Chapter IV

MARKETING OF INDIAN PETROLEUM COMPANIES (GOVT. UNDERTAKINGS) AND IMPACT OF GLOBALISATION ON THEM

Previous chapter has covered the production, marketing, pricing, transportation and distribution channels of petroleum products. Also government policy towards marketing of petroleum industry as well as action plan to become self reliable in the field of petroleum have been discussed in detail.

In this chapter Marketing performance of major oil companies taken under study i.e. Indian oil corporation Limited, Bharat petroleum Corporation Limited, Hindustan petroleum Corporation limited, and Indo-Burma Petroleum limited (Subsidiary of IOCL) will be discussed in detail. It includes Marketing network, production, sales, marketing strategy, advantages and limitations of marketing strategy, future plan etc. Marketing problems and solutions of above companies will be highlighted. Also this chapter will cover the Globlisation and its impact on Indian Petroleum industry in terms of marketing and distribution.
Introduction

Historically, the Indian petroleum industry was controlled by few Anglo-American companies. They maintained their dominance till end of 1950. In fact, the future development of petroleum industry was reserved for public sector but foreign assistance was a necessity at least in the early stages. As collaboration with Anglo-American oil majors were ruled out for the development of its petroleum industry, other alternatives were explored, and at that time the government of India made serious attempts to get assistance of Soviet Union, Rumania and the countries like Austria which had technical expertise in petroleum industry. In the early seventies, the government of India nationalised the refinery and marketing facilities of three foreign oil companies. Apart from nationalisation of foreign companies, there were other important developments during seventies and eighties, which played very vital role in the process of globalization of petroleum industry. Since 1980, the Government started to offer in systematic way different sedimentary basins to Foreign Oil Companies for exploration and production. Better basins with liberal terms were offered in successive rounds. For example, in the third round (1986)
where few major foreign companies participated, the Government exempted them from paying any royalty payment. In decade of 90’s, Indian petroleum industry initiated structural reforms which encompassed a phased opening up of the Indian economy to the external sector. These structural reforms have strengthened India’s external world and have also imparted a degree of dynamism to the Indian economy. Meanwhile, particular attention was given on the marketing and distribution of the products of this industry.

**Performance of Major Indian Petroleum Companies:**

- Indian Oil Corporation Limited (IOCL)
- Hindustan Petroleum Corporation Limited (HPCL)
- Bharat Petroleum Corporation Limited (BPCL)
- Indo-Burma Petroleum Corporation (IBPC)

The above public sector petroleum companies are selected under the study. Forth coming paragraph will highlight the marketing performance of above companies.
**Indian Oil Corporation Limited (IOCL)**

Indian Oil Corporation’s excellent performance, notwithstanding the highly challenging and complex business environment, enabled it to maintain its position as India’s No. 1 Company as per the Fortune ‘Global 500’ listing in the year 2007. In fact, it moved up 18 places in the prestigious listing to occupy the 135th position besides, becoming the 20th largest petroleum refining company in the world. IOCL is the market leader in marketing and refining of petroleum products.

In addition, Indian Oil has been ranked 2nd amongst the top 50 Most Valuable Brands in India by Brand Finance of UK, besides being chosen as India’s ‘Most Trusted Fuel Pump Brand’ in The Economic Times Brand Equity - AC Nielsen Survey and ‘Trusted Brand as judged by the Petrol Station Category’ in the Reader’s Digest - Nielsen Media Research Survey. IOCL owns and operates 10 of India’s 18 refineries with a refining market share of 32%. It has a refining capacity of 35.5 million tonnes per annum and a market share of 55% in the Indian oil industry.
**Marketing Network of IOCL:**

The company owns and operates largest network of crude oil and petroleum product pipeline in the country with a network of 7,575km of pipeline. Indian Oil continued its dominance in the marketplace during the year 2006-07 also. Besides gaining volumes in bulk sales; it consolidated its position in the retail segment, by opening 1,202 new petrol pumps. With the inclusion of 3,598 petrol pumps of IBP, the total number of IOCL’s petrol & diesel pumps touched 16,540. The Corporation plans to add 1,600 this year. The marketing subsidiary, IBP Co. Ltd., merged with the parent company IOCL with effect from 2nd May, 2007. Accordingly, IBP’s finances for 2006-07 were merged with those of IOCL. The petroleum business of IBP has also been seamlessly integrated into the Marketing Division of Indian Oil.

Indian Oil’s Marketing Network is spread throughout the country with over 22,000 sales points (the largest in the country). These include petrol/diesel pumps, lube distributors, Servo Shops, SKO/LDO dealers, LPG distributors, etc. The regional offices look after the North, East, West and Southern Regions of India, Divisional and Indane Area offices have
been established in each Region. IOCL marketing division has its Head Office at Bandra, Mumbai and four Regional Offices in the Metro cities viz. Delhi, Kolkata, Mumbai and Chennai, 15 State Offices, 44 Divisional Offices and 35 LPG area offices, 94 Aviation Fuel Stations, Total Product Tankage 68.45 Lakhs kilolitre, LPG Bottling with Capacity 3221 tones per annum, 3497 SKO\LDO dealers. The Assam Oil Division of the Corporation has its Head Office at Digboi and has a marketing network, which by and large covers the North-Eastern States. The Division has 2 LPG Plants at Silchar and Guwahati, which report to the LPG Office at Digboi Terminals and Depots, which report to the Operations Office at Guwahati. There are 2 Divisional Offices and 2 Area Offices, which monitor the sales. The Corporation has gone in for a major restructuring of administrative set up with the creation of 15 State Offices which function under the jurisdiction of the respective Regional Offices for the purpose of decentralising decision making.

Indian Oil set a new record for corporate India in 2006-07 by achieving a Gross Turnover of Rs. 2,20,779 crore, up by 20.5% as compared to the previous year. Net turnover during the year was Rs. 199396.17 crore. A products sale
during the year was 54.84 MMT. It also earned a record net profit of Rs. 7,499 crore, up by 52.6% over the previous year. The profit for 06-07 includes a profit of Rs. 3,225 crore on sale of 20% equity holdings in Oil & Natural Gas Corporation Ltd, while the profit for 2005-06 included a profit of Rs. 438 crore on sale of equity holdings in GAIL (India) Ltd. Following table shows the production of petroleum products by various refineries of IOCL.

**Table No. 4.1 - Production of petroleum products by various refineries of IOCL (000 tonnes)**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97</td>
<td>453</td>
<td>778</td>
<td>7744</td>
<td>3189</td>
<td>9722</td>
<td>NA</td>
<td>21886</td>
<td>100.0</td>
</tr>
<tr>
<td>1997-98</td>
<td>479</td>
<td>779</td>
<td>8302</td>
<td>4445</td>
<td>10043</td>
<td>NA</td>
<td>24048</td>
<td>109.8</td>
</tr>
<tr>
<td>1998-99</td>
<td>524</td>
<td>772</td>
<td>8655</td>
<td>4432</td>
<td>10346</td>
<td>1908</td>
<td>26637</td>
<td>121.7</td>
</tr>
<tr>
<td>1999-00</td>
<td>564</td>
<td>858</td>
<td>7875</td>
<td>3797</td>
<td>10429</td>
<td>3688</td>
<td>27211</td>
<td>124.3</td>
</tr>
<tr>
<td>2000-01</td>
<td>651</td>
<td>653</td>
<td>6863</td>
<td>3502</td>
<td>11269</td>
<td>5202</td>
<td>28144</td>
<td>128.5</td>
</tr>
<tr>
<td>2001-02</td>
<td>640</td>
<td>578</td>
<td>7780</td>
<td>3601</td>
<td>11028</td>
<td>5323</td>
<td>28950</td>
<td>132.2</td>
</tr>
<tr>
<td>2002-03</td>
<td>577</td>
<td>390</td>
<td>7880</td>
<td>4031</td>
<td>11734</td>
<td>5561</td>
<td>30173</td>
<td>137.8</td>
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<tr>
<td>2003-04</td>
<td>584</td>
<td>739</td>
<td>7932</td>
<td>4112</td>
<td>12029</td>
<td>5818</td>
<td>31214</td>
<td>142.6</td>
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<tr>
<td>2004-05</td>
<td>637</td>
<td>868</td>
<td>6145</td>
<td>4971</td>
<td>11037</td>
<td>5825</td>
<td>29483</td>
<td>134.7</td>
</tr>
<tr>
<td>2005-06</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>-----</td>
</tr>
<tr>
<td>Total</td>
<td>5109</td>
<td>6415</td>
<td>69176</td>
<td>32680</td>
<td>97637</td>
<td>33329</td>
<td>247746</td>
<td>-----</td>
</tr>
<tr>
<td>Average</td>
<td>567.6</td>
<td>712</td>
<td>7686</td>
<td>3631</td>
<td>10849</td>
<td>3703</td>
<td>27527</td>
<td>-----</td>
</tr>
</tbody>
</table>

(Source- Energy, Centre for Monitoring Indian Economy, 2007)
On the basis of above table, one would notice that total production of petroleum products by different refineries of IOCL stood 21886 thousand tonnes in the year 1996-97, which went up to 29483 in the year 2004-05 by increasing 34.71% during the decade was 27527 thousand tonnes peer year. First four years production was less than average production, while rest of the year’s production was above average.

Though above figures show the increasing trends in the production of petroleum products by various refineries of IOCL, but with very low pace. Due to this slow rate of production company has to depend on imports of petroleum to fulfill the increasing demand day to day.

Hence, it is recommended that company should concentrate to increase the production of petroleum products with the help of domestic exploration and refining, using modern technology at refineries and more attention should be given to research and development.

To increase the sales of petroleum products, IOCL has implemented the various schemes of product promotion. In
the following table the sales of petroleum products of IOCL has been discussed.

**Table no. 4.2: Sales of petroleum products by IOCL**

<table>
<thead>
<tr>
<th>Years</th>
<th>Sales (Rs. In Million)</th>
<th>Index (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>NA</td>
<td>----------</td>
</tr>
<tr>
<td>1998-99</td>
<td>NA</td>
<td>----------</td>
</tr>
<tr>
<td>1999-00</td>
<td>942410</td>
<td>100.00</td>
</tr>
<tr>
<td>2000-01</td>
<td>1173710</td>
<td>124.67</td>
</tr>
<tr>
<td>2001-02</td>
<td>1148640</td>
<td>122.01</td>
</tr>
<tr>
<td>2002-03</td>
<td>1198840</td>
<td>127.34</td>
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<tr>
<td>2003-04</td>
<td>1302030</td>
<td>138.30</td>
</tr>
<tr>
<td>2004-05</td>
<td>1478936</td>
<td>157.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>1655842</td>
<td>175.88</td>
</tr>
<tr>
<td>2006-07</td>
<td>2207790</td>
<td>234.51</td>
</tr>
<tr>
<td>Total</td>
<td>11107198</td>
<td>----------</td>
</tr>
<tr>
<td>Average</td>
<td>1388399</td>
<td>----------</td>
</tr>
</tbody>
</table>

(Source- Annual report of IOCL, 2006-07)

On the basis of above table, one would notice that sales of petroleum products by IOCL stood Rs. 9, 41,410 Million (mn.) which went up to Rs.2207790 mn, in the year 2006-07 an increasing 134.51%. A sale of Petroleum products by IOCL shows increasing trends. Average sales worked out Rs. 1388399 million. However From 1999-00 to 2003-04, sale
was below average, while rest of the year’s sales was above average. Above figure reveal the satisfactory progress of company regarding to the sales of petroleum products.

**Marketing strategy of IOCL:**

Competition in the marketplace is becoming more and more intense and the days ahead are only going to get tougher. Though IOCL did maintain its market leadership in this challenging times, a lot more innovative, meticulous planning and hard work are needed to retain its status as marketing leader. It is, therefore, gearing itself to take on the impending challenges with investments of Rs. 43,250 crore over the next five years. IOCL made a marketing agreement with Reliance petroleum limited (RPL) with a total span of 10 years beginning in the year 1998. Board of IOCL also approved the proposal for joint venture with RPL for trading and marketing of petroleum products, and infrastructure development. IOCL also marketing all petroleum products produced by the Bongaigaon refineries and petrochemicals limited.

The marketing mantra for Indian oil is to continuously provide the best products and services at the most reasonable
cost. “New Look” petrol/diesel service stations selective have “Convenio” shopping stores, quick Lube change, automatic car wash and multi-product services dispense pumps. A new concept of “Jubilee Retail Outlets” has also been launched to set up petrol, diesel stations on highways with comprehensive value added facilities for various customers segments, namely truck drivers, farmers, tourists. These include motels, restaurants, parking lots, weighbridges, sale of tyres, batteries, accessories, agriculture machinery repairs etc. The first such retail outlets was commissioned at Ongole, district Prakasm, Andhra Pradesh in August 1998.

To facilitate easy transaction, many petrol pumps accept major credit cards. In fact, IOCL and Citibank have launched a special co-brand card, the “Indian oil Citibank Card” which is not only accepted by Indian oil petrol pumps but by many restaurants, shops, airlines, etc.

On the marketing front, IOCL is now exploiting the potential of the vastly untapped rural sector, non-fuel revenues and the fast-growing pure retail business. While Indian cities have become increasingly integrated with the world economy, it is now the turn of our villages to join them.
Since 2005-06, Indian Oil has been focusing on reaching out to the rural masses through its innovative marketing initiative, the Kisan Seva Kendra (KSK) retail stations. “A low cost business model of a retail outlet offering fuel and other non-fuel value added services with penetration in rural markets generating high returns” For financial assistant IOCL made alliance with NABARD, and Bank of Baroda. For seeds and fertilisers IOCL made alliance with National Seeds Corporation and Indo Gulf Fertilizer. Around 1000 varieties of seeds are available in KSK.

Through KSK, IOCL tried to make available, Diesel and Petrol with Quality & Quantity. Seeds, pesticides, fertilisers and other agricultural needs, daily needs such as grocery, personal care, Stationery for children, tools and auto spares at the doorstep of farmers.

On 31st March 2007, over 1,500 KSKs are operating as unique and 1,000 KSKs shall be added every year. This new business model, which combines business commitment and social responsibility, has brought recognition to Indian Oil as the ‘Most Admired Retailer of the Year’ in Rural marketing.
Advantages and limitations of strategy:

Due to the marketing alliance of IOCL with different company and refinery, company got the number one position in marketing field of petroleum products. IOCL’s strategy of multifacility petrol pumps have becomes center of attraction for the consumers which help to earn non-fuel revenue. Low investment required for KSK, High returns- a pay back period of 3 to 4 years. KSK is assisting in fast building and retention of new Customers, value added service can be provided to rural customers. Due to globalisation, company is facing increased competition from large international firms as well as new domestic entrants to the market. Marketing alliance with Reliance Petroleum Limited may not be beneficial, because reliance has closed their retail outlets.

Future plans:

The company has already made initial contacts with some of the prospective clients. The endeavor will be now to keep these contacts alive and also on increasing the customer base for IOCL’s R&D technologies. This will involve lot of efforts, which include technical presentations to the clients followed by interactions to select the suitable technology. Efforts will be made to tie up with appropriate process licensors and
engineering companies on a case-to-case basis to provide a complete process package to the clients. A separate database for contemporary technologies will also be prepared. The future plan will also focus on collaborative developments with clients. This will ensure customer participation in our technologies. The market intelligence in terms of customer demand will be collected and shared with IOCL’s R&D Centre. Indian Oil is implementing a master plan envisaging investments of Rs. 30,000 crore by the year 2011-12 for integration into petrochemicals. In addition, a world scale Naphtha Cracker project at Panipat will be started by the end of 2009. New pipe line projects of over Rs. 2,300 crore, are under implementation to reach 10,000 km and 75 million tonnes per annum capacity in the next two years.

As the leader in R & D in the Indian Petroleum, IOCL is aggressively marketing its intellectual property as an additional revenue stream and is vigorously pursuing the promise of alternative fuels and technologies. IOCL also developed 180 new and cost-effective product formulations, of which 164 have been commercialised. IOCL stands proudly in the company of six worldwide technology holders
of shipboard marine oils. As part of its efforts to promote Hydrogen as an alternative fuel, Corporation is in the process of setting up the country’s first Hydrogen-Compressed Natural Gas (H-CNG) dispensing pumps at Delhi. Various demonstration projects on the use of H-CNG blends are also under implementation. IOCL is exploring the possibility of entering the entire value chain of bio-fuels, particularly Bio-diesel, starting from plantation of Jatropha to sale of the end product.

**Hindustan Petroleum Corporation Limited (HPCL):**

HPCL is second largest integrated oil company after IOCL in India. It has two refineries at Mumbai and Vishakhapatnam, and only joint venture refinery at Manglore. The government of India is holding 51% share of this company. It is primarily involved in the refining and marketing of oil and gas. HPCL has the distinction of having the largest lube base oil capacity (40%-335,000 mmtpa) in India. It has a 21% share in crude oil refining capacity and 18% in the Indian lubricants sector. The main products of HPCL include HSD, LDO, MS, naphtha, solvent 1425, LPG etc. Refineries at Mumbai and Visakhapatnam processed
16.66 MMT of crude in 2006-07 as against 13.82 MMT in 2005-06. HPCL refineries achieved the highest ever combined crude thruput.

HPCL with 16% market share is one of the major Companies in Indian Petroleum industry. The Company is ranked 336th in the Fortune 500 of 2007. Total turnover of the Company in 2006-07 was Rs. 91,448.03, crores. Profit after tax was Rs.1, 571.17 cores which was Rs.405.63 crores in 2005-06. Refining and marketing is the core areas for the Company and its efforts are directed at assuring smooth flow of petroleum products throughout the length and breadth of the country at the least possible cost. The market sales (including exports) were 21.69 Million Metric Tonnes (MMT) in the year 2006-07 which was recorded 19.42 MMT in 2005-06. Corporate Social Responsibility Award was received for 2004-05 from The Energy and Resources Institute, New Delhi. HPCL has a strategic advantage as it controls 40% of the lubricant base oil capacity. The company marketed 0.305mmt of lubricants and thus commanded 34.6% of the market share. HPCL has a strong legacy in the lubricants sector and it is being strengthened continuously through
introduction of new products. The Company continues to promote major brands through innovative promotional activities. A new brand of Diesel Engine Oil 'HP Milcy Turbo 15W40' was launched in the year 2006... Strong R&D enables the Company to continuously upgrade its product offerings in line with evolving customer needs.

Marketing Network of HPCL:

To increase the product availability and minimize transportation cost, two major pipeline projects viz. Mundra-Delhi pipeline and Pune-Solapur were planned by the Company. Pune Solapur Pipeline was commissioned in November 2006 while mechanical completion of the Mundra Delhi Pipeline has been achieved in April, 2007.

In 2006-07, 673 new petrol pumps were commissioned to expand the reach of the Company taking the total to 7986 as on March, 2007. To achieve its Retail Vision, the Company has developed a Retail Value Proposition, keeping the 'Customer experience' as the core of strategy. During 2006-07, 662 petrol pumps were branded as 'Club HP' taking the total number to 3515. Club HP outlets now constitute 44% of total petrol pump network. In the forthcoming paragraph the
production of petroleum products by Mumbai and Visakh refineries of HPCL as well as sales of petroleum products during the decade from 1997-98 to 2006-07 has been discussed.

**Table no. 4.3: Production of petroleum products by refineries of HPCL.**

(000 tonnes)

<table>
<thead>
<tr>
<th>Years</th>
<th>Mumbai Refi.</th>
<th>Visakh Refi.</th>
<th>Total</th>
<th>Index (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97</td>
<td>6238</td>
<td>4576</td>
<td>10184</td>
<td>100.00</td>
</tr>
<tr>
<td>1997-98</td>
<td>6053</td>
<td>2308</td>
<td>8361</td>
<td>77.31</td>
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<tr>
<td>1998-99</td>
<td>4955</td>
<td>3637</td>
<td>8592</td>
<td>79.45</td>
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<tr>
<td>1999-00</td>
<td>5702</td>
<td>4252</td>
<td>9954</td>
<td>92.04</td>
</tr>
<tr>
<td>2000-01</td>
<td>5189</td>
<td>5986</td>
<td>11175</td>
<td>103.33</td>
</tr>
<tr>
<td>2001-02</td>
<td>5229</td>
<td>6334</td>
<td>11563</td>
<td>106.92</td>
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<tr>
<td>2002-03</td>
<td>5660</td>
<td>6386</td>
<td>12046</td>
<td>111.32</td>
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<td>2003-04</td>
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<td>7145</td>
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<td>5725</td>
<td>7340</td>
<td>13065</td>
<td>120.81</td>
</tr>
<tr>
<td>2005-06</td>
<td>NA</td>
<td>NA</td>
<td>____</td>
<td>--------</td>
</tr>
<tr>
<td>Total</td>
<td>50458</td>
<td>47964</td>
<td>98422</td>
<td>---------</td>
</tr>
<tr>
<td>Average</td>
<td>5606</td>
<td>5329</td>
<td>10935</td>
<td>---------</td>
</tr>
</tbody>
</table>

(Source-Energy, Centre for Monitoring Indian Economy, 2007)

On the basis of above table, one would notice that production of petroleum products by Mumbai and Visakh refinery of HPCL stood 10814 thousand tonnes in the 1996-
97. This went up to 13065 in the year 2004-05 by increasing 20.81% in the above decade. Average production during the decade was 10935 thousand tonnes per year. First four years production was less than average production while rest of the year’s production was above average.

Production showed a downward trend form the year 1997-98 to 1999-2000, though production increase from the year 2000-01 but with slow pace. The above production is not enough to meet out increasing demand of petroleum products. Hence it is recommended that company should increase the production of petroleum products.

HPCL made a satisfactory progress in the sales of petroleum products with the implementation of different marketing strategies. Following table shows the sales of petroleum products by HPCL during the decade of 1997-98 to 2006-07.
Table No. 4.4 Sales of petroleum products by HPCL:

<table>
<thead>
<tr>
<th>Years</th>
<th>Sales (Rs. in Crore)</th>
<th>Index (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1998-99</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1999-00</td>
<td>34368.03</td>
<td>100.00</td>
</tr>
<tr>
<td>2000-01</td>
<td>47117.50</td>
<td>137.09</td>
</tr>
<tr>
<td>2001-02</td>
<td>45309.67</td>
<td>131.83</td>
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<td>2002-03</td>
<td>52698.99</td>
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<tr>
<td>2003-04</td>
<td>56332.57</td>
<td>163.90</td>
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<td>2004-05</td>
<td>64689.51</td>
<td>188.22</td>
</tr>
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<td>2005-06</td>
<td>76920.26</td>
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<tr>
<td>2006-07</td>
<td>96918.15</td>
<td>282.00</td>
</tr>
<tr>
<td>Total</td>
<td>474354.68</td>
<td>---------</td>
</tr>
<tr>
<td>Average</td>
<td>59294.33</td>
<td>---------</td>
</tr>
</tbody>
</table>

(Source- Annual report of HPCL, 2006-07)

On the basis of above table one would notice that sales of petroleum products by HPCL was Rs. 34368.03 crore which went up to Rs. 96918.15 crore by increasing of 182% in the year 2006-07. Sales during the above decade indicate increasing trends every year over the previous year.
However, the total average sale is worked out as Rs. 59294.33 crore for the decade period. First five years sales were below average, while rest of the year’s sales was above average. Above figure reveal the satisfactory progress of company during the above decade.

Marketing structure:

The Company has five, Strategic Business Units (SBU)–Retail, lubes; Industry/Commercial, LPG and Aviation are customer centered SBU and come under the director of marketing. The sixth SBU, Refinery along with two new departments IT & Supply Chain and R&D are under the director (refineries). Each SBU would have its own HR, finance, logistics, sales, engineering, etc.

In this structure, divisional offices have to report the regional offices. Each divisional manager is responsible for the sales in the territory only for a specific product. The territory structure was designed to enable the field staff to focus on specific customer segments. Authority was also delegated down the hierarchy and decision making pushed to the lowest possible levels.
Production and marketing process of petroleum products:

Product: High speed Diesel, Low Speed Diesel, Motor Spirit and Super Kerosene Oil;

Product: LPG;

Product: Aviation turbine fuel;

Marketing structure is the same of IOCL and BPCL.
Marketing strategy of HPCL:

Oil marketing scenario is witnessing intense competition from not only the PSUs, but also private companies, some foreign companies who have entered in the market. Every company is making aggressive marketing efforts to gain market share and in this process are offering several value added services to the customers to gain their loyalty. HPCL on its part is giving total focus on “quality and Quantity” aspects to gain the trust and loyalty of its customers by which HPCL would be seen as a preferred company to meet their fuel needs. This is being achieved by constant endeavor to provide quality products and services, vehicle care, combating adulteration through a process of monitoring, control. Customers visiting the retail outlets are also given added facilities like convenient stores, ATM centers, restaurants and reward schemes. The other strategy has been to reach out and consolidate in the highway segment which is expected to be the new growth area with the cross country road construction projects nearing completion in several areas. ‘Club-Hp’ retail outlets stand out distinctly in the urban area market.
As income rise, rural markets present an attractive opportunity to expand market share. ‘Hamara Pump’ format is targeted specifically at rural market. In 2006-07, 318 'Hamara Pumps' were commissioned taking the total number to 925 as on March end, 2007. Seeds, pesticides and fertilizers are also being sold to the farmers through 60 'Kisan Vikas Kendras' set up at selected 'Hamara Pump'. The LPG Business line accounts for approximately 13% of the total volume base of HPCL. HPCL was the first Company to brand LPG Marketing under the platform of 'Ji Haan', with focus on instant service to LPG customers. The Company launched a web-based registration system for new and double bottling connections. Also, a Complaint Management System, a portal for integrating customer complaints, was launched to provide an efficient, effective and user-friendly system for handling of customer complaints so as to reduce the lead-time in reaching and resolving complaints. ‘Suraksha Rubber’ hoses were promoted through various means like street plays, banners, posters, leaflets etc., to ensure safety of the user
Advantages and limitation of marketing strategy:

Company took initiative to provide quality fuel to customers, due to this majority of customers prefer HPCLs products, and it results to increase the turnover up to Rs. 91,448.03 crore. Company’s policy to capture high way segment is helpful to expand business premises across the country. Company entered in non-fuel business with the help of “Kisan seva Kendra” the company is also exploring “farming in” opportunities, where it will take a stake in a developed oil field, thus avoiding considerable risk involved in the exploration business. “Hamara pump” efforts capture rural market which is a low cost rural outlet under this brand name. “Ji-haan” scheme of LPG marketing became popular and it increases the number of customers. The lube segment which is not priced regulated has major contributor in the profitability of HPCL. Companies retail outlets acts as an entry barrier for upcoming private and foreign players. Though corporation claims that, they provide quality fuel to customers but still adulteration was found on a number of petrol pumps. Web based registration system of new
connection and “Ji-haan” scheme of LPG refilling is yet not familiar in rural areas.

**Future plans:**

HPCL is having proposed plans for modernisation and expansion of the existing refining capacity, value addition and improvement in quality of products, new product pipe lines, development of pipe lines, development of marketing and infrastructure facilities and investment in joint venture projects, is gearing itself to meet the challenges of the competitive scenario. The Company will continue to consolidate its core business while making judicious investments in related business fields. The Company has finalized an investment plan of over Rs 11000 crores in XI Plan. Some of the major projects under XI plan include Lube Oil Base Stock Upgradation at Mumbai, Refinery.

**Bharat Petroleum Corporation Limited (BPCL):**

Burma Oil Refineries Ltd. was incorporated in 1952 as a joint venture between Burma Oil Company, UK and Shell Petroleum Company, by an agreement with the Indian Government to set up a refinery at Mahul in Mumbai, which went on stream in 1957. In 1976, the Indian Government
nationalized the petroleum industry and acquired 100% equity in Burmah Oil Refineries and named it Bharat Refineries Ltd. The name was later changed to Bharat Petroleum Corporation Ltd. (BPCL) in 1977.

It markets a diverse range of products from petrochemicals, solvents, specialty lubricants, aviation fuel and LPG. The Mahul refinery had a capacity of 6 million tonnes per annum. It was the first Indian industrial unit to obtain ISO 9002 and ISO 14001 certification and the only Indian Refinery to achieve a Level of 7 on the International Safety Rating System (ISRS). BPCL’s retail network is the third largest in the country, it had 22 LPG bottling plants, 3 lube blending and filling plants, 6 port installations, 13 aviation service stations, 67 company operated depots and 23 dispatch units. It completed a 250 km long cross-country pipeline between Mumbai and Manmad.

The main products offering of BPCL includes engine oils and gasoline for autos, liquefied petroleum gas and kerosene for the domestic sector, and Feedstock and fuels for the industrial sector. BPCL’s Bombay refinery yields an output of approximately 9 million metric
tons of now pursuing oil exploration in Vietnam, Kazakhstan, Azerbaijan, Russia, Egypt, Yemen, Cambodia and Tunisia.

During the past three years, BPCL has aggressively focused on upgrading facilities and services at the retail outlets, deploying the latest retail techniques and customer management tools along with superior infrastructure and technology to make the consumer’s visit to the petroleum retail outlet an experience in itself.

**Marketing Network of BPCL:**

The ‘Pure for Sure’ (PFS) initiative raised the threshold level of quality, quantity and service to a new high and with 1906 outlets certified as PFS, the network effect of this brand has resulted in a high level of customer satisfaction. BPCL has 4854 Petrol pumps Out of the new Petrol pumps installed, 6 were One Stop Truck Shops (OSTS), taking the total numbers of these pumps to 44. During the year, 11 new SKO-Light Diesel Oil (LDO) dealerships were also commissioned and BPCL now has 996 SKO-LDO dealers. During the year 2006-07, 480 petrol pumps were commissioned by BPCL out of a total of 2500 retail outlets commissioned by the public.
sector marketing companies. At the end of year 2006-07 total petrol pumps were 5334.

As the usage of Natural Gas and LPG as auto fuels are increased, BPCL has added Compressed Natural Gas (CNG) and Auto LPG at 45 pumps across the country. BPC bagged the ‘Award for Achieving Brand Excellence in Marketing - Speed & Bharat Gas’ at the 2nd Indian Express Awards for Marketing Excellence by the Indira Group of Institutes along with the Indian Express Group.

The Retail Business unit overcame stiff competition and aggressive market tactics deployed by the competition and was able to stem the initial slide by retaining the second position in the retail fuels market with sales of 11.61 MMT during 2005-2006. BPCL recorded sales volume of 13.01 MMT of retail fuels in the year 2006-07, which represented a growth of 12% over the previous year. This was the highest growth rate in the entire period. The year saw the commissioning of 2 new Micro LPG bottling plants with a capacity of 5 TMTPA each at Gonda and Baitalpur in the state of Uttar Pradesh. With this, BPCL has 47 LPG bottling plants
with a rated capacity of 2082 TMTPA. The total bottling done during the year was 2240 TMT.

During the year 2004-05, the LPG Business Unit achieved sales of 2593 TMT, registering a growth of 11.34% over the previous year as against the industry growth of 9.65%. BPCL’s growth in LPG has been the highest amongst the competitors; consequently, BPCL’s market share stood at 26.11%. Total customer population to 21.32 million. The distributorship network has been further expanded with the commissioning of 142 new LPG distributorships during the year, taking the total number of distributorships to 2061.

During the year, the LPG filling at bottling plants was 2228 TMT. BPC also commissioned two new bottling plants at Bangalore and Vijay Wada with bottling capacities of 44 tmtpa each, during the year. The increasing demand compelled for extending the facility of booking over internet through www.ebharatgas.com and through common telephone number facility “1712” has been partially fulfilled during the year. 8.5 million Customers from 128 cities can now book their refills through the internet. “1712” has been extended to 9 cities and in coming days, BPCL would be extending these
facilities to all customers. The year 2005-06 has been an eventful year in the LPG Business. The overall LPG sales were 2586.44 TMT, with the addition of 1.21 million new customers during the year, Bharat gas is present in 22 million households as on 31.3.06 and this customer population is being catered by 2123 LPG distributors. The overall LPG sales in 2006-07 stood at 2726 TMT. With the addition of 1.193 million new customers during the year, ‘Bharat gas’ has a presence in approximately 23 million households as on 31st March, 2007. This customer population is Serviced by a total of 2129 LPG distributors across the country. In the packed commercial segment, where the product is subject to market determined prices, BPCL achieved a sales growth of 34.67% in 2006-07.

BPCL has taken the initiative of participating in international LPG projects using the available experience and expertise. This is being done not only for revenue generation but also to open new vistas to staff. A beginning has been made by way of participation in an international tender for joint Development of LPG Storage, Bottling, Distribution and Associated Facilities at Nairobi, Kenya with Kenya Pipeline
Company Limited, a Government of Kenya enterprise. Efforts are also on to tie up with local players representing some of the countries of the Middle East. The following table shows the production and sales of petroleum products by BPCL during the decade, from 1997-98 to 2006-07.

Table No. 4.5 production and sales of petroleum products by BPCL:

<table>
<thead>
<tr>
<th>Years</th>
<th>Production (000 KL)</th>
<th>Index (%)</th>
<th>Sales (MMT)</th>
<th>Index (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>9648</td>
<td>100.00</td>
<td>16.37</td>
<td>100.00</td>
</tr>
<tr>
<td>1998-99</td>
<td>10861</td>
<td>112.57</td>
<td>17.50</td>
<td>106.90</td>
</tr>
<tr>
<td>1999-00</td>
<td>10643</td>
<td>110.31</td>
<td>18.68</td>
<td>114.11</td>
</tr>
<tr>
<td>2000-01</td>
<td>10348</td>
<td>107.25</td>
<td>19.35</td>
<td>118.20</td>
</tr>
<tr>
<td>2001-02</td>
<td>10355</td>
<td>107.32</td>
<td>19.15</td>
<td>116.98</td>
</tr>
<tr>
<td>2002-03</td>
<td>10291</td>
<td>106.66</td>
<td>19.86</td>
<td>121.31</td>
</tr>
<tr>
<td>2003-04</td>
<td>10210</td>
<td>105.82</td>
<td>20.37</td>
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<td>2004-05</td>
<td>10314</td>
<td>106.90</td>
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<td>19795</td>
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<tr>
<td>2006-07</td>
<td>22243</td>
<td>230.54</td>
<td>23.45</td>
<td>143.24</td>
</tr>
<tr>
<td>Total</td>
<td>124708</td>
<td>--------</td>
<td>197.39</td>
<td>--------</td>
</tr>
<tr>
<td>Average</td>
<td>12470.8</td>
<td>--------</td>
<td>19.73</td>
<td>--------</td>
</tr>
</tbody>
</table>

(Source- Annual report of BPCL, 2006-07)
On the basis of above table, one would notice that production of petroleum products by BPCL stood 9648 thousand Kilo Liter (KL) in the year 1997-98. Which go up 22243 KL in the year 2006-07 by increasing 130.54%, while average production was 12470.08 only last two years production was above average.

Above table shows, the decreasing trend in the production of petroleum products from 1999-2000 to 2004-05 comparing previous year’s production. Production increased tremendously in the year 2005-06 being double. Over all production was not satisfactory ands also not enough to full fill the increasing demand.

On the other hand, sales of petroleum products stood 16.37 Million Metric Tonnes (MMT) in the year 1997-98, which go up 23.45 MMT in the year 2006-07 by increasing 43.24% in the above decade. An average sale was 19.73, first five years sales was less than average sales.

Though, above table shows increasing trend in the sales of petroleum products but with very slow space. Hence, it is suggested that company should increase the production of petroleum product which impact to increase the sales.
Marketing strategy of BPCL:

Bharat Petroleum Corporations initiative in promoting its lubricant business has been multifaceted. The company has taken measures on advanced research and development to improve the product quality mix of the Lubricant produced by it, while on the other hand it has taken aggressive multidimensional marketing to promote its Lubes. Initiative for improvement in the product quality and advanced marketing strategies has been undertaken on the backdrop of growing competition in the Indian market followed from 1991 onwards with the deregulation of the downstream of the petroleum markets.

As bunkering has been identified as a major growth driver in the years to come, BPCL has ambitious plans to position itself in the international bunkering market. BPCL is in the process of setting up a joint venture company for this purpose with a foreign partner, where each will hold a 50% equity stake. BPCL has introduced several value added services for customers, with a view to differentiate itself from the competitors, e-banking, SMS alerts to customers, etc. are some of the initiatives pursued in this direction. The
increasing share of gas as a substitute for liquid fuels makes the business all the more challenging. This has put tremendous pressure on the market share and margins of the oil marketing companies. Company will invest Rs 6 billion in retail business over the next five years. Towards higher visibility, a good deal of investment has been made by the company to revitalize its existing brands through product quality and package improvements. The company has undertaken revamping exercise of its distribution chain to ensure products are more conveniently available and distinctively visible in the market place. Exclusive branded lube Shoppe's has been opened across the country to improve the product reach. The company is using many innovative and unconventional methods to create brand awareness in the diesel oil segments. PetroCard - in an effort to build lifetime relationships with its retail customers, Bharat Petroleum, on September 29, 1999, launched the Petro Bonus Program, the first of its kind in India.

The BPCL plans to set up about 250 retail outlets called 'Ghar' to sell its fuel products. These outlets would also offer customers’ non-fuel facilities like shopping, entertainment
and restaurant. "BPCL planning to open around 250 outlets, each has a 'Dhaba' kind of ambiance, offering shopping and entertainment experience. Also the company is primarily focusing on urban areas, keeping in view the increasing number of people traveling on highways, and travelers becoming more demanding. The outlets will mostly be built on highways and land requirement for each unit would be about five acres. This is in continuation with BPCL's In & Out stores which stock medium-high premium grocery products with efficient visual merchandising. BPCL's model seems very practical for a highway-urban scenario’s.

Advantages and limitations of strategy:

Petro Bonus is a unique program offering convenience as well as security of payment for fuel and convenience store purchases at its In & Out stores, with the added opportunity to collect valuable rewards and exclusive benefits against these purchases. BPCL's marketing division has provided petroleum products in the rural and remote area with their schemes of “Ghar” and “Dhaba” to those consumers who have to travel some distance to visit fuel stations.
The industry at present is flooded with surplus refining capacity. Apart from that, industry has seen fluctuating refining margins and tighter environmental norms. Deregulation offers a big opportunity; however, competition from domestic and international players will be intense. The biggest question mark is the viability of the new outlets. According to rough estimate by BPCL, in order to break-even, an outlet needs to sell at least 4000 liters of diesel a month. Once, the density of the petrol pumps increases, achieving this break-even would be difficult. The demand that these new outlets would reduce the sales of the petrol pumps on the highways or the nearby towns that were acting earlier as the sourcing point. The cases of adulteration and improper quantity may rise and this may hamper the overall image of the company. In order to monitor the outlets in the rural areas, BPCL would require a huge work force. Assuming this to be a long term strategy, what would BPCL do once private players also decide to enter the rural market? They obviously, do realise the market potential it holds. Can Speed, Pure for Sure, In & Out Stores really work wonders? Can these be extended to? The price-conscious to rural population? These and more
such questions face BPCL’s top management today. Common telephone facility for booking LPG cylinders for refilling is only for limited city over the country.

**Future Plans:**

To support the business initiatives, a major thrust was given to Research and Development (R&D). R&D has played an important role in extensive technical services support to ensure that the business remains competitive year after year. During the year, the business has developed 7 new grades and cost effective formulations for 10 existing grades. These formulations would result in a saving of Rs.70 million per annum.

BPCL is also recognizing the role of innovation and technological excellence in achieving and sustaining a competitive edge in the high tech business, BPCL has been continuously strengthening the infrastructure at its Corporate R&D Centre at Greater Noida in Uttar Pradesh as well as at its Product & Application Development Centre at Sewree in Mumbai. The Corporate R&D Centre focused attention on value addition through process optimization studies, detailed crude evaluations and crude compatibility studies, product
quality upgradation studies etc. The R&D Centre also extended valuable technical support to Refinery and Marketing operations, including carrying technical assistance in launching of new grades of bitumen. Exploratory research programs were also undertaken in the area of alternative fuels including Bio-diesel and Hydrogen.

**Marketing problems of HPCL, BPCL and IOCL:**

In the Indian petroleum industry, refining of crude oil is a profit making business, but marketing of these refined products is loss making due to a cap on selling prices. The state-owned oil marketing companies, HPCL, BPCL, IOCL, have to sell petroleum products – petrol, diesel, kerosene and cooking gas – at a controlled price and typically have to bear losses which at best is mitigated through oil bonds.

Under the current subsidy mechanism, the government compensates for almost 76% of the losses by way of oil bonds and discounts from the upstream oil firms namely, ONGC, GAIL and OIL leaving 24% to be borne by the oil firms. In the year 2007-08, State-run IOC, HPCL and BPCL together are reported to lose Rs 718.08bn on fuel sale. These companies are losing Rs 10.90 on every liter on petrol they
sell, Rs 14.66 per liter on diesel, Rs 303.66 per 14.5 kg domestic LPG cylinder and Rs 20.95 per liter on PDS kerosene. Dealers are not ready to sale branded products of petroleum, such as petrol, diesel, voluntarily because of its high prices comparing to other ordinary petroleum products.

Robust demand for petroleum products is also becoming a problem because exploration and production of petroleum products is not enough to meet out increasing demand.

From the last few years refining capacity has not increased in comparison with the increasing demand of petroleum products.

The Government had raised petrol price by Rs 4 per liter and diesel by Rs 2 per liter in June 2006, when crude oil was at $67 a barrel. Subsequently, the prices were reduced in two phases in November 2006 and February 2007. LPG prices were last raised by Rs 20 per cylinder in November 2004 when crude was at $34 a barrel, while kerosene prices have raised in 2002 when crude was at $23 per barrel.

Despite the government announcement to dismantle the Administered Price Mechanism (APM) effective from April
2002, Government is still controlling the prices of petrol, diesel, PDS kerosene and domestic LPG. Despite increase in international oil prices, the Government has not increased prices of kerosene sold under the public distribution system and cooking gas.

The three oil marketing companies – Indian Oil Corporation, Bharat Petroleum and Hindustan Petroleum – are losing around Rs 4.4 billion per day by selling petroleum products at subsidised prices. According to the report of sectoral update April 2008, Indian oil companies’ net realisation from petrol and diesel sales is one of the lowest in the world.

**Solutions to marketing problems of IOCL, HPCL, and BPCL:**

As discussed above, that petroleum companies are suffering from heavy loss on sale of petroleum products due to cap on selling price, therefore if prices of petroleum products determine on the basis of Market determine price it will be assist to reduce the loss on sale of petroleum products. The government should issue special oil bonds at various
intervals to the oil marketing Companies (OMCs) in lieu of
the under-realisation on sale of sensitive petroleum products.

The prices of petroleum products are different in all
states due to sales tax. There should be uniformity in prices of
all petroleum products over the country.

The honorable Railway Minister, Mr. Lalu Prasad in
the Rail Budget for 2008-09 has offered around 5 per cent
lower freight charges on transport of petrol and diesel,
without any reduction in selling prices of these products. This
policy is good and in favour of oil marketing companies
therefore it should be continued.

The government is considering increasing the
proportion of oil bonds to 57%, against the existing 42.7% of
the under-recoveries. The under-recoveries by the oil
companies are estimated at Rs 718.08bn for 2007-08. Based
on the existing burden-sharing formula, the government is
likely to issue bonds worth Rs 306.62bn. The formula
specifies the government would issue oil bonds worth 42.7%
of the losses while 33.3% would be borne by upstream
companies, and the remaining 24% by the OMCs. This 24%
under recoveries are arising due to selling prices below the
cost and it will cause to increase the losses of petroleum companies, hence it suggested that total under recoveries should be bear by Government.

Oil marketing companies process sour crude oil in large amount, which is cheaper than sweet crude oil. Oil companies should Increase refinery capacity utilization with the help of modern technology which is a profit making business.

**Indo-Burma Petroleum Limited (A Subsidiary of IOCL):**

Indo-Burma petroleum Limited (IBPL) was incorporated as Indo Burma Petroleum Company in 1909 and acquired the present name in 1983. Predominantly identified as Petroleum marketing company, IBPL also has two other businesses; Manufacturing of engineering products such as cryogenic containers and explosives. These businesses are organized at three different divisions. Even though, petroleum division is the major contributor to the company's sales and profit, IBPL is small player by petroleum industry standards. With 9.8% marketing share, IBPL is the smallest of four petroleum products marketing companies in the country. However, petroleum division contributes to an overwhelming
proportion of the total sales revenue. The Company has continued to focus on strengthening its corporate image through higher productivity, optimal resource utilization, upgradation of quality, introduction of innovative products and services, modernization of facilities and inculcation of cost competitiveness.

The consistent focus has helped to further strengthen the acknowledged credentials of Company as a stand-alone Petroleum Marketing Company. IBP has several joint ventures besides a subsidiary, Balmer Lawrie and Co Ltd, which, in turn, has several joint ventures. IBP's joint ventures include Numaligarh Refineries Ltd (NRL), IBP Caltex Ltd, Indian Oil tanking Ltd and Petronet India Ltd.

**Marketing Network of IBPL:**

IBPL is active in retail products such as Petrol, Diesel & Kerosene. During the year 2003-04, the Company attained an overall growth rate of 10.5% against the Industry growth of 3.5% in marketing of Petroleum Products. The growth in retail sales of Motor Spirit and High Speed Diesel at 15.8%, 10.9% respectively during 2003-04. During the financial year 2003-04, IBP concentrated on the strategy of aggressive retail
expansion adopted in 2002-03 in order to counter emerging competition. Consequently, 688 new petrol pumps were commissioned to positively impact the retail volumes. Cumulatively, the Company's retail network at the end of the 2004 stood at 2765 Retail Outlets and 378 Superior Kerosene Oil (SKO) / Light Diesel Oil (LDO). With the enrolment of 58,380 new customers, the customer base for LPG crossed 3,20,000.

IBPL has only 13% of its petrol pumps in company owned category rest of the petrol pumps owned by dealers. In all, there were 3598 petrol pumps in the year 2006-07. In a deregulated scenario, the dealer owned and dealer controlled petrol pumps become potential target for new entrants.

The increase in turnover though achieved primarily through higher retail volumes, was also attributed to productivity improvement, continuous value addition to the product range, strengthening of the Company's brand equity and quality up gradation. During the year under review, the Company earned its highest Profit.

IBPL is a pure marketing company with no backward integration into refining. Resultantly, its operating margins are
intrinsically lower, compared to that of refining cum marketing companies. IBPL is standalone marketing major with a strong presence in the northern markets. Being a standalone major, it utilizes parent IOCL’s infrastructure for refined products and storage. The company also has other minor business operations, which are industrial explosives and cryogenics. IOC holds 53.58% stake in IBP.

As it is well known that the globalization is multifaceted, with many important dimensions – economic and social, political and environmental, cultural and religious – which affect everyone in some way or the other. Its implications range from the trade and investment flows that interest economists, to changes that we see in our everyday lives: the ease with which we can talk to people all over the world; the ease and speed with which data can be transmitted around the world; the ease of travel; the ease with which we can see and hear news and cultural events around the world. In practical the system of globalization developed like a web on the globe, which affects the entrepreneurship culture and India adopted it under developing circumstances. The opening up of the Indian economy has not only allowed it to reap
benefits of globalisation, but India is also contributing to global growth. However, much before this exercise, the petroleum sector was opened to foreign petroleum companies. Thereafter the study of the overall effect of the globalization on Indian petroleum industry in general and in particular on marketing and distribution of petroleum products will be made.

**Globalisation and Indian Petroleum Industry:**

The Indian Petroleum Industry was dependent from the very beginning on foreign capital, expert personnel, and technology, which led to the industry's globalisation. Globalisation entails the integration of the nations' economies through corporate investments, financial flow, and trade in goods and services between nations. Though, the process of Globalisation of petroleum industry started soon after independence but in 1991, the government of India took resort to the International Monetary Fund (IMF) and World Bank prescriptions to bail out ailing economy also allowed Direct Foreign Investments in the country. As a result of this, globalization of the Indian Industry took place on major scale.
Indian petroleum industry in the post independent period (1947-2007), may be divided into three distinct phases

1. Early phase (1947 to 1969) - when the government consolidated its control over the industry with Soviet assistance;

2. Development phase (1970 to 1989)- in this period the US companies played dominant role replacing the Soviets and

3. The economic liberalization phase of 1990s.

After independence (1947), the newly independent state wanted to play significant role in this vital industry. The industry policy resolutions of 1948 and 1956 have clearly documented the government's aspiration and future plans for core industries like petroleum. All future development of petroleum industry was reserved for public sector undertakings. But foreign assistance was a necessity at least in the early stage. As collaboration with Anglo- American oil majors were ruled out, other alternatives were explored.

At that time the government considered four options as under for the development of its petroleum industry.

1. Seek assistance of a great power like Soviet Union,
2. Collaborate with a small country like Rumania

3. Explore the possibility of a government to government co-operation with other small but neutral countries like Austria, which had developed sufficient technical expertise in petroleum industry by that time;

4. Try and develop the industry through self-help by employing technicians and bringing necessary machinery from which ever source available.

Burmah -Shell, the British company desperately tried to stay in India even as junior partner to a joint venture with national oil company after the process of nationalizing of foreign oil companies. At that time, Cochin and Madras refineries were running under joint venture between the govt. of India and foreign oil companies. But the government did not accept Burmah-Shells' proposal. The other two American companies namely Caltex and Standard Vacum were themselves eager to leave the country due to their internal organisational restructuring and domestic compulsions. The government of India’s decision to nationalise them had nothing to do with their departure from the marketing and
refining sector. However, they kept their linkages alive with the industry through crude supplies.

Apart from nationalisation of foreign companies, there were other important developments during seventies and eighties which needs to be mentioned here to understand the process of globalisation of this industry. As offshore exploration got more importance of involvement of U.S. Companies increased replacing the Soviets. In 1974, the government offered 7 million acres of Bay of Bengal to Natamas Carlsburg Co. of USA for offshore exploration and production. A contract was entered into between the U.S. Company and Oil and Natural Gas Commission (ONGC) for the same. Subsequently another contract between Readings and Bates, U.S.A and ONGC for Kutch basin (Gujarat) was signed. Till 1990, the Government had invited four proposals for bidding. Due to political changes, finalisation of contracts against the fourth round of bidding was deferred. One noticeable feature of the fourth round was that, Indian private companies (along with foreign partners) were allowed to participate for the first time. In the eighties, the Government allowed Indian private companies to enter into refining sector
initially as a joint venture partner with a public sector refining company. Later, Reliance Industries Ltd. (RIL) was allowed to build on their own, the largest refinery in the country. For refining technology, the public sector refineries, during 1980s, were almost completely dependant on one American Company M/s Universal Oil Products (UOP). UOP did not transfer their technology to the refineries. They 'leased' it simultaneously to more than one Indian refinery at a time. Thus, the technology could not be absorbed. The marketing policy followed by the public sector companies has made the economy and the society completely dependent on petroleum products. It has successfully replaced/barred entry of other alternative energy sources including natural gas.

The effects of globalization on Indian oil industries started when the government opened the country's markets to Foreign Direct Investments (FDI). Globalization of the Indian Industry took place in its various sectors such as steel, pharmaceutical, petroleum, chemical, textile, cement, retail, etc. As it is known that the globalization means the dismantling of trade barriers between nations and the integration of the nation’s economies through financial flow,
trade in goods and services, and corporate investments between nations. As huge amounts of foreign direct investments were attracted to the Indian Industry, they boosted the Indian economy quite significantly. The benefits of the effects of globalization in the Indian Industry are that many foreign companies set up industries in India, and this helped to provide employment to many people in the country. Also the benefit of the effects of globalization on Indian industry are that the foreign companies brought in highly advanced technology with them and this helped to make the Indian Industry more technologically advanced.

Interestingly, among those who accepted the challenge of globalisation were some of the largest and most successful of the public sector enterprises, such as Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, etc. The liberalisation process which had been started earlier was accelerated and extended to other sectors of the economy in the name of Structural Adjustment Process (SAP). The main features of SAP were:

i) Privatisation and

ii) Opening up of economy to foreign companies.
Though the declared policy of the government of the post independent India was to develop this vital industry under public sector, in actual practice, the industry from its inception was very much dependent on foreign technology, capital and even on expert personnel. Over the years, the foreign involvement in different critical stages like exploration, production, transportation and refining has increased. The government in an effort to encourage Indian Petroleum Industry's globalisation has, offered the contract of discovered fields to foreign and private companies. The Indian government in an attempt to further boost the globalization of the Indian Petroleum Industry formed the Exploration Licensing Policy by which it tried to attract the foreign and Indian companies to production and exploration.

The incentives that were declared by the government to encourage globalization and the Indian Petroleum Industry are that on imports that were required for petroleum operations custom duty would not have to be paid, state participation is not compulsory, no tax on the production of crude oil, provisions for liberal depreciation, tax holidays for 7 years from the day that production starts, and the freedom to sell
natural gas and crude oil in the domestic market at prices that are related to the market. Globalization and the Indian Petroleum Industry have been going together as has been seen for the past many years. The government of India has taken several measures in order to ensure that the globalization of the Indian Petroleum Industry is successful for the industry. In the future, the government is likely to ensure that Indian Petroleum Industry's Globalization is beneficial for the industry and not harmful. As a part of economic performance and growth India could not have kept her self away from the impact, farmed under International Crude Oil Prices which were touched a record high. In previous such high oil prices, India often faced balance of payments crisis, low growth and high inflation.

In the current period, the economy has been able to absorb the oil shock relatively comfortably so far. However, in case international oil prices continue to remain at the existing elevated levels, they could have a negative influence on growth prospects internationally. All the consequences of crude oil prices and petroleum industry as a part and parcel of economic performer in the world, India bare a huge impact of
globalization on its petroleum sector. As being a performer it had to balance all the liner points of the global development. India faced crises of balance of payment in petroleum industry. Within a short span of time, the country had seen the emergence of an entirely new market category. According to industry observers, this trend was in line with the global trends wherein petroleum companies tried to build a loyal customer base by branding petroleum products.

As petrol and diesel had traditionally not been seen as categories with much scope for product differentiation, branding of these products came as a welcome change. It was a conscious and proactive effort of the companies towards brand building, in the wake of the radical changes taking place in the industry since the beginning of the country's economic liberalization in the early 1990s. As the industry became more competitive and customer-driven, companies needed to focus like never before on marketing strategies. Since these new fuels were priced higher than the conventionally sold petrol/diesel, BPCL, IOC, HPCL and IBP were working hard to communicate the benefits of using their products and justify the higher prices. However, analysts
expressed their reservations as to whether the extremely price-conscious Indian customer would be willing to pay more even though these brands were supposed to be technically superior.

With increase in the demand for and supply of petroleum and natural gas products, and with multiple new players entering the market, the Indian government has enacted the Petroleum and Natural Gas Regulatory Board Act 2006, to provide for the establishment of a Petroleum and Natural Gas Regulatory Board (the Board) in order to regulate the refining, processing, storage, transportation, distribution, marketing and sale of petroleum products and natural gas. Hereafter it will be discussed the effect of globalisation of post 1991 on this vital industry and our analysis will focus on (a) exploration and production (b) marketing and distribution, concern to petroleum products.

**Impact of Globalisation on Exploration and Production of Petroleum Products:**

To begin with, the Government in early nineties has changed the much awaited legal status of the Oil and Natural Gas Commission (ONGC) by converting it into a Corporation thereby giving it more autonomy. Oil and Natural Gas
Corporation Ltd (ONGCL) - a limited company governed by the Indian Company Acts was formed. Earlier, ONGC was governed by the Acts of the Parliament. As the Government decided in favor of more involvement of private sector in exploration and production, there was a need to establish an independent regulatory body that could effectively supervise the activities of all the companies - private and public. The most noteworthy policy shift was the decision of the Government to involve private and foreign companies in the development of already discovered fields. In the first offer of such fields in August 1992, contracts for 5 medium sized and 13 small-sized fields have been awarded. Enron Oil and Gas Company, Reliance Industries Ltd, Command Petroleum, Videocon Petroleum Ltd, Ravva Oil Pvt. Ltd. were few such major foreign and Indian private companies. ONGCL and Oil’s share in those Joint Ventures were limited to 40% only. The estimated oil and gas production from these fields were 360 billion barrels and 50 billion cubic meters respectively. The most promising fields of Panna, Mukta and Mid & South Tapti which had been successfully explored earlier by ONGC were offered to Enron -Reliance consortium without
reimbursing the past exploration expenses to ONGC. Moreover, the Government agreed to purchase the produced crude from the consortium at the international price plus a premium of $4 per barrel as the Sulpher content was low.

From 1991 to 1996, the Government had held five rounds of bidding for exploration acreages offering as many as 126 blocks, ranging in sizes from a few hundred square kilometers to over 50,000 sq kilometers. 11 contracts have been awarded. Some of the important companies which have been either awarded contracts or participated in the exploration round were: Shell, Occidental, Amoco, etc. However, all these efforts could not improve the crude and gas reserve of India. In 1990-91, the crude oil reserve was 739 mmt which has declined to 658 mmt in 1999-2000. The corresponding natural gas reserve figures were 686 bcm and 628 bcm respectively. In that period, the crude production also declined from 33.02 mmt to 31.95 mmt and in 1999-2000, India had to import 44.99 mmt crude. The above figures clearly indicates that the Government policy of involving the private parties—both Indian and foreign offering liberal terms did not help the upstream petroleum sector. On the contrary, reserves and
production have drastically fallen in the post liberalization period.

Alarmed with this situation, the Government decided to further liberalise its terms to lure Indian and foreign companies to exploration and production. A New Exploration Licensing Policy (NELP) was formulated by the government in 1997-98 to provide a 'level playing field' in which all parties (including national oil companies) would compete on equal terms for the award of exploration acreage. A Model Production Sharing Contract (MPSC) was framed for the finalisation of the contract.

Some of the incentives announced by the Government were:

- No custom duty on imports required for petroleum operations.
- No minimum expenditure commitment during the exploration period.
- No mandatory state participation.
- No carried interest by National Oil Companies
- Freedom to sell crude oil and natural gas in domestic market at market related prices.
- Biddable cost recovery limit up to 100%
• No cess on crude oil production
• Royalty payment: 12.5% for on land areas, 10% for offshore and 5% for deep water areas.
• Liberal depreciation provisions

If we compare the fiscal incentives offered in the NELP with the incentives declared in earlier production sharing contracts, these are not more liberal than those already offered. But in all the earlier contracts, participation of national oil companies in the Joint Venture was mandatory in the event of successful crude/gas find during exploration. This clause has been deleted in the new policy. Moreover as per the new policy, ONGC and OIL will have to compete at par with the private companies for exploration and production of new acreage.

The New Exploration License Policy (NELP-I) was finally launched in January 1999. Record numbers of blocks had been offered for exploration including 10 in on land, 26 offshore up to 400 meters depth and 12 deep offshore off the east coast. Out of these, 24 blocks were awarded to different parties. In December, 2000, Government again announced NELP-II and invited proposals for 25 blocks. For the first
time, eight (8) deep water blocks on west coast and prolific blocks of Assam and Gujarat had been included under NELP and 23 blocks have been awarded to different companies. Six round of NELP blocks have been completed by the end of 2006 and seventh round of NELP bidding planned in November 2007. over the first six round of NELP 161 blocks covering an area of 1.3 million sq km. have been signed 18 contractors won blocks across the six rounds, two of them ONGC and reliance Industries Ltd. (RIL)won 87%of the acreage and 71% blocks between them.

The policy of globalisation followed so far has not shown any positive result in exploration and production sector. In a desperate bid, the government has accelerated the space of reform. How the national oil companies adjust to this rapid changing situation is to be watched closely.

**Impact of Globalisation on Marketing and Distribution of Petroleum Products:**

In the nineties, major policies as under in the marketing and distribution of petroleum products with far reaching implications have been announced by the government to attract private investment in exploration, the government has
announced that any company investing nearly US$400 million (Rs20 billion) in exploration and production or other specified avenue, would be eligible for marketing and distribution rights of petroleum products in India. This will allow the international oil majors to enter into the lucrative distributing sector. In September 1997, the government has decided to dismantle Administrative Pricing Mechanism (APM) in phased manner. By April, 2002 it was fully dismantled and prices of petroleum products were determined on the basis of import parity system. Many petroleum and other companies accepted the challenge and continue within the import parity system till date. Cross subsidised petroleum products competed with other energy sources like coal, and penetrated into their domain. Thus, low priced kerosene has replaced vegetable oil for illuminating lamps and coal for cooking, subsidised LPG has become an essential household fuel, long distance trucks fed with diesel easily competed with the railways in freight movement.

Oil Pricing Committee (OPC) set up in 1976 recommended discontinuing the import parity pricing. Administered Pricing Mechanism (APM) came into existence
in 1977. Prior to APM the, realisation of oil companies were restricted to the import parity price of finished goods. The Government fixed the prices of the petroleum products. With the administration of the prices by the Government the pricing system evolved to APM. APM was administered by Oil Coordination Committee (OCC), under the ministry of Petroleum and Natural Gas. Under APM raw materials were supplied to the refineries at the point of refining at a predetermined price (Delivered Cost of Crude). The finished products were made available to the marketers at pre determined prices, refining and marketing costs were reimbursed based on predetermined criteria.

Increasing globalization of the Indian oil sector has made the Indian oil companies refocus their strategies to suit the highly competitive and dynamic global marketplace and thereby ensure that the country’s oil pool deficit never assumes alarming proportions. Thus, the leading Indian oil companies, Oil and Natural Gas Commission (ONGC) and Indian Oil Corporation Limited (IOCL), have entered into collaborations to set up ventures in the international markets and also undertake an equity swap. ONGC Videsh pioneered
the trend having entered into a manufacturing agreement in the offshore areas of Vietnam with British Petroleum and Stat oil. The total reserves in the two Vietnam offshore blocks amount to 2 trillion cubic feet. ONGC also revealed plans to take over acreage in Kazakhstan, Azerbaijan, Russia, Iran and Algeria. FDI up to 100% is permitted in petroleum products marketing and petroleum products pipeline subject to the policies decided by Government.

As for the distribution of product of oil industries was concerned they make it attractive and efficient through marketing strategies with some different branded names, which were discussed in earlier chapter number 3rd. In July 2002, Bharat Petroleum Corporation (BPCL), one of the leading players in the Indian petroleum industry, launched premium grade petrol under the brand name, ‘Speed’? This was the first instance of an oil company launching branded fuel in the market. Soon, the two other leading oil companies, Indian Oil Corporation Limited (IOCL) and Hindustan Petroleum Corporation Ltd. (HPCL) also launched their own 'new generation' fuels. While IOC's branded petrol was called 'Premium,' HPCL called it 'Power.' IOC and HPCL also
launched branded diesel called 'Diesel Super' and 'Turbo Jet' respectively. In December 2002, another company, IBP, launched a new brand of premium grade petrol 'Josh' and a premium grade high speed diesel, 'Shakti'. Thus, due to competitive market of petroleum products these oil companies showed their boost to take the advantages. On the other hand, customers had various options available for them for selection from multiple products. To achieve the targets companies are doing their best for improving network to distributing these products more efficiently.

**Conclusion:**

Globalisation effect on Government policy, Government permitted private companies, Indian as well as foreign with liberal terms. Government declared NELP with the various incentives in which private and public sector oil companies are participating. In exploration and production public sector oil companies, IOCL, HPCL, and BPCL are playing an important role in refining and distribution of petroleum products in India. Due to subsidy, on sale of petroleum products these companies are suffering from heavy loss per day Rs. 4.4 billion, due to fast increasing crude oil
prices in international market. But on the other hand, due to
government subsidy to public sector oil companies, private
petroleum marketing company are unable to compete on
pricing factor and finally some of them have closed their
business. No longer, it is possible to Government as well as
Oil companies to continue the subsidy on petroleum products.
Hence, Government has to find out the way to overcome form
this matter.
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