To:-

The Secretary to the Government of India,
Ministry of Works, Production & Supply,
New Delhi.

Dear Sir,

PROPOSAL BY THE ANGLO-SAXON PETROLEUM COMPANY LTD AND BURMAH OIL COMPANY LTD FOR THE ESTABLISHMENT OF AN OIL REFINERY AT BOMBAY.

Following discussions with Dr. S.S. Bhatnagar in London and with Messrs Pillai, Venkataraman, Sukthankar, Bhatnagar, Bhattacharya and Desai in New Delhi, we submit on behalf of the Anglo-Saxon Petroleum Company Ltd (a member of the Shell Group of Oil Companies) and the Burmah Oil Company Ltd (hereinafter together called the Oil Companies) the following proposal to construct and operate an oil refinery in the Bombay area of India.

2. The Oil Companies through a Company incorporated in India (hereinafter referred to as the Indian Company), will erect, at Trombay Island in the State of Bombay, a modern refinery with a capacity to handle a feed-stock of not less than 30,000 barrels of crude oil a day or, say, 1,500,000 tons of crude oil a year. Present plans envisage a total annual finished product output of approximately the following quantities:-
Motor Gasoline 322,500 tons.
Kerosenes 195,000 tons.
Diesel Oils 263,500 tons.
Fuel Oils 530,000 tons.
Bitumen 25,000 tons.

The pattern of the refinery has been generally determined by the estimated needs of the Bombay economic supply area, both in respect of quantity and quality. In as much as the demand for petroleum products appears likely to increase substantially over a period of years, the Indian Company may increase the refinery output or its facilities for the manufacture of such other products as may prove to be desirable to meet the Oil Companies' requirements, but it will obtain the previous permission of the Government if it wishes to undertake substantial expansion of the refinery. The Indian Company may also change the relative proportion of the products manufactured, provided that the output of kerosenes as estimated is not substantially lowered thereby. If, in future, an increased production of kerosene by the Indian Company from that estimated now should become desirable, either to the Government or to the Indian Company, the Indian Company will discuss with the Government the practicability of increasing the output of kerosene in excess of the quantity indicated above. Such discussion will take account of the then existing ability of the refinery to produce the increase and of the need of maintaining such quality as the Oil Companies consider suitable for the market. Any agreement to produce such increased quantity of kerosene will provide that an appropriate duty protection on
kerosene is also granted by the Government to recompense for any consequent decline in the value of the Motor gasoline protection.

The designing and construction of the refinery will be taken in hand promptly and it is expected that it will commence distillation operations by January 1, 1956, and will be in full operation by July 1, 1956. It is estimated that the capital cost of the refinery will be some 15 million pounds and that the working capital required (as the system will be for the Indian Company not to own or finance the stocks of crude and refined products) will be about 1.5 million pounds.

3. The Oil Companies will promote the Indian Company as a public Company in India under the Indian Companies Act 1913 (as amended) to own and operate the refinery. Indian investors will be given the opportunity of subscribing two crores of rupees towards the capital of the company. The shares to be issued in respect of such subscriptions will be cumulative preference shares of a nominal value of Rs. 100 each which will be entitled to dividend at the rate of 6% per annum or at such other rate as may appear more appropriate, due to changed conditions, at the time of issue. The shares will carry no right to vote at any meeting of the company unless the dividend on them is in arrear.

4. (1) The Oil Companies or the Indian Company will pay to the Government of the State of Bombay the sum of Rs. 40 lakhs to provide housing. This amount is calculated to provide at least 500 additional houses and will be paid in the following instalments:

Rs.10 lakhs for securing and preparing land (with filling operations where necessary) and proceeding to
construct houses;
Rs.10 lakhs when 150 of the said houses have been completed;
Rs.10 lakhs when a further 150 of the said houses have been completed;
Rs.10 lakhs when a further 150 houses have been completed and the remaining houses are commenced.

The State Government will permanently make available, in their housing colonies situated within a radius of five miles of the refinery, 500 houses for the refinery labour staff on the understanding that if vacancies are not filled reasonably quickly from the refinery staff which would have the first priority, they may be allotted to others so as to minimise revenue losses, and, in fixing the rent to be charged to such staff, the State Government will bear in mind that 500 houses have been provided free of cost to the State Government.

(2) In view of the contribution proposed to be made to the Government of Bombay for providing housing accommodation, the Indian Company will not be required during the first twenty years for the commencement of full-scale refinery operations or until 31st December 1975, whichever is earlier, by any Governmental authority to construct any housing of their own unless the Indian Company employs a larger labour force than 1500, in which event any additional obligation shall be limited to the provision of housing for one-third of the excess over 1500.

5. The Oil Companies will take such steps as may be necessary to ensure that the Indian Company will train an adequate number of Indian personnel in refining operations for
employment in the refinery and, subject to the right of the management to select personnel and to judge what is necessary for the efficient and economic working of the refinery, will employ Indians in all capacities to the extent that qualified Indian personnel is available from time to time.

6. To the extent that the Indian Company and/or the Oil Company do not require them for their own purposes, and to the extent that it may be reasonably practicable to do so without prejudice to the interests of the Indian Company, the Oil Companies will ensure that the Indian Company will make available at reasonable prices to those engaged in the manufacture of chemicals such by-products as they may require, provided –

(a) that these by-products can be made available without added capital investment, and

(b) that should materials be manufactured therefrom which the Indian Company and/or the Oil Companies wish to purchase, these companies shall have a prior right to purchase at reasonable cost.

7. The Government will permit the Oil Companies to establish the prices of the refinery products from time to time at any level not higher than that at which they sell, or could make available for sale equivalent imported products, provided that subject to the foregoing principle, the Oil Companies shall consult the Government before they alter the price of any of the products.

8. Tankers, regardless of flag, importing crude oil or products for the refinery for marketing operations in India, will be permitted to lift products from the refinery for delivery to

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other ports in India. If, in future, the Government or any shipping corporation in which the Government own the majority of the voting shares shall acquire one or more petroleum tankers of a size economically suitable for use in the Oil Companies' business, the Oil Companies, subject to their then existing charter commitments will enter into discussions with the Government with a view to utilization of a reasonable number of such tankers. It is understood that, except with the permission of the Government, tankers under the flag of any nations which the Government have declared to be discriminating against India will not be used for the purposes specified in the first sentence of this paragraph; provided that after any such declaration the Oil Companies shall have a reasonable period of time in which to rearrange their tanker schedules.

9. The Oil Companies solicit from the Government certain assurances which are as follows:-

(1) The Government will use their good offices with the Government of Bombay to ensure, or will otherwise provide for, the compulsory acquisition and transfer to the Indian Company, on payment of the cost thereof, of -

(a) a site or sites on Trombay Island of at least 600 acres, for the refinery and connected offices and other buildings, and

(b) lands for pipelines, railway spurs and appurtenant facilities, and roadways to and from the refinery site, as may be needed for transportation of oil, water, refinery effluent and
refinery supplies.

(2) Import duty on any materials, supplies or equipment imported for construction of the refinery as well as associated off-site facilities will not exceed 5.1/4\% ad valorem, provided that the normal tariff rates will apply to all imports on the expiry of one year after the commencement of full-scale refinery operations.

(3) The Government will take such steps as may be necessary to ensure that such reasonable dock and harbour facilities (including tugs) as may be required for mooring and unmooring tankers with a laden draft of up to 34 feet, and for unloading crude oil as well as construction and operating supplies destined for the refinery, and for loading refinery products for shipment to other ports are provided in Bombay Harbour. The Oil Companies will collaborate with the Government or other proper authority to keep the cost of providing such facilities to a minimum.

(4) The Government will give all reasonable assistance to the Oil Companies in such matters as:

(a) the supply of building materials for the construction of the refinery, from India or outside:

(b) the provision of railway transport for the despatch of refinery products;

(c) the supply of suitable water to the refinery in adequate quantities and at reasonable cost.

(5) The Government will make available foreign
exchange:-

1. For the construction of the Refinery:
   To the Oil Companies in London, against payment in sterling, such dollar exchange as is required to purchase materials and services from dollar sources for the construction of the refinery;

2. For the operation of the Refinery:
   (a) Sterling or dollar exchange, as appropriate, for the supply of materials and equipment purchased abroad for refinery operations, engineering service, technical information service, royalties, license fees and an appropriate amount of the office expenses incurred in London by the Oil Companies;
   (b) sterling exchange for interest on sterling loans and for the redemption of such loans in suitable instalments:
   (c) sterling exchange for the remittance of dividends of the Indian Company to the Oil Companies;
   (d) sterling exchange for remittance of the depreciation reserve to the extent required for replacement of plant and machinery.

3. For proceeds from the sale of refined products:
   To Burmah-Shell Oil Storage & Distributing Co. of India Ltd., sterling exchange (with such adjustment as is necessary through the Bank of England operation of the Commonwealth dollar
pool in respect of dollar exchange in line with current arrangements for Burmah-Shell's imports of foreign oil) in order to remit to the United Kingdom the equivalent of the C.I.F. cost and distributors' profit as at present in respect of the refined products produced by the Indian Company after deduction of the difference in the values of products and crude oil at the refinery. It is understood that the Oil Companies and the Indian Company will give preference to Indian or soft currency sources of supply for all purchases for the construction and operation of the refinery.

(6) The Oil Companies will be free to make their own arrangements for the importing of crude oil for the Indian Company and for distribution in India, by land and sea, of the refined products of the refinery and for the marketing of the refined products of the refinery. The Oil Companies will also be free to export such products of the refinery as from time to time may not be required by the Indian market.

It is understood that:

(a) Preference shall be given to crude oil produced in India by the Oil Companies or either of them or by any subsidiary or associate of either of them, provided such crude oil can be delivered to the refinery without adversely affecting the
profitability of the refinery and is of a quality which can be processed without substantial additional investment in the refinery, and the producing operation can be carried out under conditions considered economically satisfactory to the Oil Companies; and

(b) If crude oil produced by others in India and suitable for processing in the refinery shall become available to the Oil Companies at reasonable prices delivered at the refinery on a long-term contract basis, and the Oil Companies at the time shall not be producing, or have reasonable prospect of producing, sufficient crude oil in India for the operation of the refinery, the Oil Companies, consistent with the requirements of the refinery, their own production in India, and their then existing contract commitments, will attempt to contract for the purchase of such crude oil.

(7) No import duty will be imposed on crude oil imported for the refinery unless and until this is required for purposes of protection to indigenous crude oil, and if an import duty is then imposed, the Government will take steps to ensure that the economic position of the Indian Company is not altered to its disadvantage by reason of such import duty.
(8) The existing duty protections on oil products manufactured in India will be maintained for a period of ten years from the commencement of full-scale refinery operations or until 31st of December, 1965, whichever is earlier.

(9) The Government will grant for a period of 10 years from the date when full-scale refinery operations commence or until 31st December, 1965, whichever is earlier, a duty protection by maintaining an import duty on motor spirit of two annas per Imperial Gallon higher than the excise on locally manufactured motor spirit.

(10) The Oil Companies will be permitted so to conduct their business as to recover depreciation and obsolescence on the refinery plus a reasonable profit on the total capital invested in the Indian Company.

(11) The Government will use their good offices to ensure that sales or transfers of crude oil belonging or consigned to the Indian Company, or of the products of such crude oil between the Indian Company, its consignors, or any other oil distributing company are not subjected to any sales tax, turnover tax, or similar tax.

(12) The Government will use their good offices to ensure that:-

(a) the inward wharfage rates on crude oil shall not exceed the inward wharfage rate on furnace
oil.

(b) the differential between inward wharfage rate on motor gasoline and crude oil, respectively, shall not fall below the current differential between inward wharfage rates on motor gasoline and furnace oil.

(c) the outward wharfage rate on refined products except diesel oils and fuel oil shall not exceed the inward wharfage rate on crude oil, and

(d) the outward wharfage rate on diesel oils and fuel oil shall not exceed one half the inward wharfage rate on crude oil.

(13) The Government will so provide that ownership and operation of the refinery by the Indian Company will not be less favourable, as regards combined taxation, to the Indian Company and the Oil Companies under the Indian Income Tax laws than if the Indian Company had been incorporated in the United Kingdom and operated in India and further that, until the expiry of a period of ten years from the commencement of full-scale refinery operations, or until 31st December, 1965, whichever is earlier, the income tax and corporation tax payable by the Indian Company on its profits together with the super tax payable by the Oil Companies in respect of any dividends, out of the
Indian Company's profits shall not exceed the income tax and the corporation tax payable in respect of the same amount of profits by any other Indian Company which declares the whole of its net profits as dividends.

(14) As the Oil Companies feel that no occasion should arise for the Government to invoke the provisions of Sections 15 to 18 inclusive of the Indian Industries (Development and Regulation) Act of 1951, the undertaking of the Indian Company will be exempted by the Government for a period of 25 years from the commencement of refinery operations from the aforesaid provisions, on the Indian Company applying for such exemption, and the licence issued pursuant to section 11 of the said Act will not contain any conditions inconsistent with the terms of this proposal.

(15) The Government will not, and will take such steps as may be necessary to ensure that no other Governmental Authority will, take over the operation of, take possession of or acquire for public purposes the refinery or the Indian Company before full-scale refinery operations commence or within 25 years thereafter. If operation of the refinery is taken over, or if the refinery or Indian Company is taken possession of or acquired for public purposes after the expiry of the said period, reasonable compensation shall be paid to
the Indian Company (or its shareholders) and remittance facilities in suitable instalments shall be provided for the repatriation to the United Kingdom of any amounts invested by the Oil Company, as share capital and loans, in the Indian Company.

(16) In the event of any other refinery producing similar products from imported crude oil being granted terms generally more favourable than those granted to this refinery, those terms will be made applicable to this refinery.

10. The foregoing proposal sets for the broad principles and assurances on the basis of which an investment for the construction of an Oil Refinery at Bombay will be undertaken by the Oil Companies. The Government's acceptance of this proposal is requested.

Yours faithfully,

For The Anglo-Sexon Petroleum Company Ltd.
For Burmah Oil Company Ltd.
From: C. C. Desai, Esq., I. C. S.,
Secretary to the Government of India.

To: Messrs. The Anglo-Saxon Petroleum Co., Ltd., and
The Burmah Oil Co., Ltd.,
Care Burmah-Shell Oil Storage &
Distributing Company of India Ltd.,
Burmah-Shell House,
New Delhi.

Subject: Proposal by the Anglo-Saxon Petroleum
Company Ltd., and Burmah Oil Company Ltd.,
for the establishment of an oil refinery
at Bombay.

Dear Sirs,

With reference to your letter dated the 15th
December, 1951, on the subject noted above, I am
directed to inform you that the Government of India
accept the proposal for the establishment of an oil
refinery in India submitted by you and agree to give the
various assurances asked for therein on the
understanding that the Oil Companies and the Indian
Company referred to therein to be formed will ful-fill
and continue to fulfil their various obligations as
mentioned in that letter.

Yours faithfully,

Sd/-
(C.C. Desai)
Secretary to the Government of India.