A memorandum of understanding was signed on November 27, 1975 by representatives of the Government and Burmah Shell. This virtually marks the end of the controversial and stormy history of the foreign oil companies in India. When the oil companies decided to set up refineries in India in the fifties, they were extraordinarily powerful. In many developing countries, the cartel of the seven major oil firms, known as the Seven Sisters, was strong enough even to topple Governments. The Seven Sisters enjoyed strong support from their own Governments, and were, therefore, a major political force in their own right in some countries.

Things became radically different in the seventies. The once all-powerful oil firms were now eating humble pie. In their original refinery agreements, they demanded and received an assurance that they would not be nationalised for 25 years. None could have then imagined that they would be negotiating voluntarily to quit India well before the end of the 25 year period.

In their hey day, Burmah Shell and the other companies enjoyed extraordinary high profitability. Their parent companies made huge sums by selling crude to the refineries at an inflated
price. Under the refinery agreements, the oil companies were supposed to supply crude at the prevailing world price. But in practice they gave large discounts to major buyers like Japan but did not extend the benefit to India. The sixties saw a prolonged series of battles between the oil companies and Government on crude prices, and though usually in the end the Government won, the oil firms minted money in the interim period. There were many demands in and outside Parliament for the nationalisation of oil companies but the Government was not willing to go so far as this may have resulted in grave political and economic repercussions.

It was in the seventies that the tide began to turn against the oil companies, not only in India but in many other parts of the world also. It started in West Asia, where the countries reigning the Gulf decided that they would no longer leave everything in the hands of the oil firms. Their first step was to force the oil firms to sell 25 percent of their shareholding to the oil-producing states. This was accompanied by a modest price hike of few cents per barrel, which marked the first attempt by the Organisation of Petroleum Export Countries to flex their muscles.

Thereafter, events happened one after another in lightning succession. A world shortage of crude put up crude prices bit by bit. Then came the Arab-Israel War of 1973, the embargo on oil supplies by some Arab nations to selected western countries, and a four-fold rise in oil prices. This was followed by the decision of OPEC countries to take over the entire ownership of their oil, reducing the oil companies to the status of just marketing outlets.
It is important to keep in mind this world perspective, for without these global developments the oil firms would never have agreed to quit India. It was the big turn-around in the international environment that made it feasible for them to depart without worrying about loss of face. Of course, the relentless pressure of the Indian Government was also an important factor. In the early seventies, the Government made it clear it was not going to depend on the oil companies alone for the supplies of crude, and started looking around for other sources. At the same time it began squeezing the refining profits of the refineries by not allow them to increase the prices of their products when the import of crude went up. The Government argued that the crude price hikes were unjustified, and hence the entire burden of higher crude price would have to be absorbed by the refineries. As a result, the profits of the refineries dropped to almost zero. There were long periods when they were actually losing money.

By now the writing was on the wall. It was clear to the oil firms that their days were numbered, and, that they would certainly be taken over at the end of the statutory 25 years period. They also realised that in the event of nationalisation, they might not be paid much compensation.

Rather than wait for such an unhappy event, ESSO decided to get out while the going was good. It offered to sell the Government 74 percent of its holdings at a fair price, and was willing even to sell out entirely. After prolonged negotiations, the Government adopted the first alternative. It felt it would be useful to have ESSO as a minority, since this would ensure
supplies of crude from an established source till 1981.

It was originally thought that the ESSO pattern would be repeated for the other oil companies as well, but then new developments intervened. Oil was discovered at Bombay High, opening up the prospect of self sufficiency in crude oil. The importance of establishing a foreign source of supply began to lose relevance. There was also the prospect of expanding the Burmah Shell refinery to process as much Bombay High Crude as possible, thus minimising the cost that would be involved in transporting the oil to other refineries. Hence, the Government felt it would be better to purchase outright the entire assets of Burmah Shell in India. The price to be paid is Rs. 37 crores, whereas it would cost well over Rs.100 crore to set up a new public sector refinery of the same size. It is a deal which suits both parties.

In the near future, Caltex and Assam Oil Company will also be taken over. At the same time, new oil discoveries in the Bay of Bengal and Arunachal Pradesh have brightened the prospects of the country becoming self-sufficient in crude. Thus the scene is set for an entirely indigeneous oil industry. This is a far cry from the days when the oil companies dominated the scene.

It is worth noting that there has been a singular absence of rancour in the take over of the oil firms. The talks have been conducted in a firm but friendly fashion, and nothing has befitted the oil firms more than the manner of their departure. In this lies the seed of hope that they will soon reenter India, in a different and more useful role. India is still leasing out off shore basins, and requires foreign help in
developing the fields of the Oil and Natural Gas Commission and in setting up facilities for the manufacture of offshore equipment. Till now, the major oil firms have not even bid for such projects. But now that the take over negotiations have come to a cordial and fruitful end, one can hope that India's links with Burmah Shell, Esso and other firms might be renewed on a more mature basis.