/Employee Bids

The Cabinet Committee on Disinvestment (CCD) approved guidelines for management-employee bids in strategic sale of public sector undertakings (PSUs) stating that employee participation and protection of employee interests was a key concern of the disinvestment process.

As per the guidelines, if the employee bid is not the highest one, it shall be considered only if the bid is within the 10 per cent range of the highest bid.

In such an event, the employee bid will have the first option for acquiring the shares under offer provided they match the highest bid, which is equal to or more than the reserve price set by the government. The shares so acquired by the employees will have a lock-in period of three years.

If the employee bid is not the highest bid and there are more than one employee bids within the 10 per cent band, the highest of the employee bids will have precedence for purchase at the highest bid.

However, if such employee bidder is unwilling or unable to match the highest bid, the option will pass on to the next highest employee bid and so on till all the employee bids within the 10 per cent band are exhausted.

In the event of no employee bidder within the 10 per cent band, being willing or able to match the highest bid, the shares under offer will be sold to the highest bidding entity.

For the purpose of evaluating employee/management bids, the term 'employee' will include all permanent employees of a PSU and the whole-time directors on its board. 'A bid submitted by employees or a body of employees will be called an employee bid', a disinvestment ministry statement clarified.

In order to be eligible for bidding, at least 15 per cent of the total number of employees in a PSU or 200 employees, whichever is lower, should participate in the bid.

The employee bids will be exempted from the minimum turn-over criteria but will be required to qualify in terms of the prescribed net worth criterion.

The employees can either bid directly and independently or, for the purpose of meeting the financial criteria like net worth, can form a consortium or bid through a joint venture (JV) or a special purpose vehicle (SPV) along with a bank, venture capitalist or a financial institution. However, employees will not be permitted to form consortia with other companies.

If the bidding entity of the employees is a consortium, JV or SPV, employees must have a controlling stake and be in control of the bidding entity. And, if the bid is submitted through a consortium, JV or SPV, the employees must contribute at least 10 per cent of the financial bid. If the employees form a consortium, the consortium partners would be prohibited from submitting individual bids independently.

The employees bid will be required to follow the procedures prescribed for participation by interested parties in the process of strategic sale including, but not limited to, filing expressions of interest (EoI) along with all details as applicable to other investors including furnishing of bank guarantee for payment of the purchase price.

(EoI) being submitted (which was completed on April 3). Many investment bankers who are bidding for the mandate like ABN, Amro, UBS, Deutsche Bank, Morgan Stanley and HSBC have experts and teams working out of the Asia-Pacific headquarters who need to be flown in for the presentations. Among the consortia that have bid for the BPCL disinvestment mandate are ABN Amro, Enam-SSB (now Citigroup), DSP Merrill Lynch, Morgan Stanley, I-Sec-UBS and HSBC.

Dabhol Solution

General Electric (GE), one of the minority stakeholders in the beleaguered Dabhol Power Project, has expressed hope that an amicable solution would be arrived at within six months.

GE holds a 10 per cent stake in Dabhol Power Company (DPC) along with Bechtel, while the Maharashtra State Electricity Board (MSEB) holds 15 per cent and Enron the remaining 65 per cent. GE had requested the stakeholders in the project, including the finance and power ministries, to settle their financial dues and is holding negotiations with the National Thermal Power Corporation (NTPC) on the modalities of restarting the plant at the earliest.

The foreign lenders to the project have started arbitration proceedings in London against their Indian counterparts for having 'blocked them from pursuing rights embodied in the financing documents'. They have filed a notice for arbitration under the provisions of the United Nations Commission on International Trade Law.

The domestic lenders include the Industrial Development Bank of India (IDBI), ICICI Bank, the State Bank of India, and IFCI. All the stakeholders are engaged in talks to preserve their legal rights (SBI).

The Mumbai High Court has directed its appointed receiver to prepare a detailed report on the technical, commercial and financial feasibility of the 2184 MW Dabhol power project, with help from Indian lenders, within three months. The report could be a step closer to restarting the 658 MW Phase-I of the project, shut since June 2001.

The petition states that the Indian lenders have invested Rs 62 billion in the project and interest cost on the ag-

gregate debt financing amounts to Rs 20 million per day; for the last 14 months, no interest payments are being received by any of the secured creditors from DPC; if the project is restarted and operated at least some portion of the interest would be recovered during the period. Foreign lenders had given DPC their consent to issue a final termination notice for ending its contract with the MSEB, subject to clearance from the Mumbai High Court.

Offshore lenders have voted in favour of termination of the power purchase agreement (PPA) between the DPC and MSEB as soon as permission can be gained through the Mumbai High Court. If the PPA is terminated, MSEB would have to purchase the Dabhol power plant as per contract, the minimum price for which would be equal to the project's total debt.

If MSEB fails to pay, the Maharashtra Government, which has wholly-guaranteed the project, would be obliged to pay the purchase price. The project also has partial guarantees from the Centre. MSEB, sole buyer of the purchase contract, has already rescinded the PPA and avoided contract in the Mumbai High Court citing performance flaws in the project and misrepresentation of facts.

Hedging on ATF

The government is likely to allow the **Indian Airlines (IA)** to go in for hedging of aviation turbine fuel (ATF) that it uplifts from abroad. Globally, several international airlines hedge on ATF prices - basically forward buying and selling of aviation fuel.

Meanwhile, AI, which was granted permission to hedge on ATF by its board recently and has appointed **ICICI Bank** as the authorised dealer to carry out fuel hedging for it, plans to make a cautious start to its hedging activities.

AI is also examining the possibility of going in for the various options that are available in the global hedging market, including taking positions on ATF prices being quoted at the London market though delivery could be taken in Dubai.

The start of hedging is likely to improve the financial health of the two state-owned airlines.

Oil PSUs to Appoint Dealers

The government has plans to issue interim guidelines for selection of dealers by public sector oil marketing companies pending finalisation of regulations. Oil marketing companies have been crying foul over the informal ban imposed by the government on selection of dealers in February this year since it does not apply to private players such as **Reliance Industries Ltd (RIL)** which plans to set up around 500 retail outlets during the current financial year.

The effect of ban has already taken its toll. The origin of the ban goes back to the 'petrol pump' scam in August last year when 417 cases of politically connected allotments were uncovered by the media. This led to the Government scrapping the selection process through dealer selection boards.

Integral to the selection process was the reservation of dealerships for certain sections of society. Also, allotment of multiple dealerships to the same entity was not permitted. These are the two contentious issues over which the government was not able to take a position, leading to delay in finalising the regulations.

The ban on selecting dealers, sometime in early February, was triggered by **IBP Ltd**, a subsidiary of **Indian Oil Corporation (IOC)**. IBP set out its own guidelines, and appointed 450 dealers of retail outlets by issuing letters of in-

tent. This incensed **Bharat Petroleum Corporation Ltd (BPCL)**, which was denied permission from the government to select dealers till such time that the latter puts in place new selection norms. BPCL took up the issue with the government, leading to an across-the-industry ban till the norms were put in place.

The restriction in dealership selection has injured the interests of the public sector oil marketing companies since it cannot keep acquiring land and holding it in anticipation of selection norms being issued shortly.

From the Government's point of view, the sensitive issue of reservation is not an easy one since the private sector is not laden with such obligations. The reason for the delay in taking a decision is not far to find - over one in four dealers belong to the reserved category.

Of the 19,049 retail outlets in the public sector fold, around 5,078 outlets or 26 per cent are in the reserved category. These include sub-categories such as scheduled caste (1,365), scheduled tribes (545), unemployed graduates (699), physically handicapped (699), defence category (399), freedom fighters (22), sports persons (20) and 'others'.

This sub-category includes company-owned-and-operated outlets and a host of other qualifiers including social worker and discretionary quota extending to those awarded on compassionate grounds. Currently the number of outlets under this category stands at 1,104.

Winding-up Petronet India

Petronet India Ltd (PIL), the joint venture of public sector oil companies for laying pipelines, is likely to be wound up as it has out-lived its utility.

The step is being contemplated since all oil companies have now been permitted to lay pipelines on the basis of the common carrier principle.

Another reason for closing down Petronet is its failure to implement important projects like the 1,760-km Central India Pipeline and the 523-km Chennai-Trichy pipeline.

PIL is the holding company promoted by state-owned **Indian Oil Corporation (IOC)**, **Hindustan Petroleum Corporation Ltd (HPCL)** and **Bharat Petroleum Corporation Ltd (BPCL)**. PIL was set up in 1997 to prevent wasteful duplication of pipeline facilities and spread the economies of scale among all the interested companies.

It has now been made mandatory to allow for a 25 per cent extra capacity that could be used by other companies. Besides, the proposed downstream petroleum regulatory board has been entrusted with powers to fix tariff and sanction capacity of new pipeline projects.

Ministry Causes Loss

Ministry of Petroleum & Natural Gas (MoPNG) overlooked the fact that for transfer of funds above Rs 10 million from one sub-heading to another in the Budget, a Re-appropriation Bill has to be passed by the Parliament.

By the time they realised it, the Parliament went into recess only to convene when the financial year was over. The events leading to the slip-up began sometime in early March when the government decided to pay an additional Rs 12 billion subsidy to oil companies to partially compensate losses on sale of LPG and kerosene at subsidised rates during 2002-03.

The funds for this purpose were available since the public sector oil companies had met the States' irrecoverable taxes such as Central sales tax, entry tax, through levy of surcharge. As there was no legal sanctity to the levy of surcharge, the finance ministry provided for Rs 15 billion towards payment of irrecoverable taxes to the public sector oil companies in the Budget presented in February 2002.

Another Rs 2 billion was kept aside in the Budget towards payment of subsidies in far-flung areas to the oil marketing companies.

Of this amount, only Rs 5 billion was utilised by **Indian Oil Corporation (IOC)** for onward payment to **Reliance Industries Ltd (RIL)** for the sales tax incidence on 12.5 million tonnes of petro-products that it bought from the latter's 27-million tonne refinery in Jamnagar, Gujarat.

The petroleum ministry was therefore left with a surplus Rs 12 billion in last year's Budget. Re-allocation of this amount towards subsidy bills of government-owned oil marketing companies such as **IOC**, **Bharat Petroleum Corporation Ltd (BPCL)** and **Hindustan Petroleum Corporation Ltd (HPCL)** and **IBP Ltd** would have marginally reduced the losses incurred by the government-owned petro-marketing oil companies, which were forced to hold consumer prices of the two products due to political compulsions, running up losses to the tune Rs 40 billion during the fiscal 2002-03.

Major Port Land Policy

A high level committee set up by the Ministry of Shipping (MoS) to draft guidelines on the land policy to be followed by the major port trusts has submitted its first set of recommendations to the government. The recommendations cover the norms to be adopted on land in customs-bound area and land outside customs-bound area for both fresh allocations as well as existing leases. The committee has recommended that sale or lease should not be permitted for fresh allocations of land in customs-bound area.

Instead, it has suggested that fresh allocations of land should be given on licence basis only and that too for a maximum period of 11 months and in accordance with the Schedule of Rates (SoR), and in accordance with a document submitted by the committee. For existing leases of land in customs-bound area, the port trust concerned should first identify whether land is required for the same purpose.

Moreover, existing build, operate and transfer (BOT) operators can be given additional facilities on licence basis in accordance with the SoR at the discretion of the port trust. For land outside the customs-bound area, the committee has suggested that land can be allocated either on licence or lease basis. The lease of land outside customs-bound area should be given by inviting tenders. However, exceptions can be made for certain specified cases.

Vessels for SCI

The **Oil and Natural Gas Corporation (ONGC)** has transferred the operations and maintenance (O&M) of its three multi-support vessels (MSVs), **Samudra Suraksha**, **Samudra Sevak** and **Samudra Prabha**, to the **Shipping Corporation of India (SCI)**.

The three vessels have been transferred on a cost-plus basis for a year. The corporation plans to review its decision within three months. ONGC had taken over the three vessels in early March from its contractors, **Ganesh Benzoplast** and **Ganesh Anhydride**. The vessels were taken over as ONGC's divers and technical support staff struck work as they did not receive their wages. Mismanagement of the vessels by the two contractors had re-

sulted in stoppage of work and has led to ONGC losing close to Rs 690 million.

Earlier, ONGC had been debating over forming a joint venture for its offshore floating services. The deliberations proposed that the joint venture should take over the entire offshore logistic operations such as fire-fighting, underwater repairs and maintenance activities from the corporation.

ONGC has over 50 offshore supply vessels (OSVs) at its disposal. These OSVs are either owned by ONGC or hired for various offshore activities such as cargo handling, maintenance of its rigs, fire-fighting as well as carrying out seismic operations.

ONGC Takes Over MRPL

In an extraordinary general meeting, the shareholders of **Mangalore Refinery and Petrochemicals Ltd (MRPL)** approved the process of **Oil and Natural Gas Corporation's (ONGC)** taking over the refinery with a majority stake of 51 per cent and exclusive management control. If this bailout had not been effected by March 31, MRPL would have been referred to the Board for Industrial and Financial Reconstruction (BIFR) or lenders could have invoked the provisions of the Securitisation Act. With this, MRPL, which has been facing serious difficulties due to excessive debt and low capacity utilisation, has become a subsidiary of the state-owned ONGC. With a debt-equity ratio of 15:1 and low capacity utilisation of barely 50 per cent against the national average of 90 per cent, MRPL had seen more than a 50 per cent erosion in net worth by 2002-03. Over six weeks in June-July 2002, ONGC negotiated the buy-out of the **Aditya Birla Group's** 37.38 per cent equity in the refinery at Rs 2 per share of Rs 10 and a debt-restructuring package with the consortium of 14 lenders. In the new package, with fresh equity of Rs 6 billion being brought in by ONGC, the debt-equity ratio has improved from 15:1 to 2.5:1. The debt service coverage ratio has become positive at 1.27 - ONGC, however, does not propose any open offer at present.

The mega-corporation has also been granted marketing rights for transportation fuels. Assured sourcing of prod-

ucts for MRPL is expected to facilitate ONGC's entry into retail marketing which, based on MRPL production, is to be launched during 2003-04. Retail marketing will begin in Karnataka and subsequently be taken up on a countrywide basis. ONGC already produces and directly markets more than 5 MMTPA of products including petrochemical feedstock, LPG and naphtha from the processing facilities at Uran and Hazira. Moreover, product exports for MRPL will also be stepped up along with coastal movements to deficit areas in the domestic market. With the Mangalore-Bangalore petro-product pipeline to be commissioned in the next few weeks, ONGC hopes that MRPL's profitability will go up substantially. MRPL was established as a joint venture under a tripartite MoU of 1987 among the Government of India, **Hindustan Petroleum Corporation Ltd (HPCL)**, **Indian Rayon Industries Ltd** and associate companies of the Aditya Birla group. The refinery was commissioned in two phases - 3.69 MMTPA in March 1996 followed by 6 MMTPA in February 1998. The refinery, however, ran into serious difficulties and efforts to restructure it had not succeeded so far.

Mobil Petro to set up Consultancy Arm

Mobil International Petroleum Corporation is setting up a subsidiary in India to provide consultancy and advisory services to gas, power, petroleum and related sectors.

The company will not undertake any trading or marketing of petroleum products. The deregulation of the petroleum sector and the privatisation of oil corporations seem to be providing new business opportunities for global oil majors.

The consultancy activities will include providing advice on the Indian market, market research and analysis, quality control and pre-selection activities, marketing and pricing analysis. The services will be provided primarily to **ExxonMobil** group companies and their associated companies, besides other entities and persons, both in India and outside.

National Gas Grid

GAIL India Ltd (GAIL) has planned investments of Rs 180-200 billion towards completion of its national gas grid of over 12,000 km over the next five years. It will raise the money 'on its balance sheet'. The corporation has completed 6,500 km through its own resources and **ADB** loans. Work has begun on the Dahej-Bijapur link while the GAIL board has approved the Dahej-Uran-Dabhol, Kakinada-Kolkata and Kolkata-Chennai links.

This will involve an investment of Rs 28.6 billion. The Dahej-Bijapur link will be completed in time for the commissioning of **Petronet LNG Ltd's (PLL)** Dahej LNG terminal. GAIL, one of the promoters of PLL, along with **Indian Oil Corporation (IOC)**, **Oil and Natural Gas Corporation (ONGC)** and **Bharat Petroleum Corporation Ltd (BPCL)**, was 'taking a hard look at costs involved in the project' to cut the price of LNG to be supplied to consumers. GAIL may sell the imported LNG at different rates in Gujarat and the rest of the country as sales tax rates were as high as 22 per cent in the State of Gujarat.

Caltex - Seeks Waiver

Caltex has asked the government to delete the condition of divesting 26 per cent stake to Indian shareholders in its wholly owned subsidiary **Caltex Oil India Pvt Ltd (COIL)**.

The five-year deadline for the divestment expires this year. COIL was initially set up for conducting feasibility studies, market surveys and other promotional activities in the development and creation of infrastructure related to import and handling of liquefied petroleum gas (LPG) in India.

But the divestment condition was imposed when in 1997 it proposed some new businesses in which the sectoral policy entailed mandatory divestment of 26 per cent in five years.

The company now says that apart from the limited activity conducted up to March 31, 2001, it has not been able to engage in the activities, which called for the divestment clause. In fact, the company is now a dormant entity with no business activity and no plans for any business whether permitted by the amended approval or otherwise.

Hence, the divestment clause is no longer applicable to it. Company executives were not willing to comment on why they still need foreign collaboration approval for a dormant entity.

Ras Gas LNG

Ras Gas will not renegotiate the price of liquefied natural gas supplied to **Petronet LNG** at Dahej. Ras Gas is the international supplier to Petronet LNG's five-million-tonne-per-annum LNG import terminal at Dahej in

Gujarat. Although Ras Gas is not keen to renegotiate the price of LNG, the company was talking of a pricing band for LNG.

It was working on an 'innovative way of handling this price band'. On the affordability of LNG, Ras Gas has shared its concerns regarding high taxes on LNG with off-takers and the government. Gujarat has the highest sales tax at 22 per cent on LNG

RPL Claims Loss

Reliance Petroleum Ltd (RPL) has written to the Union Government that it is losing around Rs 2.5 billion annually after entering into a new contract with **Indian Oil Corporation (IOC)**, **Hindustan Petroleum Corporation Ltd (HPCL)** and **Bharat Petroleum Corporation Ltd (BPCL)** last year for the sale of around 12.5 MMT of products.

Earlier, it was being compensated for coastal movement of products to IOC's retailing depots. In the new deal, which lasts for another year, there is no recovery of this cost.

The company, however, will now be paid Rs 5 billion by IOC for the sales tax benefit enjoyed by its 27-million-tonne refinery in Gujarat. This money will be released once the Exchequer pays the amount from the irrecoverable taxes allocation made in last year's Budget. RPL gets a full waiver of the 4 per cent central sales tax (CST) levied by the state.

However, it books two-thirds of this amount on the products sold to IOC. This constitutes a significant part of the refinery margins earned by the petroleum major.

Interest in HPCL

Oil majors **Royal Dutch Shell, Reliance Industries Ltd (RIL), Saudi Aramco, Petronas, Chevron Texaco** and a consortium of three **Essar** group companies submitted their expressions of interest (EoIs) for acquiring a 34 per cent controlling stake in **Hindustan Petroleum Corporation Ltd (HPCL)**.

The bidders, once qualified, will put up price bids for acquiring the petro-major, which has a 20 per cent market share in the retail segment.

For **Shell**, it is a second try after having been the second highest bidder in the privatisation of petro-marketer **IBP Ltd** last year. It has a significant presence in the country with an upcoming LNG terminal at Hazira, Gujarat.

HPCL has a refining capacity of 13 MMT, well short of the 20 MMT of products retailed through its own outlets.

This is a major attraction for the European major as it provides an outlet for its refinery in Singapore, which operates at a low output level. Shell has already applied for permission from the government to import petro-products.

The country's largest petrochemical company, **Reliance Industries Ltd (RIL)**, has a 27 million-tonne refinery with no retail outlets of its own. It currently sells 12.5 MMTPA to **Indian Oil Corporation (IOC)** under a contract, which will expire in a year's time.

Essar is currently setting up a 240,000-barrel per day refinery in Vadinar, Gujarat, scheduled to be commissioned in 2005. Global oil major **Chevron Texaco** has a strong presence in Asia. In Pakistan, it has over 250 retail outlets besides a lube blending plant and a 12 per cent stake in **Pakistan Refinery Ltd**.

Saudi Aramco, the Saudi oil major, has historically invested in refining and marketing sector to gain access to the petro-market.

Malaysian State oil company, **Petronas**, is currently pursuing an LNG project in collaboration with IOC on the eastern coast of the country. Following the strategic sale, the government's stake in HPCL will be reduced to 12 per cent. The government is believed to have appointed HSBC as its advisor for the strategic sale of HPCL.

New Deal for Gas

In a bid to increase its business, **GAIL India Ltd (GAIL)** has mooted a proposal wherein royalty and 'profit petroleum' that accrues to the Government as cash from oil and gas-producing blocks, is given to GAIL in kind.

In other words, instead of the exploration companies paying cash to the government towards royalty and profit petroleum, they will pay the equivalent as gas supply to GAIL, which will market it and pay the government's dues from the sale proceeds.

The proposal comes in the wake of government finalising the terms for bidding for blocks in the fourth round of the NELP.

However, **Oil and Natural Gas Corporation (ONGC)** and **Reliance Industries Ltd (RIL)** have objected to the proposal.

Under NELP, royalty is fixed at an *ad valorem* rate of 10 per cent of the value of gas or oil produced.

Profit petroleum is the revenue from the producing field shared between the Government and the contractor once the 'cost petroleum' or debt obligations and other costs are paid off.

The share of profit petroleum is one of the parameters on which the government bids out the blocks.

The higher the profit petroleum share that the contractor is willing to pay, the more aggressive is his bidding to acquire the block. Payments from profit petroleum begin to occur about five-to-seven years in the production phase.

Over the last few years, the government has received around Rs 20 billion from profit petroleum revenues of exploration companies.

SC Sets Aside Award

In a major judgement laying down guidelines for testing validity of an arbitration award, the Supreme Court has held that delay in delivery of goods as against the time and date stipulated in a contract could invite penalties and any award reaching a contrary conclusion could be set aside by the courts.

While giving this ruling, a bench comprising Justice M B Shah and Justice Arun Kumar had set aside an award of the arbitrator asking **Oil and Natural Gas Corporation (ONGC)** to pay back a foreign firm amounts of US\$ 304,970 and Rs 1,575,559 deducted by the Indian company for delay in supply of casing pipes required for oil exploration.

Accepting the submissions of ONGC, the court said the award directing refund of the amounts with interest, which were deducted for the breach of contract as per the agreement required to be set aside.

The foreign company had stated that there was a labour strike in many countries of Europe leading to a delay in production of the casing pipes by the Italian firm.

ONGC, while making payments, deducted the amounts saying it led to delay operationalising a project resulting in national loss.

The bench said that an award could be set aside 'if it is against the fundamental policy of Indian law, the interest of India, justice or morality or if it is patently illegal.'

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