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GAIL Quits ONGIO

GAIL India Ltd (GAIL) has decided to withdraw its participation in **ONGIO International Ltd**, a joint venture of **Oil and Natural Gas Corporation (ONGC)** and **Indian Oil Corporation (IOC)**, providing global consultancy services in the oil and gas sector. The move follows differences over the appointment of GAIL's nominees on ONGIO board.

In an official communique, GAIL has informed the petroleum ministry that it is withdrawing its decision to pick up 24 per cent equity in ONGIO International. Its participation in ONGIO was approved last year with an investment of Rs 24 million.

GAIL Moots 'Barter'

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, will be 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 the government finalising the terms for bidding for blocks in the fourth round of the **New Exploration Licensing Policy (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. The share of profit petroleum is one of the parameters on which the government lets out the blocks.

Share of Oil Profits

The first round of battle over sharing of profit petroleum earned from crude production from blocks awarded under the NELP between the Centre and states has gone to the finance ministry. As suggested by the ministry, the Cabinet Committee on Economic Affairs (CCEA) has decided to refer the issue to the Finance Commission for a final decision.

The CCEA has also decided that the finance and petroleum ministers will work out a solution to provide relief to

Petrol, Diesel Prices Hiked

With war in the Gulf region a reality, the consequent northward movement in the global prices of crude is beginning to affect India. The public sector oil companies has already announced a hike in the prices of both petrol and diesel for a fortnight starting March 16. Following an increase of Rs 1.39 per litre the new prices of petrol in Delhi and Kolkata will be Rs 33.49 and Rs 35, respectively. For diesel, the increase ranges from 91 paise per litre in Delhi and Kolkata to Re 1 in Chennai and Rs 1.09 per litre in Mumbai. The new prices in the four metro cities will be Rs 22.12 in Delhi, Rs 23.51 in Kolkata, Rs 24.28 in Chennai and Rs 27.88 in Mumbai. The prices of Indian crude oil increased to US$ 32.06 per barrel during the first fortnight of March, compared to US$ 31.67 per barrel during the second fortnight of February this year.

states during the period till the commission gives its ruling. The same procedure will be adopted for the sharing of production level payments and commercial discovery bonus in the contracts under the coal bed methane (CBM) policy.

IOC to Export Products

With domestic demand remaining flat, **Indian Oil Corporation (IOC)** will more than triple exports of petroleum products to over US$ 800 million in 2003-04. The corporation will jack up export of petroleum products to Sri Lanka to 1.5 million tonnes while making maiden forays in Maldives, Bangladesh and Mauritius.

Last year the company entered into a one-year contract for exporting 30,000 tonnes of diesel and 10,000 tonnes of ATF a month to Sri Lanka. It has now struck a deal with **Mangalore Refinery and Petrochemicals Ltd (MRPL)** to export an additional 240,000 tonnes of diesel and ATF to the island nation during the next six months.

IOC has initiated discussions with Bangladesh government for supply of 40,000 tonnes of diesel a month from its Haldia refinery or its subsidiary Chennai refinery. It will also increase product exports to Nepal to one million tonnes in 2003-04 from 0.7 million tonnes, besides limited exports to Maldives and Mauritius.

During 2001-02, IOC exported 0.9 million tonnes of petroleum products, mostly to Nepal, to net about US$ 220 million. Till January it had exported 0.878 million tonnes of products valued at US$ 265 million. Aiming for export driven growth, the corporation first tasted success in July 2002 when it signed a term contract with Sri Lanka's national oil company **Ceylon Petroleum Corporation (CPC)** for supply of 480,000 tonnes of products for one-year, beginning September 2002. Export against this contract comprises monthly shipments of 30,000 tonnes of diesel and 10,000 tonnes of ATF on C&F, Colombo basis.

To date it has exported six shipments to CPC against the term contract, the total quality shipped being 172,000 tonnes of diesel and 60,000 tonnes of ATF from the Chennai refinery.

The company has, in the meanwhile, incorporated its wholly owned subsidiary, **Lanka IOC Pvt Ltd**, in Sri Lanka for carrying out downstream marketing. Sri Lankan government has permitted Lanka IOC to retail petrol and diesel. The company has since then taken over the one million tonnes capacity tankfarm at Trincomalee on a 35-year lease and commenced retailing petroleum products through 90-odd petrol stations taken over from CPC.

IOC will be adding another 150 franchisee retail stations soon. A natural extension of the Sri Lankan market is the Maldives, which imports 0.25 million tonnes per annum of products through tenders.

The corporation will commence petrol and diesel retailing in Mauritius from 10 outlets by September 2003.

IOC has set up another wholly owned subsidiary **Indian Oil (Mauritius) Ltd** for setting up oil terminal, aviation facilities, LPG storage/ bottling/distribution facilities and retailing petroleum products. Phase-I of the project comprises commissioning 18,000 tonnes tankage and aviation facilities by September 2003.

HPCL May Offer VRS

Hindustan Petroleum Corporation Ltd (HPCL) has approached the government to approve a voluntary retirement scheme (VRS) for its employees prior to disinvestment. The corporation is looking at reducing the 12,000 workforce by at least 1,200 and upto 1,800, or about 15 per cent of the total staff strength. It has urged its administrative ministry, the **Ministry of Petroleum and Natural Gas (MoPNG)**, to put forth a separation plan to the employees which is 'higher' than that offered by the department of public enterprise and is demanding a 'separation package' on the lines of that offered by the **Indian Oil Corporation (IOC)**, the refining and marketing oil major.

Besides HPCL, **Oil and Natural Gas Corporation (ONGC)** as well as **Bharat Petroleum Corporation Ltd (BPCL)** have also submitted proposals for VRS to reduce the workforce by as many as 5,000 and 600 employees, respectively.

Contingency Plan to Avert LPG Shortage

The government has begun drawing up contingency plans to avert any shortage of domestic cooking gas (LPG) as a result of go-slow agitation by employees of the country's largest oil company, **Indian Oil Corporation (IOC)**. **Bharat Petroleum Corporation Ltd (BPCL)** and **Hindustan Petroleum Corporation Ltd (HPCL)** have been asked to bridge the shortfall in supplies arising out of IOC's LPG bottling plants supplying just around 50 per cent of their normal volumes in northern, western and southern regions.

Employees of the IOC are on a work-to-rule agitation demanding additional pay incentives. The agitation is to be followed by a two-day strike on March 25-26. The eastern region union of IOC is not party to the agitation.

The government has sent an advisory to IOC "to ensure that the strike doesn't materialise and supplies are not disrupted. The agitation may also affect petrol, diesel and aviation turbine fuel (ATF) supplies as tanker despatches from depots and terminals have slowed down.

Loading of petrol and diesel tankers in the northern region, barring Rajasthan, has been curtailed by 30 to 50 per cent.

Customs Duty Reduced

The peak rate of *ad valorem* customs duty has been cut from 30 per cent to 25 per cent. However this benefit does not go to agricultural and dairy products.

The preferential rates of duty under the Bangkok Agreement and under Preferential Area Agreement have also been reduced in respect of those goods where the most-favoured-nation rate of duty (import duty) has been reduced in conformity with the WTO commitments.

Other areas/items where the duty has been reduced in varying percentages include information technology, non-ferrous metals, petroleum, health, textiles, biotechnology, power, tea, transport and national calamity contingency requirements.

The duty on LNG regassification plants has been reduced from 25 to five per cent and the additional duty of customs on motor spirit and high speed diesel oil has been raised from Re 1 per litre to Rs 1.50 per litre.

The duty on paraxylene has also been lowered from 10 to five per cent. As per the Budget, specified pharmaceutical and bio-technology equipment for R&D have been exempted from customs duty subject to their being registered with the department of scientific and industrial research.

'Service' Tax Net Widens

The 2003-04 Budget has raised the rate of service tax from five per cent to eight per cent. Service tax has been further extended to 10 services. This includes commercial vocational institutes, coaching centres and private tutorials.

Technical testing and analysis (excluding health and diagnostic testing) maintenance and repair services, commissioning and installation services, business promotion and support services, internet cafe and franchise services will be subject to a service tax of 8 per cent.

The service tax which was applicable to major ports will now be extended to minor ports. In the banking and the financial sector, service tax will be extended to all forex brokers.

Presently, the services provided by banks and corporates in relation to foreign exchange are covered under service tax and now this will be extended to proprietorship, partnership and other individual concerns providing such services.

However, the present exemption on service tax has been extended beyond March 31. Credit of service tax paid on input services for payment of service tax on output services is also being extended across all services.

The government has asserted that there will be no shortage of oil supplies in the country despite the war on Iraq.

It has stated that adequate arrangements had been made to deal with the situation.

BG, GAIL - Alliance Talks

BG Group Plc and **GAIL India Ltd (GAIL)** are engaged in discussions to form a strategic alliance in the areas of LNG, city gas distribution in India and abroad along with joint bidding in the domestic oil and gas sector under the fourth round of NELP.

BG Group's chairman, Richard Giordano KBE, chief executive, Frank Chapman and BG's India chief Nigel Shaw had a detailed meeting with GAIL chairman and managing director to work out the areas of joint co-operation. The possibilities of GAIL's participation in BG's LNG production plant in Iran were discussed at the meeting. The two giants may jointly look at importing LNG from Iran to various coastal locations in India through the development of LNG receiving and regassification facilities.

BG and GAIL also discussed co-operation in city gas distribution projects in India and abroad. While BG may participate with GAIL in some of the gas distribution projects planned by it in Lucknow, Kanpur, Agra, Faridabad, Pune among other cities, GAIL has conveyed its interest to take part in the gas distribution projects of BG in Ireland, Brazil and Argentina.

GAIL also discussed the issue of purchase of incremental gas production by BG in the Panna Mukta and Tapti oil and gas fields.

MOU between GAIL and NIGEC

GAIL India Ltd (GAIL) has recently entered into an MoU with the **National Iranian Gas and Exploration Company (NIGEC)**. NIGEC is a subsidiary of NIOC, which has major participating interest in all the four LNG production plants in Iran where companies such as **Indian Oil Corporation (IOC)**, **Reliance Industries Ltd (RIL)**, **BP** and **Totalfina** are its partners in various projects.

On the LNG front, the Dahej terminal of **Petronet LNG Ltd** is expected to import an additional 2.5 MMTPA of LNG from 2007 onwards. GAIL, as the major off-taker of gas from Dahej, will start discussions with NIGEC for supplying of these quantities at prices acceptable to the Indian markets.

Oil Raj

Despite the much-touted dismantling of the administered price mechanism (APM) almost a year ago and the supposed onset of deregulation, the Union petroleum ministry is obviously not ready to give up its control over the oil sector.

As a result, while oil cartel manipulations and the war in West Asia have seen international oil prices rise to a 12-year high over the span of just one year, Indian oil companies have been forced to stand by helplessly and watch the continuing subsidy regime take its toll on their bottom-lines.

Oil public sector units (PSUs) are now faced with a situation where their under-recoveries are threatening to bloat to Rs 54.3 billion, as the government refuses to allow them to administer market-dictated price revisions on some petroleum products like kerosene and LPG which are considered 'politically sensitive'.

While the subsidy on kerosene hovers around Rs 20.67 billion, that on LPG is around Rs 33.63 billion. And if a recent forecast by the Paris-based International Energy Agency turns out to be accurate, in view of the conflict in West Asia, global crude supplies are bound to tighten, notwithstanding Saudi assurances. The short-term impact this will have on international and domestic crude prices can only be imagined.

Of course, this is not the first time that a government has put electoral priorities before fiscal prudence. Most, if not all, governments, have, at some time or the other, succumbed to what they perceive as political compulsions, and the National Democratic Alliance-led government certainly will not be the last to do so.

The irony is that such populist measures have rarely paid the expected dividends, resulting in a situation where an already tenuous situation is made worse. In such a situation, it is even more imperative to put in place a regulatory authority that will oversee market-dictated policies.

An energy-deficient country like India, which is dependent on imports for most of its oil demand, is bound to be buffeted by the volatility currently prevailing in the international oil sector.

HPCL, BPCL - Disinvestment Issue

On the first page of the opinion expressed by the Attorney General of India on disinvestment, he has admitted that the government has by notification vested the right, title and interest of **Esso** in a government company. However, later on page 3 he states that the Memorandum and Articles of Association of **Hindustan Petroleum Corporation Ltd (HPCL)** and **Bharat Petroleum Corporation Ltd (BPCL)** do not impose any requirement of Parliamentary approval for sale of shares.

As the Parliamentary enactment has imposed a restriction by stating that the assets should be vested in a government company as defined by the Companies Act i.e., government shareholding should not be less than 51 per cent. This is the crux of the matter. The Parliamentary fetters are on the government as shareholder and not on the Board of directors.

The finance minister has stated in the Rajya Sabha that the Banking Act 1970 will be amended to modify the 51 per cent government holding to 33 per cent to enable the government to sell shares without privatisaton.

Thus the finance minister has accepted the need to amend the Banking Act to bring the government holdings below 51 per cent.

The same principle should apply to other ministries/departments dealing with disinvestment. The government has further confused matters by stating that only shares will be transferred and not assets in HPCL and BPCL.

LPG Price Hike

A hike in domestic LPG price by Rs 15-20 per cylinder has become almost certain. The proposal was awaiting the prime minister's approval. However, there will be no increase in the price of kerosene being used for public distribution system (PDS). Oil marketing companies have together lost about Rs 32 billion during 2002-03 by selling LPG and kerosene below cost.

The Rs 67.75 per cylinder subsidy element provided this fiscal covers only half of the Rs 125 per cylinder gap between the artificially suppressed domestic retail price of Rs 241.20 in Delhi and the actual average cost.

Unwillingness on part of the government to implement a hike in the prices of these two fuels in tune with the prevailing international oil prices has put a massive burden on the balance sheets of oil marketing companies — **Indian Oil Corporation (IOC), Hindustan Petroleum Corporation Ltd (HPCL)** and **Bharat Petroleum Corporation (BPCL)**. Moreover, as the finance minister has announced a further cut in the LPG and kerosene subsidy for 2003-04, the oil companies are pressing for an immediate hike in the prices of these two fuels.

While the Budget 2003-04 shows a 40 per cent increase in subsidy outgo on kerosene and domestic LPG, the Rs 63 billion provision for 2003-04 includes undisbursed subsidy element of Rs 21.98 billion for the current year. The total subsidy on LPG and kerosene for 2002-03 was close to Rs 100 billion, of which government was reimbursing Rs 67 billion.

Crude from Greater Nile Project

India will get additional crude supplies of 3 MMTPA from the Greater Nile oil project of Sudan. The overseas arm of **Oil and Natural Gas Corporation—ONGC Videsh Ltd (OVL)**—has acquired 25 per cent equity of **Talisman Energy** of Canada in the Greater Nile oil project for US$ 670 million. This is the first ever acquisition of a large producing field by India overseas.

The other partners in the Greater Nile oil project are **China National Petroleum Corporation (CNPC)**, **Petronas Corigall Overseas Sdn BHD (Petronas)** of Malaysia and Sudan's national oil company **Sudapet Ltd**. Currently, the project is producing 240,000-260,000 barrels per day.

The oil is transported to the marine terminal at Port Sudan through a 1,504 km long underground pipeline for sale to crude buyers. The sweet crude produced in the project has high market demand and is currently selling at about US$ 30 to US$ 32 per barrel.

Petro Freight Cut

Reduction in railway freight on petroleum products, especially petrol and diesel, will lead to considerable savings for oil marketing companies ultimately benefiting consumers. Oil companies may see roughly seven to eight per cent savings in railway freight costs.

Freight costs are built into petroleum product prices and any decrease will be passed on to consumers.

However, the 10.7 per cent cut in petrol freight and the 5.3 per cent fall in rate for diesel, furnace oil, crude oil, naphtha, LPG and lubes, announced in the Railway Budget does not mean an immediate cut in petrol or diesel prices: Instead, it will help soften the impact of any price hike in the near future.

Railways are the most preferred mode to transport petroleum products while roads are a close second. The use of pipelines is considered the most feasible in terms of working costs and is on the rise.

Freight bills for transport of petroleum products for **Bharat Petroleum Corporation Ltd (BPCL)** stands at Rs 10.2 billion while **Hindustan Petroleum Corporation Ltd (HPCL)** spends roughly Rs 13.12 billion. **Indian Oil Corporation (IOC)** has the highest freight costs at around Rs 41.08 billion annually.

With pipelines weaning away petro product traffic from the Railways, this Railway Budget sees a reduction in tariff on transportation of petrol, diesel and LPG between 11 and seven per cent.

However, this move may not plug the leak sufficiently. It is estimated that the Railways will still lose nine per cent revenues on petroleum oil and lubricants (POL) movement during fiscal 2003 over the current year's Rs 26.779 billion.

The volume of petro product movement began to shrink from fiscal 2001, after peaking in fiscal 2000. POL movement in fiscal 2001 was 35.62 million tonnes, generating revenues to the tune of Rs 27.45 billion. During fiscal 2002, this dropped 2.4 per cent to Rs 26.78 billion.

The Railways have estimated that in fiscal 2003, this will drop further by nine per cent.

IOC in Talks with Jordan

The Jordanian government has invited **Indian Oil Corporation (IOC)** to hold commercial negotiations for constructing the US$ 120 million Iraq-Jordan crude oil pipeline.

IOC along with **Stroytransgaq (STG)** of Russia is leading the three parties short-listed by the Jordanian government for building this pipeline. The 300-km long pipeline, which will originate from Iraqi border, will travel to Jordan's sole refinery at Zarqa, 27 kms north-east of the Jordanian capital Amman.

This is one of the rare refineries where oil is being transported overland by big tanker trucks, putting huge pressure on the road link between Amman and Baghdad. The proposed pipeline would have a carrying capacity of up to five million tonnes in the initial phase and Iraq has committed 3.5 million tonnes of assured crude throughput.

As many as 35 leading oil and gas companies had initially bid for this project and three companies were finally short-listed. The other two companies are **Petrofac Resources Int Ltd**, UAE and **Al-Shansari** Group of Oman.

A high level team of IOC officials will hold discussions with the Jordanian authorities. If selected, this will be the first international pipeline project to be executed by IOC. On the domestic turf, IOC has the experience of laying over 7000 km of pipelines.

Iraq and Jordan observe an annually renewable oil protocol under which Baghdad meets Amman's need in crude oil and its derivatives, estimated at more than five million tonnes.

Under the current oil agreement, Jordan receives half the oil supplies for free and half at a preferential rate below market prices. The accord falls outside the remit of UN sanctions imposed on Iraq for invading Kuwait in 1990.

The Iraq-Jordan pipeline project will be carried out on a build-own-operate-transfer (BOOT) basis. While STG would undertake the procurement and construction, IOC will be responsible for the entire designing, engineering and the operation and maintenance (O&M) of the project.

Shortage of Gas

Eighteen companies including prominent names like **Samtel Color**, **Parle Biscuits, BPL Display Devices, Kajaria Ceramics, SPL, Hindustan Sanitaryware** and **Mohan Meakins** have threatened to down shutters of their manufacturing facilities around Delhi following stoppage of gas fuel supplies by public sector Gail India Ltd (GAIL).

While some of them like **BPL Display Devices** and **Surya Processors** have already closed their units, several others are planning to import products from China if gas supplies are not restored immediately. The companies, which planned their long-term business strategies based on the continuous availability of natural gas, say their fuel costs have doubled after GAIL suddenly stopped supply of natural gas in July 2002. This has increased the fuel cost to 30 per cent of total production cost from the earlier level of 14-15 per cent. Imported ceramic products from China are relatively cheaper than the tiles produced in these factories.

Out of 18 affected companies, five are engaged in production of ceramics and sanitary-ware. The other companies are **Kajaria Ceramics, Surya Roshni, Surya Processors, Orient Ceramics, Universal Glass, UP Twiga, Rathi Udyog, UP Ceramics and Potteries, Hindustan National Glass, Haryana Sheet Glass** and **Rathi Super Steel**.

GAIL has stated that these firms were never given firm gas allocations and were told to make alternative arrangements as a fall back measure. Moreover, the corporation has had to comply with the Supreme Court order on increasing CNG supplies to Delhi.

While CNG supplies have had to be increased, gas availability is not increasing in the country. It is in no position to commit any firm supplies, till regassified LNG comes to India. GAIL officials stated that the corporation has already sent letters to affected companies for supplying regassified LNG by 2004.

Samtel Color, which recently invested about Rs 3.5 billion in expanding its production facility, has opted for alternate fuel - LNG and HSD. Their fuel cost has doubled from Rs 30 million to Rs 60 million.

Cleaner Tech for Fiscal Sops

Union environment and forests ministry has initiated discussions with the Ministry of Finance (MoF) to provide fiscal incentives for pollution control systems and clean technologies.

As reflected in concessions in the Budget 2003-04, some of the suggestions have been accepted. Customs duty on clean technologies like membrane cell technology used in caustic soda units has been reduced to five per cent from 15 per cent.

The industry hitherto was using mercury cell technology, which is harmful for the ground water. However, despite several initiatives for pollution control, challenges still exists in overall management of environment.

ONGC's Takeover of MRPL

The board of **Hindustan Petroleum Corporation Ltd (HPCL)** has approved **Oil and Natural Gas Corporation's (ONGC)** takeover of **Mangalore Refinery and Petrochemicals Ltd (MRPL)**, where HPCL will have a 16.9 per cent stake after the takeover and recast.

The corporation will acquire 51 per cent stake in MRPL through purchase of the **Aditya Birla Group's (ABG)** 37.4 per cent stake for Rs 600 million, followed by an infusion of Rs 6 billion capital into the ailing refinery.

At present, HPCL and ABG are equal equity partners in MRPL with 37.4 per cent stake apiece.

The public holds the remaining 25.2 per cent. An extraordinary general meeting (EGM) of the shareholders has been called for approval to issue preferential shares to financial institutions as part of the restructuring package.

A part of the FIs debt of Rs 54.92 billion will be converted to equity, which will bring down the debt-equity ratio of the company to 2.83:1 from the present 15:1.

Crude Transhipment — Rate War

A battle royal appears to have started among the east coast ports of Kolkata, Paradip, Kakinada and Visakhapatnam to grab as much of the transhipment crude traffic.

The authorities of all these ports are wooing both **Indian Oil Corporation (IOC)** and the **Shipping Corporation of India (SCI)**. In the process, a rate war appears imminent. While this should be cause for cheer to IOC and SCI, that is not the case. In such a game of oneupmanship, choice can be made only after taking into account all the relevant issues at take.

The Kolkata port handles transhipment crude traffic at Sandheads, the mouth of the Hooghly river. The operation is undertaken during the dry season, that is, between October and March.

The performance this year (2002-03) was spectacular. For the first time, ultra large crude carriers (ULCCs) with full loads came to Sandheads and discharged crude into smaller daughter vessels for second round of discharge in such ports as Haldia and Chennai. The Kolkata Port Trust (KPT) is believed to be charging wharfage at Rs 26/27 per tonne.

The success of the Sandheads operation has made the authorities of Visakhapatnam Port Trust (VPT) sit up and not without reason. This year VPT expects to handle about 7.5 million tonnes of crude by way of transhipment against about nine million tonnes the previous year; the drop in throughput is attributed to the transhipment operation not only at Sandheads but also at the neighbouring Kakinada port. Between last July and September, Kakinada handled several VLCCs for transhipment purpose and the total throughput is estimated at two million tonnes.

Between December 2000 and February 2001, Visakhapatnam port too handled six VLCCs at anchorage for transhipment purpose totalling 2.5 million tonnes. The port has not handled any VLCC since. In 2001-02, IOC refrained from bringing VLCCs to the port and it handled Suezmax tankers totalling nearly nine million tonnes of transhipment crude. The same year, the throughput of transhipment crude at Sandheads was around 1.5 /1.6 million tonnes. In 2002-03 also, IOC decided not to bring any VLCC to Visakhapatnam; instead, the corporation directed those vessels to Kakinada, particularly in July-September. From October, the Kakinada operation stopped; it began at Sandheads.

While Visakhapatnam port did handle transhipment crude during the period, it was mostly Suezmax and LRI tankers with consequent drop in throughput over the previous year.

VPT is, therefore, mulling lighterage operation by way of ship-to-ship discharge away from the port at high sea so that, as at Sandheads, ULCCs and VLCCs with full loads can be handled.

Accordingly, VPT has appealed to both SCI and IOC to explore the possibility of undertaking the operation and has, in return, promised to charge attractive rates that IOC and SCI will find difficult to ignore. The package is still to be finalised but according to informed sources the rate will be substantially lower than that being charged either at Kakinada or at Sandheads.

In any case, the Visakhapatnam port does not charge any wharfage on transhipment crude unloaded by VLCCs. It only levies vessel-related charges. In 2000-01 when it handled six VLCCs, the vessel-related charge was 19 cents per GRT, the same as that fixed for the Sandheads operation. Now VPT would like to reduce it further.

Kakinada being a private port generally fixes rates through negotiations with the customer depending on, among other things, the cargo inducement. According to unconfirmed reports, for transhipment crude the rate is around Rs 750,000 per operation involving the mother vessel and four daughter vessels. VPT is examining a lower rate. It is also prepared to extend additional supporting facilities to SCI such as two tugs against one tug at present.

With both IOC and SCI agreeing to heed the VPT appeal for starting lighterage operation at high sea near the port to handle large volume of transhipment crude, if everything goes on schedule, the trial operation should begin in March so that the regular operations are started from April.

The Kolkata Port Trust too is not sitting idle. It is believed to have successfully sold to both IOC and SCI the idea of starting tandem mooring operation at Sandheads for handling transhipment crude. The tandem operation, which will replace the present lighterage operation by way of ship-to-ship discharge, can be undertaken even during moderately rough weather.

Meanwhile, Paradip port, which does not handle transhipment crude at all has also set its sight on the traffic. This, it is felt, should be possible because the port's newly constructed oil jetty will be ready for operation shortly. The Customs notification has been obtained and other statutory approvals of the petroleum ministry, the shipping ministry and the Chief Controller of Explosives are expected soon.

The basin in front of the oil jetty is being dredged to achieve a depth such that tankers requiring up to 13-metre draught can call. But the problem is that VLCCs and ULCCs or even Suezmax carriers with full loads require more than 13 metre draught. Therefore, only LRI tankers of 65,000-tonne capacity will be suitable. As for the rate, the Paradip Port Trust, it is learnt, is planning to charge Rs 15 per tonne as wharfage for the transhipment crude.

However, this has to be approved by the Tariff Authority for Major Ports. IOC, is believed to be insisting on an even lower rate - as low as Rs 10 per tonnes - and its demand might be considered once a single buoy mooring (SBM) has been installed off the port. It may be recalled that there is a proposal to install an SBM off Paradip to handle large crude carriers with full load to meet the requirement of the proposed 12 MMTPA capacity refinery of IOC.

Oil & Gas in Rajasthan

Cairn Energy has made an oil and gas discovery in Rajasthan. Well RJE-one of the pre-NELP blocks gave 200 barrels of oil and 7.3 mmscfd of gas in the 1241-1338 metres interval. Gas and hydrocarbon indications were found in a tight reservoir in two deeper intervals.

SCI Nodal Agency Status

Petroleum minister Ram Naik has shot down disinvestment minister Arun Shourie's proposal on restoring nodal agency status to **Shipping Corporation of India (SCI)** for transportation of crude oil. Mr Shourie had sought the status for a period of two years after SCI privatisation.

The withdrawal of assured business from crude oil importers/refineries would affect SCI's valuation as crude transportation is highly profitable and a major business. The government is in the process of selling its majority stake in SCI to a strategic investor.

The company was the nodal agency for import of crude prior to dismantling of administered price mechanism (APM) in the petroleum sector. Mr Shourie wants the nodal agency status restored even in the deregulated scenario. Mr Naik has said that he has no objection in extending purchase preference policy of the government to SCI if it takes part in tenders floated by oil companies like IOC.

The purchase preference will come only in the event of oil companies deciding to import crude on free on board (FOB) basis. At present, oil companies have the option to import crude either on cost and freight (C&F) or FOB basis. The buyer has the right to make shipping arrangements if import is being done on FOB in contrast to C&F basis where the exporter makes the arrangement and quotes the shipping cost along with the product cost at the time of negotiating the contract.

Nodal agency status does not mean much since IOC is no more the canalising agency for crude. While **Indian Oil Corporation (IOC)** imports crude on very large crude carriers (VLCCs), these vessels are not available with any domestic shipping company.

In fact, over 70 VLCC cargoes were brought in by the company during January-December 2002.

Hindustan Petroleum Corporation Ltd (HPCL) and **Bharat Petroleum Corporation Ltd (BPCL)** on their part have been importing on Suezmax and Aframax tankers. The refinery locations of these companies do not permit them to import on VLCCs since these vessels cannot berth at all ports. Aframax and Suezmax were hired from SCI as well as private shipping companies such as **Great Eastern** and **Essar**. To this extent, SCI's loss of nodal agency status has worked to the advantage of other shipping companies.

IOC chairman MS Ramachandran, in his capacity as director (planning and business development), had in February 2002 expressed the company's inability to extend purchase preference. He had pointed out that since the private sector refineries are not obliged to give preferential treatment to SCI, the PSU refineries are at a disadvantage.

ATF Issue

As repeated pleas to cut the sales tax on aviation turbine fuel (ATF) have failed to elicit a positive response from most of the state governments, the Centre, it is learnt, is looking at a proposal to have differential air fares for various states.

The proposal, if accepted, could result in a flight between Delhi and Andhra Pradesh costing much less than a flight between Delhi and Kerala. This has more to do with the fact that Andhra Pradesh is the only state that has rationalised sales tax on ATF at four per cent: Kerala charges 39 per cent sales tax on ATF.

However, Kerala is not the only state where the incidence of sales tax on ATF is on the higher side. Following closely are Gujarat with a sales tax of 36 per cent on ATF, Madhya Pradesh with 29 per cent, Karnataka with 28 per cent and Tamil Nadu with 25 per cent.

The average rate of sales tax works out to around 24 per cent in India and the annual financial impact of imposition of sales tax on ATF works out to roughly Rs 4.3 billion annually for the domestic aviation industry.

In the past four months, the domestic aviation industry has been badly affected as domestic ATF prices have moved only northwards. While the per kilolitre cost of ATF was Rs 20,150 in December last year, it moved up to Rs 22,380 per kilolitre in February this year and peaked at Rs 25,200 this month. Indian Airlines has estimated that every one per cent increase in ATF adds over Rs 130 million per annum to its operating cost.

ONGC Pact with HPCL

When an exploration company, **Oil and Natural Gas Corporation (ONGC)**, enters the refining business through acquisition of **Mangalore Refineries and Petrochemicals Ltd (MRPL)**, domestic refiners like **Hindustan Petroleum Corporation Ltd (HPCL)** have reason to worry since they source their crude supply from the upstream major. After all, ONGC could divert the existing crude supply to MRPL, starving HPCL's six million tonne refinery in Mumbai of feedstock.

At a high-level meeting convened by the petroleum ministry, ONGC agreed on the terms of sale of crude to HPCL as well sale of petro-products from the MRPL to HPCL, a retail marketer. HPCL had earlier sought a 15-year secure supply of crude to its refinery in Mumbai, which was not accepted by ONGC. HPCL currently sells two million tonnes of products from MRPL refinery in the southern region.

VAT Bills

The Centre has approved the VAT Bills of 23 states in an attempt to put the implementation of the value-added tax regime back on track even as the Delhi government toughened its stand on the issue. This approval would help the states - except Delhi, Tripura and Himachal Pradesh - in getting their laws passed in time for the April 1 deadline. The Bills of Punjab, Bihar and Tamil Nadu, which were received late, will be approved soon. The Centre had assured the states it would clear pending VAT Bills by March 11 so that there is enough time to get them cleared by respective assemblies. The Kerala, Maharashtra and Madhya Pradesh assemblies have already cleared their VAT Bills, and Maharashtra is trying out the tax on select commodities.

Apprehension about a delay in the implementation of VAT from April 1 stems from reports that most states are not ready with their VAT laws and notifications. With the Centre clearing the Bills, the states should get over a fortnight to introduce them in their legislatures.

OVL in Sudan

ONGC Videsh Ltd (OVL), the overseas arm of **Oil and Natural Gas Corporation (ONGC)** has acquired 25 per cent stake of **Canadian Talisman Energy** in a Sudan oilfield for US$ 771 million. ONGC/OVL has informed the Bombay Stock Exchange that it has acquired 25 per cent participating interest in the Greater Nile Oil Project (GNOP) by acquiring 100 per cent ownership of **Talisman Greater Nile BV**, a body incorporated under the laws of the Netherlands. ONGC, which has already put in place a team to take over Talisman Energy's operations, is exploring shipping the light crude oil products from the Sudan field for processing at its latest acquisition **Mangalore Refinery and Petrochemicals Ltd (MRPL)**.

Currently, the project is producing 240,000 to 260,000 barrels per day. The oil is transported to the marine terminal at Port Sudan through a 1,504 km long buried pipeline for sale to crude buyers. India will get three million tonnes of crude oil annually from the investment in the project. OVL is entitled to receive the benefit of all revenues accruing to Talisman in the project commencing September 1, 2002 as well as associated working capital.

It is to pay interest on US$ 720 million, the purchase price agreed with the Canadian firm, from September 1, the closing date of the deal.

The other partners in the GNOP are **China National Petroleum Corporation (CNPC)** of China, **Petronas Corigall Overseas SDN BHD (Petronas)** of Malaysia and Sudan's national oil company **Sudapet Ltd**.

Earlier, Petronas and CNPC had cleared the way for OVL to acquire Talisman Energy's stake by waiving off their preemption right. While the government of Sudan had supported the Talisman's sale to OVL, the deal could not be completed as partners in GNOP - Petronas (30 per cent) and CNPC of China (40 per cent) - exercised their first right of refusal.

Sudan's Sudapest holds the remaining five per cent. OVL would take over all the 80-odd employees of Talisman to step into the Canadian firm's job of managing the 1,500-km pipeline connecting the producing fields to Port Sudan on the Red Sea.

NELP III & IV

The government will offer more than two dozen oil and gas blocks for exploration through competitive bidding under the fourth round of NELP. It is likely to make an offer in the first week of April.

Oil and Natural Gas Corporation (ONGC) signed licence agreement for 13 oil and gas blocks while **Reliance Industries Ltd (RIL)**, in consortium with **Hardy Oil** of UK, inked contracts for nine blocks including seven prime deepwater blocks. Minimum committed investment in the first exploratory phase in 23 blocks will be around US$ 415 million.

This brings the total investment to US$ 1.05 billion over three phases of exploration and production. ONGC on its part inked the production sharing contracts (PSC) for nine blocks. It was a joint signatory with **Oil India Ltd (OIL)** for three blocks while for the remaining one block it signed agreement with **Indian Oil Corporation (IOC)**. **Gujarat State Petroleum Corporation (GSPC)**, in consortium with **Geo Global Resources (India) Ltd** and **Jubiliant Enpro India Ltd**, was the third successful company, with signed contract for the KG-OSN-2001/3 offshore blocks in Krishna Godavari basin. The estimated investment in exploration of 70 blocks awarded under three round of NELP is about Rs 145 billion in three phases.

10-Digit Level for Customs Duties

The government is considering a switch over to a 10-digit level classification for levying of customs duties on the lines of the US and the European Union.

The move is intended to bring about uniformity and transparency in the definition of the duties. New Delhi has already adopted an 8-digit level classification for levying of customs duties on February 1, following the issue of an ordinance by the President last month.

The 8-digit classification was aimed at increasing customs duty on 'sensitive' commodities to the World Trade Organisation (WTO) bound level and lowering excise duties on key inputs required by export-oriented units. Earlier, the classification for imposing customs duty, which was based on a 6-digit level, had resulted in levying the same duty on all items.

The switch-over to the 8-digit level is intended to correct this, besides giving the government greater flexibility in adjusting the duty structure in response to changing situations and facilitating New Delhi in WTO negotiations.

Lowering of customs and excise duties on key inputs required for exports will also help bring down the transaction cost and obviate the need for refund of duty drawback. The post-Doha negotiations on market access will involve talks on both bound and unbound items. Shifting to the new system will help New Delhi in these talks because India will be on an equal footing with developed nations.

Another advantage, according to officials, is that many export incentive schemes aimed at offsetting the higher import duties can be phased out with nil or low duties.

Price Hike of Petrol Products

With international crude oil prices spiraling to a 12-year high at over US$ 37 a barrel, petroleum minister Ram Naik has pinned hopes on finance minister Jaswant Singh announcing some fiscal measures to avoid a certain increase in prices of petroleum products.

Rise in global crude oil prices has already led to a Rs 3.50 a litre increase in petrol and diesel prices since January and domestic cooking gas (LPG) is faced with the prospect of price hike by Rs 60-70 per cylinder due to lower budgetary provision for subsidies.

Mr Naik was hopeful that the finance minister's budget reply would contain provisions like lowering of customs duty on crude oil and excise duty on petroleum products to tide over the crisis.

IOC - Less Reliance; More MRPL

Indian Oil Corporation (IOC) is combing its agreement with **Reliance Petroleum Ltd (RPL)** to see if it can reduce the quantity of products it purchases from the refiner so that it can absorb additional capacity from **Mangalore Refineries and Petrochemicals Ltd (MRPL)**, which has recently entered the government's stable.

RPL currently does not have retail outlets to sell its products domestically and has a contract, which ends next year. Presently IOC buys around 13 million tonnes of products from it annually. If IOC is not able to free itself from RPL's obligations, it might need to reduce its refinery output to accommodate additional products from MRPL's refinery, with three million tonnes capacity idling for the last few years and no retail outlets of its own.

IOC's move follows a letter from **Oil and Natural Gas Corporation (ONGC)**, the new owner of MRPL, seeking sale of products from its idling capacity which should now come alive following the takeover due to tax breaks as well as financial restructuring. Under the takeover terms, the viability of the refinery has been restored, releasing the remaining three million tonne capacity in the marketplace.

Further, ONGC argues that since MRPL now sports the public sector badge, its entire output must be sold through public sector outlets. IOC is faced with the prospect of carrying the can, since the other two marketing companies, **Hindustan Petroleum Corporation Ltd (HPCL)** and **Bharat Petroleum Corporation Ltd (BPCL)**, are already sourcing some of their product requirements from IOC due to shortage of refining capacity.

Significantly, with the other two companies on the privatisation block IOC will be the only company to remain in the public sector domain.

No Imposition of Oil Surcharge
With war breaking out in West Asia, the Union petroleum minister Ram Naik has ruled out imposition of surcharge on oil at the moment. Mr Naik expressed concern over volatility of crude oil prices that rose almost 80 per cent from US$ 19 per barrel to US$ 34 per barrel due to war fears. He stated that sufficient arrangements have been made to meet any contingency, and the country has enough stocks to last for 60 days. Mr Naik also said that forward contracts had been made with a number of countries outside the possible war zone to keep the supply chain uninterrupted.

The minister said the oil import bill, which is Rs 780 billion at the moment, would rise exponentially going by the volatility of crude prices. In any case, there would be no cut in imports as it would affect economic activity of the country. The minister stated, "If necessary, we will pay higher prices to keep the economy going".

Petrol - Specific Duties

The introduction of specific duties for the petroleum sector, which had been recommended by both the petroleum industry and the Dr Kelkar committee on indirect taxes, can be introduced mid-year if there is need to do so. This is despite the fact that though the tariff structure has not changed in Budget 2003-04, specific duties could be brought in 'mid-year' as a corrective step to check the volatility of the international crude oil prices. This will come as a major relief to the consumers, who pay heavily due to the existing duty structure.

There have been attempts to introduce some elements of specific duties in the prices of petroleum products in the form of cess. Last year, the then finance minister Yashwant Sinha even lowered the excise duty on petrol and instead introduced a specific duty of Rs 6 per litre.

The ongoing fiscal has seen oil prices spike from US$ 22 in February last to close to US$ 34 a barrel now. This follows the recent developments in the Middle East.

Under the existing three-tiered *ad valorem* system, petroleum products are subject to taxes at three stages - each time on an incremental value. This leads to a cascading effect on the price line. With international oil prices being so volatile, consumers have to pay heavily as there is no instrument to limit the impact or check the coupled effect of duties. Under a specific duty regime, although there would be changes in the price line each time international prices moved up, the effect of additional duties on high prices could be avoided. To that extent, the retail prices would be less volatile.

Videocon Arbitration Proceedings

The government has initiated arbitration proceedings against **Videocon Petroleum Ltd (VPL)** for using Ravva oil field assets as collateral for raising over Rs 9 billion as loan from financial institutions without its permission.

The arbitration proceedings, which will be held in Singapore, follow VPL entering into a debenture trust deed (DTD) with **IDBI** and **UTI** for raising the loan by creating charges out of Ravva assets. The petroleum ministry had taken the law ministry's opinion before initiating legal proceedings.

VPL has 25 per cent stake in the Ravva field while **Cairn Energy** of UK has 22.5 per cent, **Oil and Natural Gas Corporation (ONGC)** 40 per cent and the Marubeni-owned **Ravva Oil Singapore** holds 12.5 per cent stake.

Forward Contracts for Crude
Public sector oil majors, mainly **Indian Oil Corporation (IOC)**, have lined up forward contracts for crude oil to supplement the oil stock pile pre-empting the war against Iraq and consequent disruption of supplies from Middle-East countries. The forward contracts have been bought from crude producing countries located away from the Middle East and are not likely to be affected.

Adulteration Cell

Adulteration in petroleum products has been taking place on a large scale. In 1975 the difference between price of diesel and kerosene was just two paise. Now it has increased to over Rs 9 per litre. The ministry has set up an anti-adulteration cell, with four regional centres in four metros.

Ministry of Petroleum and Natural Gas (MoPNG) has also asked the state government to be more vigilant and take necessary steps to prevent adulteration by invoking the Essential Commodities Act.

RIL - Gas Supply Offer

Reliance Industries Ltd (RIL) has offered to supply natural gas from the Krishna-Godavari basin region to all independent power producers, which are currently liquid-fuel based. Karnataka was favourably inclined to the RIL proposal. This is the first leg of the company's round of high-powered gas marketing blitz in the southern region. RIL had struck 7 trillion cubic feet of gas in the KG basin.

The RIL proposal would imply a considerable reduction in power tariffs. In fact, the tariff could fall to as low Rs 3 a unit, inclusive of both variable and fixed costs if the three operating IPPs switch over to gas. Currently, all these IPPs, equivalent to about 350, are naphtha-based and the average tariffs from them in excess of Rs 5 per unit.

RIL has so far not indicated any tariff to the government but preliminary indications are that the tariffs are close to about US$ 3.5 per million British thermal units (mmbtu).

One mmbtu is equivalent to 0.0193 tonnes. Where the IPPs are prepared to switch over to gas, power purchase agreements (PPAs) could also be reconsidered. This implies that on a merit-order basis, the government was prepared to consider extension of the PPAs, though it would have to be cleared by the power regulator.

This has also come as a booster for the **Karnataka Power Corporation Ltd (KPCL)**, which has proposed the 700-mw gas-based project near Bidadi.

This project is still at the drawing-board stage since viable fuel linkages have still not been established. RIL has, however, submitted its expression of interest last year itself. Besides the tariff, which has not been officially communicated, is well within the parameters set by the KPCL, which had sought 700,000 tonnes a year at a tariff of about US$ 4.3 per mmbtu.

There are still some hitches that need to be ironed out. These include participation in the equity of the Bidadi plant. The original proposed equity partner in the project was **Unocal**, expected to have a 25 per cent equity stake. Besides, RIL was also looking for a minimum supply equivalent to about 1250 mw. Bidadi was planned as a 700-mw project in the first stage and upgraded into a 1400-mw unit.

Bid for Dabhol

Tata Power Company Ltd (TPC) and **BP Plc** plan to jointly bid for the US$ 3-billion **Dabhol** gas and power project in Maharashtra. TPC, India's largest private sector power company has told the stock exchanges that it has entered an agreement with BP Global Investments Ltd, UK to jointly evaluate the Dabhol gas and power opportunity.

The Dabhol power project, including the 5-million-tonne LNG import and storage terminal, which is almost 90 per cent complete, has been lying idle for the past 20 months.

The project, promoted by the now-bust American company, **Enron**, shut down in June 2001 following a long-standing payment dispute with the **Maharashtra State Electricity Board**, DPC's lone customer.

Enron holds 65 per cent in DPC while **GE** and **Bechtel** hold 10 per cent each. For the past two years, lenders to the project, led by **IDBI**, have been trying to restart the project.

Exactly a year ago, TPC as well as BP Plc had submitted separate expressions of interest (EoI) for the beleaguered 2,184-mw power project, which also has an LNG jetty. BP's EoI was rejected by lenders to the project because of delay in submission.

HSBC for HPCL

The core group of secretaries on disinvestment has favoured the appointment of **HSBC** as the global advisor for managing the privatisation of oil PSU **Hindustan Petroleum Corporation Ltd (HPCL)**. HSBC has been selected for the post from among 17 merchant bankers who had made presentations before the disinvestment ministry last month. The government has invited expressions of interest by March 17 for sale of its 34.01 per cent stake in India's second largest public sector refining and marketing company.

Reliance Industries Ltd (RIL), **Royal Dutch Shell**, **Petronas** of Malaysia and **Kuwait Petroleum Corporation (KPC)** are the front-runners for the government stake along with management control in HPCL. Post disinvestment, the state holding in HPCL will fall to 12 per cent as five per cent shares will also be sold at concessional price to employees.

BPCL's Mobile Unit

Bharat Petroleum Corporation Ltd (BPCL) is planning to roll out the country's first mobile dispensing unit as part of its efforts to reinforce its brand equity. BPCL, in its quest to stay ahead of the competition, will not only come out with a mobile dispensing unit, but is also planning to roll out India's biggest tanker lorry. The designs for these two vehicles being finalized and the prototypes are expected in 6-8 months.

BPCL will be bringing out tank lorries three times the size of the ones now being used by oil companies. With a capacity of 36 kl (against the present lorry tanker capacity of 12 kl), the bigger lorry is expected to result in significant savings in transportation of petroleum products from BPCL's refinery to the outlets, besides stemming pollution and easing road traffic. Initially, the company plans to roll out two such tank lorries to study their viability in different parts of the country. **Reliance Industries Ltd (RIL)** is also planning to come out with a lorry tanker of 35 kl capacity, but the project is still on the drawing board.

BPCL, on the other hand, is racing ahead with the project, having not only finalised the designs, but also preparing to patent it.

The corporation was in talks with various companies to handle different parts of the project. While the engine is likely to be manufactured by **Volvo**, several companies are in the race for getting the contract for producing the chassis for the lorries.

The country's first mobile dispensing unit is to be deployed in Punjab. Delivering fuel to the doorsteps of farmers can go a long way in earning brand loyalty of customers.

These projects are part of BPCL's efforts to strengthen its brand equity in the domestic oil market, which is expected to see intense competition in the coming years.

Having come out with several value-added services such as the 'Pure for Sure' concept, the oil company expects that with these two projects, especially the mobile dispensing unit, it will be able to significantly pump up its sales and develop a distinct brand image for its products and services in the domestic sector.

BG Group - LNG Deal

The **BG Group** is eyeing supply of 3 MMTPA of LNG to **National Thermal Power Corporation's (NTPC)** for four proposed power projects in Western India, aggregating a capacity of 2,600 mw. NTPC is planning to seek price bids for the four 650 mw-each projects sometime next month. BG is in the process of setting up a 2.5 MMTPA LNG receiving terminal in Pipavav, Gujarat. Donning the role of a 'reform driver' for the LNG industry, BG is lobbying with the government to seek a reduction in taxation on LNG.

The team has sought fiscal incentives such as infrastructure status for LNG projects, zero import duty and uniform sales tax rate of four per cent on LNG. This will bring down the prevailing market price of LNG from US$ 3.45 per mmbtu to around US$ 3 per mmbtu. The reduction in LNG prices will reduce the fuel cost for power stations from Rs 1.70 per unit to around Rs 1.20 per unit.

Currently, domestic gas produced is sold at an artificially suppressed price, translating into a fuel cost of around Rs 90 paise per unit. Depending on its success in securing supply to NTPC's power projects and other such bulk consumers, it will develop the Pipavav project, which can be expanded to an ultimate capacity of 5 MMTPA. Hastening the passage of the Gas Act will enable implementation of 'open access' mechanism. This will allow **GAIL India Ltd (GAIL)** to allow **BG** to use its pipelines to transport gas to its consumers across the country on a non-discriminatory basis.

BioDiesel

Indian Oil Corporation (IOC) has signed a MoU with Indian Railways for introduction of bio-diesel for blending HSD in trains in order to bring down dependence on crude. A pilot plant was set up and a study is being undertaken to assess the commercial viability.

Bio-diesel is an edible oil taken from a wild plant - Jutrapah Carcus. This will be grown on 500 hectares of wasteland owned by the Railways in Gujarat and Rajasthan. The Railway and IOC have successfully used bio-diesel blended fuel in a train running between Amritsar and New Delhi recently.

Shell's Application

The government will consider royal Dutch Shell's application for licence to retail petrol and diesel. Shell has applied for licence to sell petrol and diesel through 1,500 retail outlets, depositing Rs 1 million as application money.

Any foreign or domestic company can venture in retail marketing of petrol and diesel if they meet the criteria of investing Rs 20 billion either in infrastructure or a project of the same amount in the petroleum sector or submit a project of equivalent amount with a bank guarantee of Rs 5 billion.

So far four companies - **Reliance, Essar, Oil and Natural Gas Corporation (ONGC)** and **Numaligarh Refineries Ltd (NRL)** - have been given retailing licence, leading to 40 per cent additional marketing rights in petroleum refining.

Chennai Port Plans to Cut Wharfage for CPCL

The **Chennai Port Trust (ChPT)** has proposed a reduction in wharfage for **Chennai Petroleum Corporation Ltd (CPCL)** to Rs 10 per tonne from the present Rs 27. The reduction is one of the measures taken by the Chennai port to retain CPCL, one of its largest customers, which was exploring possibilities of shifting crude import out of Chennai port to reduce cost.

Wharfage is a charge paid by users for using the port's fixed infrastructure comprising wharf, roads and marshalling areas. Once approved by CPCL, the Chennai port would seek the Tariff Authority for Major Ports' approval.

CPCL was exploring various options including the shifting of crude handling to the Ennore port, putting up facilities to receive crude directly from very large crude carriers (VLCCs), creating a single buoy mooring (SBM) facility near the Chennai port or building a jetty at the Ennore port.

The cost for any such facility could be over Rs 3.5 billion. Separate facilities for bringing in crude oil would be necessary once CPCL completes its 3 MMTPA expansion project. After completion, it would have a capacity of 9.5 MMTPA at its Manali complex (and another one million tonnes at the Cauvery Basin complex, near Nagapattinam). Annually, the Chennai port handles about 6.5 million tonnes of crude and about 1.5 million tonnes of products for CPCL.

Every year CPCL brings about 90 crude tankers of about 70,000 DWT (dead weight tonnes), and the Chennai port earns revenues of over Rs 350 million mainly from wharfage. The concession for CPCL was only for crude handling and not products.

The Corporation has also asked the Chennai port to get the 'right of way' all along the Chennai port-Manali road (which is to be widened) for replacing its pipeline. Chennai port has been given 15 days time to get the 'right of way' and the port trust has taken up the matter with the state government and the National Highways Authority of India. The Chennai port, the state government and NHAI have formed a special purpose vehicle (SPV) for the road-widening project, to be undertaken by the Tamil Nadu Road Development Corporation.

CPCL also wanted the ChPT to ensure that there would not be any berthing delay for its vessels.

However, ChPT stated that such a commitment was not possible due to frequent changes in the tide pattern. Further, the corporation wanted compensation if there was any leakage in the loading arm. To cover this, ChPT informed CPCL that it could take up the operations of the loading arm.

CPCL was yet to come back on this. Of the 21 berths in the port, six are for coal and dry bulk, three for oil and petroleum, three for containers and nine for general cargo.

OVL to Jack Up Sakhalin Cash Sink

Following a request from **Exxon-Mobil**, the operator of Russian oil field Sakhalin, **ONGC Videsh Ltd (OVL)** has decided to advance its investment of up to US$ 2.35 billion in the ambitious project.

It has purchased 20 per cent overseas equity in the project from Russian firm **Rosneft** in 2001.

ONGC to Hedge Oil

The Ministry of Finance (MoF) is expected to shortly issue a policy directive allowing the **Oil and Natural Gas Corporation (ONGC)** to hedge its exposure in crude oil and petroleum products. This would also enable ONGC's international arm - **ONGC Videsh Ltd (OVL)** - to hedge its underlying exposures in crude oil and natural gas produced at its overseas projects.

Under the present guidelines of the Reserve Bank of India (RBI), corporates with underlying exposures in respect of crude and petro products are allowed to hedge commodity price risk.

However, the order is restricted to oil marketing and refining companies dealing in imports and exports of crude oil and petroleum products. These guidelines do not cover upstream companies like ONGC as it is neither an importer nor an exporter of crude oil. RBI has agreed in principal to allow ONGC to hedge the commodity price risk to the extent of its full production of crude oil and petroleum products because of the risk of fluctuation of oil prices in the international markets.

ONGC has already sought the government's permission to export its crude, besides marketing incremental production of crude oil to any Indian refinery including private sector refineries, on commercial terms. Following government approvals, a trading desk is to be set up jointly by ONGC and OVL for trading of crude imports and exports.

ONGC Stake in MRPL

The Cabinet Committee on Economic Affairs (CCEA) has approved the proposal facilitating the acquisition of entire shareholding of **Indian Rayon & Industries** in **Mangalore Refinery & Petrochemicals Ltd (MRPL)** by the **Oil and Natural Gas Corporation (ONGC)**.

With the approval of the proposal, the tripartite agreement - between the government, **Hindustan Petroleum Corporation Ltd (HPCL)** and Indian Rayon & Industries - that led to the formation of MRPL stands rescinded. The CCEA also gave its nod for a financial restructuring package involving investment of Rs 6594.3 million in equity of MRPL

Shell's LNG Project

Shell India, which has already invested Rs 10 billion in its LNG project, confirms it will invest another Rs 20 billion over the next few months. This will help the company to get into the downstream retail business, which it has identified as a clear opportunity. Shell is presently contemplating the business prospects of a downstream retail network that can be developed organically.

To meet the minimum investment criterion of Rs 20 billion set out by the Centre, Shell is going ahead full steam with its Rs 30 billion LNG project in Hazira, despite being stalled after several hiccups, including the pull-out by local partner, the **Essar Group**. Even now, the mega-gas find by **Reliance Indian Ltd (RIL)** has prompted merchant bankers to raise eyebrows over the viability of LNG projects in India. The project was earlier slated to be completed by December 2003, but will now be commissioned by the third quarter of 2004.

Shourie Rules Out Sale of IOC, ONGC & GAIL

Disinvestment minister Arun Shourie has ruled out privatisation of **Indian Oil Corporation (IOC)**, **Oil & Natural Gas Corporation (ONGC)** and **GAIL India Ltd (GAIL)**. He also announced the setting up of a disinvestment fund. Regarding oil supplies to the defence establishments, Mr Shourie said an overwhelming proportion of their supplies was being provided by IOC and the question of defence supplies being affected with the sale of BPCL and HPCL did not arise.

ONGC Finds Oil, Gas

Oil and Natural Gas Corporation (ONGC) has found oil and gas in four locations in offshore Mumbai, Assam and Krishna Godavari basin. However, none of the four finds have been tested for commercial production. The firm struck hydrocarbons in:

- Laiplinggoan in Upper Assam
- Exploration well Kavitam in onland KG basin block
- Exploration well GS-KW in shallow waters of KG basin and
- Exploratory well B-22-5, West of Bassein field in offshore Mumbai, which flowed oil and gas at two intervals - 1774 barrels per day of crude oil and 10760 cubic meters per day of gas at one and 1050 barrels per day of oil and 7955 cubic meters per day of gas at the other.

While preliminary assessment has not yet established commerciality of "leads" in KG Basin and Assam, the find in Mumbai offshore is estimated to hold about 48 million tonnes of commercially exploitable oil and oil equivalent gas.

Australia Offers Unlimited LNG

Addressing a press conference organised by Federation of Indian Chambers of Commerce and Industry, Australian minister for trade, Mark Vaile said that his country was in a position to supply unlimited amounts of LNG to India. He stated LNG could be shipped from Australia's Western coast at very competitive rates.

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