CHAPTER-III

FOREIGN INVESTMENT IN THE PETROLEUM INDUSTRY

Foreign collaboration and investment is not a post-independent phenomenon in India. India has had a long experience with inflows of private foreign capital, especially from Britain. Three-quarters of the foreign capital in India on the eve of Independence was British-owned. As is typical of the colonial pattern of investment, it was mostly concentrated in extractive industries and processing of raw materials for export, international trade and ancillary industries like tea, jute, finance and management, utilities and transport.\(^1\) India's railway system was developed with the help of foreign capital, and many British agency houses set up public utility and commercial companies.\(^2\)

However, with the pre-independence Government in India deriving its faith in total 'laissez-faire' from the British Government, India lacked a policy on foreign capital. Consequently, foreign enterprises found it convenient to export products to India and to set up local manufacturing operations in the form of branches or wholly owned subsidiaries, wherever justified by local circumstances. In such situations, locally initiated enterprises did not have enough prospects for obtaining foreign collaboration. Often, local entrepreneurs set up industrial units, as in the case of cotton textiles, cement,

paper, and sugar, without foreign collaboration or, as in the case of Tata Iron and Steel, obtained the services of foreign consultants.

Management contracts between British companies and Anglo-Indian merchants - as resident British traders were then called - first became known in the 1830's when the East India Company's monopoly of trade ended. When the sea passage between the two countries was regularised and speeded up, India began to attract a flood of British capital for her first railway boom. As they grew popular, these Agreements assumed a form which outlasted the flow of outside capital. They generally provided for the managing agency to be represented on the board of directors of a joint firm. The agency would receive a percentage of profit, interest on loans, and various other fees. These Agreements were entered into for a score or so years at a time and were often irrevocable.

On the eve of the Second World War, the sixty-one foreign agencies were managing more than 600 rupee companies in addition to a number of sterling ones. The type of industries varied from tea, jute, coal mining, shipping to flour-milling and banking. Diversification was the key word. Large firms particularly the new type of international giants began to take an interest in India in the inter-war years. Many of the foreign associations were entrusted with considerable powers by the

4.Ibid., p.6.
Government apart from financial assistance. Yet, they remained organizations of British business. At best they showed indifference to the special needs of the Indian capital, at worst they obstructed. As long as British funds were available, the managing agencies had little cause to look elsewhere. Now and again one came across Indian shareholdings in a British-managed company but they were of no consequence in aggregate. The two world wars changed the situation, because the agency houses were virtually cut off from their financial sources and so Indian capital had to be taken in, and that too in substantial quantities.

The advent of independence brought into focus various issues involved in the import of foreign capital and expertise into the country, and the need for defining a policy with respect to foreign investment. This change in attitude occurred because foreign enterprises operating in India found the political climate changing, and the new independent Government itself had specific views on industrialization and the role of foreign capital. Industrialization was popularly regarded as synonymous with economic development by the people of the developing countries. Industrialization has been defined as the use "of inanimate sources of power and the use of tools to
multiply the effect of the effort i.e. the extensive use of inanimate sources of power for economic production." The productive process is broadly defined to include the agricultural, extractive and service sectors as well as manufacturing. To reach the goal of industrialization, private foreign direct investment was regarded as the greatest potential source of capital as well as entrepreneurship, technology, management and marketing - then lacking in developing countries including India. These countries were encouraged to provide a hospitable climate for foreign investment, not only through minimum of regulations but often through such special inducements as tax holidays and subsidies.

Nevertheless, soon after independence, the trend of Government thinking was made clear by the Resolution moved by Kazi Syed Karimuddin in the Constituent Assembly (Legislative) on February 17, 1948,"......the economic pattern of this country shall be (that of a) socialist economy based on the principle of nationalizaton of key industries and co-operative and collective farming and socialization of the material resources of the country and that the Government of India shall adopt the said

principle immediately."7

The first policy document produced by the independent Indian Government was the Industrial Policy Resolution of 1948, which among other things, sought to define the new Government's attitude to foreign capital. It represents the first articulate enunciation of the respective roles of public and private enterprise in the economic development of India. It created an exclusive State (Central Government) monopoly as regards the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport. It also assigned to the State exclusive responsibility for the establishment of new undertakings in coal, iron and steel, aircraft and shipping manufacture, manufacture of telephones, telegraph and wireless apparatus, and mineral oils. But, even for such industries, cooperation of private enterprise in the national interest was not ruled out.

This Resolution laid down that, "it is necessary that the conditions under which they (foreign capital and enterprise) may participate in Indian industry should be carefully regulated in the national interest."8 It further stated that suitable legislation will be introduced for this purpose. Such legislation


will provide for the scrutiny and approval by the Central Government of every individual case of participation of foreign capital and management in industry. It will provide that as a rule, the major interest in ownership and effective control should always be in Indian hands; but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest."9 It thus ensured to constrain foreign investment and avoid its adverse effects by legislation. Some countries had developed a fairly comprehensive administrative machinery to screen incoming investment. India, since independence, has had such a screening process, which although a bureaucrat's dream and a businessman's nightmare, does present the foreign investor with some degree of certainty that, if his application is approved, he will be allowed to operate on terms which he has negotiated.

The Indian experience with private foreign capital participation since independence, provides a case study of not only the evolving patterns of private foreign capital participation in the less developed countries, but also illustrates the possible role that foreign enterprise participation can play in the development process and the problems associated with it. Foreign capital even now is a

subject of increasing importance not only in capital importing
countries but also in capital exporting countries. For the
advanced capital exporting countries, foreign investment in less
developed countries is becoming a new area of exploration, as
developing countries continue to grow and participate in world
export markets. For the capital importing countries, foreign
capital is the primary source of economic development and modern
technology. So, while the Resolution provided a very broad
enunciation of the Government's attitude to foreign capital and
investment, it was silent on many specific issues which concerned
both existing and prospective foreign investors. Consequently,
Pandit Nehru, Prime Minister of India, made a Statement in the
Constituent Assembly on April 6, 1949 elaborating the
Government's attitude on foreign investments in India.

The Statement referred to the 'stress on the need
to regulate, in the national interest, the scope and manner of
foreign capital that arose from past association of foreign
capital and control with foreign domination of the economy of the
country.' However, the Government felt that, in the changed
political climate, foreign capital had a useful role to play in
supplementing national savings and in bringing "scientific,
technical and industrial knowledge and capital equipment that can
best be secured along with foreign capital, and that all
undertakings, Indian or foreign would have to conform to the
general requirements of the Government's industrial policy." It
was therefore that the rest of the industrial field was left open

10. Assembly of India (Legislative) Debates, Part.II,
to private enterprise, but progressive State participation and regulation were envisaged. The Government also promised that there would be no discrimination against existing foreign capital and that it would allow "further foreign capital to be invested in India on terms and conditions that are mutually advantageous." The Government also assured that foreign interests would be allowed to earn profits, and existing facilities for their remittance would be continued, subject only to foreign exchange considerations. In the case of compulsory acquisition, "compensation would be provided on a fair and equitable basis", and the Government would "provide reasonable facilities for the remittance of proceeds." In addition, the Statement noted that while generally, control would be expected to remain in Indian hands, "the Government will not object to foreign capital having control of a concern for a limited period if it is found to be in the national interest."

As regards employment, the Government would allow "employment of non-Indians in posts requiring technical skill and experience" not available in India. The Statement ended with a specific reference to British capital "which naturally forms the largest part of foreign investment in India". It also referred to the scope for future British investment and the Government's desire not to injure foreign interests in India.

The predominance of U.K. firms in India reflects very clearly the historical patterns of these major capital-exporting countries' investment. Rather, India welcomed their contribution in the development of India's economy. Therefore, India to develop her industries with the most up to date technology made generous concessions to foreign investors. No wonder, today India ranks among the ten leading industrial nations in the world.13 Yet, it is interesting to note that even as early as in 1948, the Economic Program Committee, with Prime Minister Nehru as its Chairman had submitted a program of new undertakings for defence purposes in key public industries as well as all undertakings that were monopolistic in character whereby existing private undertakings were to be taken over in five years subject to the State's limited resources and capacity.

The Revised Industrial Policy Resolution of 1956 referred specifically to the 1949 Statement on foreign capital, and the Government at that time did not feel the need to make any changes in it.14 The Prime Minister's Policy Statement on foreign capital was issued in 1949. This was more liberal in nature. According to it, existing foreign capital was to be treated at par with national enterprises; mutually advantageous conditions for fresh inflows of capital were to be framed; repatriation of capital and remittances of profits were to be allowed; and fair compensation in the event of nationalization was assured. It also


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conceded in certain categories, a majority ownership to foreign enterprises, but for a limited period, if it was to be in the national interest.

It would be true to say in this context that for years after independence, Indian capital bore the marks of having grown in the shadows of a powerful tightly-knit foreign competitor, and an unsympathetic, frequently hostile State. Therefore, as against the foreign capital, Indian capital sought to establish its identity in well-knit family groups like the Birlas and the Tatas. But no family group, however extended, could provide the resources for empires of this size and diversity, the more so as hired management was even less plentiful than it is today. And so Indian capital was utterly dependent on foreign capital for supplies and services. The task of the policy makers was to maximize beneficial effects and to minimize detrimental effects of foreign capital.

After independence, the new Government had already accepted planning as a means of fostering industrial growth. The Industries (Development and Regulation) Act, passed in 1951, provides among other things, for the Government to issue licences for the establishment and expansion of industrial units. The Resolution of 1956 demarcates industries according to whether they are to operate in the public or in the private sector. Import and foreign exchange controls were continued. These measures enabled the Government to control the terms on which

foreign participation, technical or financial, was allowed in, or allowed to continue in Indian enterprises.

Independence and the Industrial Policy Resolutions had a definite impact on the entry of foreign capital. With the end of British political domination, the predominance of British capital tended to decline gradually and there was a relatively larger inflow of non-British capital. The Government's stand on predominance of Indian control meant that foreign share capital would generally be allowed on a minority basis.

The First Plan document reflects the Government's attitude towards State control indicating clearly that it was best for the public sector to develop those industries in which private enterprise is unable or unwilling to put up the resources required and run the risks involved. It clarified that the State will have to play a crucial role. This need not involve complete nationalisation of the means of production or elimination of private agencies. It does, however, mean a progressive widening of the public sector and a re-orientation of the private sector to the needs of a planned economy, where the two sectors are and must function as parts of a single organism. A further reflection of this approach can be found in the Directive Principles of State Policy contained in Article 39 of the Indian Constitution, which requires the State to ensure that the ownership and control of the material resources of the community are so distributed as best to subserve the common good; that the

operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. The Industrial Policy Resolution of 1956 increased the role of public enterprise. It classified industries into three categories having regard to the part that the State would play in each of them:

1. Schedule A consists of industries the future development of which will be the exclusive responsibility of the State.
2. Schedule B consists of industries that will be progressively State-owned and in which the State will generally take the initiative for establishing new undertakings. But private enterprise will be expected to supplement the effort of the State regarding this category of industries.
3. All remaining industries are left to the initiative of the private sector.

The Industrial Policy Resolution of 1956 placed all industries of basic and strategic importance and all public utility services exclusively in the public sector. Other industries that were essential and required investment on a scale that the State alone could make were also left in the public sector.

The Second and Third Plan documents reflected this shift in emphasis. The Second Plan document stated in clear terms that

19. Text at Appendix A.
the public sector is to grow absolutely and relatively to the private sector. It called upon the public sector not only to initiate developments which the private sector is either unwilling or unable to undertake; it has to play a dominant role in shaping the entire pattern of investments in the economy whether it makes the investments directly or whether these are made by the private sector.\textsuperscript{20} The Third Plan document envisaged that the character and functioning of the economy as a whole will be determined by the rapid expansion of the public sector, which would materially contribute to increasing public savings for investment, making it possible thereby to increase the rate of growth.\textsuperscript{21}

Indian investment did not by and large upset foreign control in its traditional fields until the mid-fifties, but the control had become far from absolute. The insistence of Indian share-holders that ownership be converted into influence could not be denied entirely. If, a distinction has to be drawn between investments where effective control lay with the foreign firm and so constituted foreign investment proper, and those where it lay with a local entity, and so constituted simply a form of payment for technology or some asset transferred, there arose difficulties in determining how, and to what extent, control is exercised. A majority shareholding by the foreign firm was not

\textsuperscript{20} Second Five Year Plan, Planning Commission, New Delhi, 1956, p. 22.

\textsuperscript{21} Third Five Year Plan, Planning Commission, New Delhi, 1961, p. 264.
necessary for it to exercise control. In appropriate circumstances, and even without an explicit management contract, a particular investor could exercise control with an equity share as low as 10 percent.

India was striving to gain control not only with majority equity share capital but also in terms of decision making factors. Indian progress was slow but considerable, be it in trade, banking or exports. Were it not for the strong foreign hold on tea exports (amounting to more than two-thirds) and on mineral oil imports (nearly 100 percent), Indian progress would have been even more marked. This period also marked the switch towards rapid industrialization when the State started competing actively for Indian resources; providing capital and skills; and undertaking more and more direct production. Slowly but surely, the State made an indent into the fields in which old-type foreign capital had dominated. As a result, growth in technical collaboration agreements increased vis a vis the financial participation agreements.

The extent of foreign collaboration increased considerably, thereby fostering a highly increased pace of industrialization. The ability to exert control over decision making suggests that something more than mere flow of financial capital is involved in the case of foreign investment. In this category fall technical and managerial skills, or, more

generally, knowledge and ideas. It is this characteristic of foreign direct investment that renders it a powerful mechanism for the dissemination of technology. Therefore, "it should be a condition of the establishment of foreign companies in India; that they should have Indian capital and Indian representation on the board of management (and) arrangements for the training of technicians".  

23 Realising that the Indian business houses were not yet ready for entering the field of specialised industries, they thought, "we must expect alliances, agreements and contracts between foreign industrialists and ours. Indeed, they become natural and necessary once we grant that our country should be industrialised and that the process would cost much less if we could enlist foreign technical and financial co-operation for the purpose."  

The recognition of the technology transmitting capabilities of foreign investment led to a large number of joint business ventures, management contracts and technical collaboration agreements. The most attractive feature of these arrangements was the absence of majority capital ownership by the foreign entity. A joint business venture is defined as one in which there is the commitment, for more than a short duration, of funds, facilities and services by two or more legally separate interests to an enterprise, for their mutual benefit.  

23. Kidron, Foreign Investments in India, p.69.  
technical collaboration is defined broadly as an agreement between a foreigner and an entity created under local law and owned by local public or private interests, in which the foreigner provides management services, technical information, or both, and receives payment in money.\textsuperscript{26} This strictly precludes foreign ownership of capital and exercise of formal control over operations. There was a spurt of such foreign collaboration agreements, especially after 1957. Even earlier, the predominance of foreign capital in the Indian economy was illustrated by the following figures: in 1949-50, 85 percent of the area planted to grow tea was foreign controlled. Similarly, in the case of wool and hides and mining, nearly 60 to 70 percent of the capital was foreign owned.\textsuperscript{27}

After independence, significant changes occurred in the nature and pattern of private foreign capital participation in the Indian economy. The change came about with the advent of joint business ventures and technical collaboration agreements between Indian and foreign firms. Foreign technology began flowing in, particularly in the sophisticated key industries. Industrial production increased rapidly, the output of capital goods growing at twice the rate of all others during the Second Plan period. By the end of the Plan, idle capacity hardly existed in the major industries and the private sector had substantially over fulfilled the planners expectations. Financial participation by foreigners gained a strong foothold but with majority control by the Indian partner. This was influenced by the existing fears

\textsuperscript{26} V.N.Balasubramanyam, "Foreign Private Investment in India", India's Economic Problems, ed. J.S.Uppal, p.385.
\textsuperscript{27} Kidron, Foreign Investments in India, p.9.
of foreign economic and political domination, founded on the colonial experience. Therefore, while recognizing the value of private foreign investment, it was emphasized that majority ownership and effective control should always rest in Indian hands.

Investment across national boundaries is largely a reflection of the development of technology, and affects every facet of the established order - financial, cultural and political. The economic consequences of foreign direct investment are held almost universally to be beneficial. It is interesting to observe that as early as in 1791, Alexander Hamilton, the First Secretary of the United States Treasury had stated that foreign capital, "instead of being viewed as a rival ought to be considered as a most valuable auxiliary, conducive to put in motion a greater quantity of productive labour, and a greater portion of useful enterprise, than could exist without it."

Private foreign capital and enterprise came to be increasingly looked upon by the leaders as a means of obtaining the much needed foreign exchange and technical know-how. But specific regulations governing the sectoral allocation and nature of foreign enterprise were stipulated, both on economic and political considerations. Each foreign capital participation was subjected to detailed official scrutiny and approval. Nevertheless, the foreign collaborations continued. During the period 1957-1963 inclusive, capital issues consent involving new Indo-foreign financial collaboration was granted in 246 cases.

compared with more than 1700 involving technical collaboration only. 29

Sample firms accounted for a percent of the sales of the 1044 leading manufacturing public limited companies (as covered by periodic Reserve Bank Surveys) in 1966-67; the sample firms with foreign majority ownership accounted for 21 percent of the sales of 290 foreign controlled companies in the same period. The foreign net worth of sample firms came to 21 percent of total foreign direct manufacturing investment in India in 1967, and to 37 percent of such investment in the industries covered by the sample. 30 By 1970, the number had increased to 3557 collaboration agreements but with the difference that most of these were pure technical collaboration agreements in favour of technologically intensive manufacturing industries.

On the financial side, the actual net foreign investment has been estimated at Rs.450 million under the First Plan, Rs.1,200 million under the Second Plan and Rs.2,300 million under the Third plan period. (Ten million is equivalent to one crore )

By 1962, the total foreign investment had increased to Rs.7,355 million or by nearly 200 percent. Of this increase about Rs.1,800 million was due to reinvestment of profits. 31 A.H. Hanson observed about the First and Second Five Year Plans that but for the massive foreign assistance that India received, (these)

29. Kidron, Foreign Investments in India, p.260.
would have been completely disastrous. The problem of inflation was grossly underestimated, the financial difficulties rather airily brushed aside and the balance of payments situation given little serious consideration.32

The composition of foreign investment is another aspect worthy of note. Prior to independence, foreign investment was concentrated primarily in agricultural and extractive industries, the traditional strongholds of foreign capital in the last century. However, since independence, almost all the new inflow of foreign investment has been in the processing and manufacturing activities, in particular, in oil refining. At the end of 1959, the value of total foreign business investments outstanding in the private sector was estimated at Rs.6,107 million. Of this, Rs.2,507 million were invested in manufacturing industry and Rs. 1207 million in petroleum alone, apart from investments in plantations, construction, transport, trading activities, mining and financial services.33 In other words, at that time, the fresh inflow of foreign investment was based not on exploiting national resources but on setting up processing and manufacturing activities.

A review of the foreign collaboration agreements shows that the Government did not allow foreign collaboration (capital or technical) in non-manufacturing activities particularly in trading and banking. To a large extent, collaboration had been

restricted to manufacturing and industrial activities. Even within this category, the Government did not generally allow foreign collaboration in established industries like cotton, jute, textiles, sugar and cement, where indigenous technology was available. The Government also did not ordinarily entertain foreign collaboration proposals for ventures requiring continued dependence on import of raw materials, components and spare parts. Such ventures were expected to be independent of imports within three years. The Government adhered to its policy of import substitution or export promotion in addition to its specific policy guidelines which do not favour foreign majority ownership or control.

However, a significant exception to this set of rules was seen in the petroleum sector. This exception was made in those industries in which India had made little progress; where the cost of imported equipment was high; and wherever there were export possibilities. The Government had realised that participation of foreign capital and enterprise would be of value to the rapid industrialisation of the country. And it proceeded to relax the regulations concerning ownership. It was reported, "The Government of India no longer think that a majority non-Indian interest in ownership, and in some cases effective control can be regarded as 'ipso facto' detrimental to the interests of the country. It is, therefore, proposed not to insist too strongly on majority control residing in Indian hands in the formative stage of industries."  

three refineries in the mid 1950's in response to a specific request.

The Oil industry had been dominated from 1945 until the late 1950s by the so called 'le sette sorelle ' or the Seven Sisters,a phrase popularised by Enrico Mattei, the head of Italian State Oil Company. These were Standard Oil(New Jersey), Shell, Texaco,Socony,Mobil,Gulf,Standard Oil of California and British Petroleum. These seven companies had all become major powers in the oil industry before the twenties and continued to dominate the world oil business in the following decades. These seven majors were in some respect the forerunners of the modern multinational corporation. Each of them soon developed into an integrated oil company controlling its production, transportation, refining, distribution and marketing activities not only in the country of its origin but elsewhere too. Even in early sixties about seventy to eighty percent of the free world's trade in crude oil and products was controlled by these companies.

The supranational expertise of these majors was beyond the ability of national Governments. In the economic sphere, the oil industry is regarded as the largest most widely ramified and most complicated industry in the world; it is not without reason that the biggest companies in the world were and are oil companies. Their incomes were greater than those of most countries where they operated; their fleets of tankers had more tonnage than any navy; they owned and administered whole cities in the desert. In dealing with oil they were virtually self-sufficient, invulnerable to the laws of supply and demand, and to
the vagaries of the stock markets, controlling all the functions of their business and selling oil from one subsidiary to another.35

In fact, the oil companies operating in India were granted a substantial measure of extra territorially as an inducement to set up the refineries. Between mid 1948 and the end of 1953, exclusive of investments in oil refineries, 75 new foreign firms brought in a total of under Rs.11 lakhs, or an average of Rs. 14,000 odd each. While foreign assets rose by Rs.130 crores, half came from reinvested profits and most of the rest, about Rs.45 crores from a heavy, one-shot investment in the new oil refineries.36 Thus, the Refinery Agreements with the three foreign oil companies were concluded towards the end of 1951 and in March 1953.

The Agreements, final negotiations for which began on October 10,1951 were concluded on November 30, 1951 with Standard Vacuum Oil Company; on December 15, 1951 with Burmah Shell and on March 28, 1953 with Caltex. They quarantined the companies from nearly all the regulatory legislation and rules promulgated since independence. Where the Industrial Policy Resolution of 1948 announced forthcoming legislation to ensure that as a rule, the major interest in ownership, and effective control, should always be in Indian hands, the Agreements reserved a maximum of 25 percent for Indian participation and that too in preferred, non-voting shares only. The parent companies were permitted to hold 100 percent of the ordinary

36. Kidron, Foreign Investment in India, pp.102-103.
share capital of the Indian Companies. The Companies were guaranteed against nationalization for 25 years from the commencement of operations and 'reasonable compensation' thereafter. Their imports of crude were exempted from customs duty and their machinery imports assigned a special, low, five and a half percent 'ad valorem' duty. They were specifically excluded from many provisions of the Industries (Development and Regulation) Act, 1951 which had just come on to the statute book as the Government's major regulatory device for the private sector; among them that the State might assume control under certain, stated circumstances. Finally, as became apparent at a later date, the Agreements were of indefinite duration.

Before the Second World War, oil refineries were generally set up in areas where oil was produced. Only in a few consuming areas did demand justify the setting up of refining plants to cater to the needs of the market. But over a period, the position radically altered and the weight of refining shifted gradually towards the oil consuming countries. The most compelling reason for locating refineries in the consuming countries was that it reduced the foreign exchange cost of oil consumption since only the crude oil had to be imported. The gains in economic benefits related to jobs, tax revenues and stimulus to supply industries. The oil companies were more willing to accept payment in local currencies, since they needed this to pay for part of the construction of the refineries.

37. Standard-Vacuum Oil Company Refining Agreement, Ministry of Production, New Delhi, November 30, 1951. Text in Appendix-B.
This setting up of the oil refineries was indeed a major investment of the period, and widely welcomed. This category indicated that foreign capital should be to the extent possible, confined to undertakings in the private sector which involved new lines of production, and where indigenous capital and management are not likely to be forthcoming. It is interesting to note that the Fiscal Commission had even then recommended that industries connected with the development of natural resources - coal and petroleum should be developed in the public sector.38

Foreign investment in spheres in which Indian capital was not interested or where there were difficulties in obtaining technical know-how met with little antagonism. This has been supplemented by the statement in 1952 of Shri Ram, industrialist and Chairman of the Industrial Finance Corporation that the Government should "restrict foreign private investment to such special and difficult lines as oil refining."39 The Eastern Economist went so far as to state that there is 'nothing that can be regarded as extravagant in the terms now offered to the oil companies considering the volume of the capital and the highly complicated nature of the refinery operations which require long range planning and security."40 The Government was alive to the desirability of diverting a fair share of the business accruing from the proposed oil refineries to indigenous banking, insurance and shipping interests and was making efforts for the advancement of these interests.

40. Kidron, Foreign Investments in India, p.106.
The Government was prepared to use foreign capital in developing industrial production but at the same time did not hesitate to point out what was clearly indicated by T.T. Krishnamachari, the then Minister of Commerce and Industry that, "Once we find that foreign capital is likely to jeopardise national interests, we will not allow it to enter the country".41

Conditions changed radically when the Abadan refinery was nationalized, temporarily, by Iran. Prices rose anyway; the Government wanted an assured supply of products, and the companies became interested in alternative refining capacity. A second approach was made in November 1951, and by the end of the month the First Refinery Agreement with Stanvac had been signed followed by the Agreements with Burmah Shell in December 1951, and with Caltex in March 1953, respectively.

The Agreements marked the apex of the companies fortunes. The third, with Caltex, had scarcely been concluded, when the Government began to question their terms. A Cabinet Sub-Committee was appointed to inquire into product prices, particularly in Assam, the only region with a working refinery and yet the one in which product prices were the highest. The prices for Assam Oil Company's products were determined on parity with the prices ex-Calcutta.42 Government spokesmen took the lead in hammering the companies on the floor of the Lok Sabha, imputing to Assam Oil a profit of from 100 to 300 percent, rejecting the Company's own figures as useless in determining the cost.

41. T.T. Krishnamachari to the All-India Manufacturers Organization, Bombay, reported in Hindu, Sept.1, 1952.
structure on the retail price of petrol because whatever the cost of production of indigenous oil, the price for India was based on the Mexican Gulf price. Yet again, all the three coastal refineries were obtaining their requirements of crude oil from their overseas suppliers. The price of crude oil was based on the posted price thereof obtaining in the Persian Gulf, subject to a discount of about eight percent. But this discount was not being reflected in the prices of end-products. Consequently, the benefit thereof was being absorbed by the refiners43 much to the dislike of the Government of India.

Within two months of the debate, prices were lowered by four annas a gallon in Shillong and by two annas elsewhere in Assam, "a reduction made possible," according to the Company's press statement, "by the greater availability of these products from nearer sources and the fall in freight rates.44 The deadlock continued. The Companies invested heavily in their refineries, the first of which came on stream in January 1955, followed in March by Burmah-Shell's, the largest; and the Government smarted under the memory of the Agreements. It could not do much to alter them; neither persuade the Companies to reduce prices, nor, in the absence of alternative supplies, force them to. It had tried to interest other Western Companies in prospecting in India but with no success.45

44. Kidron, Foreign Investments in India, pp.167-168.
45. Ibid.
In the north-eastern sector, only three relatively small tracts out of a sedimentary area of over 400,000 square miles had been prospected. Assam Oil, with its old Digboi field facing exhaustion, was active elsewhere within Assam. Early in 1953 they struck what was to become an important oilfield in Nahorkatiya, 20 miles to the west. Apart from this, Burmah Oil, the parent company, had done some test drilling at Lakhra, in Rajasthan but abandoned it in 1950. Stanvac, with the new name of Esso Standard, surveyed the Bengal basin from 1951 and went on to test drilling in 1953. They also tried the Rajasthan border region around Jaisalmer. Both came to nothing, the Bengal Concession was abandoned in 1960 after ten dry holes and an expenditure of Rs. 7 crores.46

In the international scene, Russia had come of age economically and its trade increased considerably during the mid-fifties. India benefitted early and substantially from this new turn. The Indo-Soviet Trade Agreement listed crude oil and oil products as possible Soviet exports to India. The Trade Pact, signed on December 2, 1953 was quickly followed by a first small shipment of oil products in January 1954. This was followed by technical assistance and supply of equipment in steel.47 In June 1955, the Indian Prime Minister, Pandit Jawaharlal Nehru paid a visit to Moscow and the warm political ties were accompanied by Soviet aid for India's oil industry. No doubt M.J.Akbar wrote that Nehru's visit to the Soviet Union between 11

46. Kidron, Foreign Investments in India, p.168.
and 23 June 1955 was a huge success.48

In September that year K.D. Malaviya, the then Minister for Natural Resources, led a delegation to the USSR to seek help in exploration. He returned with the outlines of an agreement. The Soviets offered assistance in prospecting and refinery construction. Soviet experts arrived in India to begin their search for oil. By January 1956 Russian technicians had reported favourably on oil prospects in the Cambay region, Gujarat; by March they had come to similarly favourable conclusions on the Cambay area in 1958 and at Ankleshwar, Kaloe and Rudrasagar in 1960.

The Indian Government were examining an offer of two oil tankers from the USSR in November 1955 and by December 1955, the Soviets had agreed to supply oil drilling equipment.49 Later in May 1956, Russia agreed to supply three oil drilling rigs and facilities for training Indian crew in addition to their own technicians. Another agreement to undertake oil prospecting on a large scale was signed in November 1956 and Russia agreed to send nearly two hundred oil technicians apart from provision of training facilities for Indians in Russia. In the same month, a preliminary agreement was reached covering the manufacturing of heavy machinery, coal-mining equipment, fertilizer plants and an oil refinery.

The Soviets provided significant aid for India's oil industry, attempting to reduce the dependence on the Western Oil Companies. They extended a gift of oil equipment in May 1957 and offered to prospect further from September 1959 apart from the agreement to build an oil refinery at Barauni in Bihar. In addition, the Soviet Union agreed in September 1959 to grant India a credit of $25,000,000 for the construction of this refinery at Barauni and agreed to train 300 Indians at the refineries in the Soviet Union.50

With the Russian deals in the offing, the Government was in a position to press the Companies for concessions. State partnership became a condition for obtaining a new prospecting licence. Stanvac agreed in March 1955 to associate with the Government in exploration once commercial quantities were struck in West Bengal. Assam Oil agreed in June 1955 to become a rupee company with one-third Government stake in exchange for a twenty year prospecting licence covering an 800 square mile area near their new Nahorkatiya field. It was not until February 1959, after complex and strenuous bargaining and as part of the general easing in Government relations with foreign capital, that the joint company Oil India (Pvt.) Ltd. was incorporated.

Fortified by the Russian estimate of India's reserves, Maulana Azad, the then Minister of Scientific Research and Natural Resources, demanded (March 1956) not one farthing less than 51 percent Indian ownership. Soon afterwards, the Industrial Policy Resolution of April 1956 reserved oil as a State

enterprise under Schedule A.51 Later, it drew back a bit; new, simplified licensing rules were published in November 1959, together with a formal general invitation to foreign private companies to join the quest for oil in India, subject to mutually acceptable terms. Even then, the Government's insistence on State partnership, half or more than half the profits, and (the Government) itself having undivided control of any oil found proved too onerous for private operators. A year later, negotiations were still going on. In practice, with the exception of a new licence for Oil India, private companies were virtually excluded from prospecting for, and producing Indian crude. The new licence covered 1886 square miles to the east of the earlier concession area. Burmah Oil appears to have purchased a valuable lease on life by accepting 50:50 formula.52

From 1956, the Government also tried a less oblique approach to Company profits and prices, with some success: Swaran Singh, the then Minister for Works, Housing and Supply told the Lok Sabha in August 1956 that refinery profits would be scrutinized to ensure that no avoidable drain occurred. Yet, the Companies continued to hold monopoly of marketing operations, though the Government augmented indigenous crude with imports and had started to build State refineries with Eastern Bloc aid, initially in an effort to break the Companies' monopoly. During 1950's and early 1960's, the majors (as the seven Oil Companies were called) had tended to treat their downstream operations mainly as an outlet for their crude oil production,

51. For details see Appendix 'A'.
where the profit centre of the business lay. Petrol stations, terminals, storage facilities and even refineries proliferated throughout Europe and Asia as the large international companies tried to get their brand represented in every important market, almost regardless of cost.

Until the Soviet Union began its oil offensive in the mid-fifties, the Third World Countries including India were greatly reliant on the major Western Oil Companies, but the Soviet provision of oil and assistance in the domestic oil industry development contributed to the Western oil interests' decreasing control and influence. The Soviet help came in the form of oil; technicians to train the Indians and technical know-how along with Soviet oil equipment. Their involvement thus led to the construction of refineries as well as aid in oil prospecting. They did not ask for any share in the ownership of any facilities while they offered low-interest credit, which was to be paid only after the completion of a particular project. Their offer of oil also contributed to lowering of oil prices especially in India. The Western countries had been reluctant to assist India with oil exploration because Western Oil Companies like Burmah Shell, Caltex and Esso had a firm control over the Indian oil market and did not want their sales to be challenged by domestically produced oil.

Very early on, the Government showed signs of concern at the foreign oil companies' large claims on Indian resources, confirming the fear of the national leaders that foreign private
investments ultimately led to an economic strain as well as drain of capital. Product prices were high and justified by complex arithmetic. At the time of independence, not withstanding the fact that three-quarters of India's supplies came from the Anglo-Iranian Oil Company's refinery at Abadan, prices in India were based on the landed cost of crude, compounded off the Mexican Gulf price of crude plus the cost of freight to India minus imputed freight charges from India to the Persian Gulf. One price list showed the landed cost of crude in India to be 160 shillings a barrel compared with 32 shillings a barrel in Abadan and 18 shillings a barrel of Russian oil.53

The Government was already considering an intensive oil prospecting program with the aid of up-to-date machinery and experts from U.S.A. and Russia, contacting Russian authorities to find out if and how imports of Russian oil could be revived; apart from a planned strategy for securing a share in the management and control of the oil companies and in the distribution and fixation of prices for petrol; and obtaining facilities for Indians to receive training in the business as well as the operational side of the oil industry.

East Germany and Rumania had also entered the field of oil in 1956, with the latter offering to India an oil drilling rig and training schemes. In October 1958, K.D. Malaviya returned from a tour of Eastern Europe with a firm agreement for a refinery at Nummati, near Gauhati in Assam, to be built and financed by Rumania. Within six months, the Russians came forward and the Barauni Refinery project in Bihar started. A third


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refinery at Koyali, Gujarat again with Russian help was agreed to in 1961.

The Companies Act of 1956 was operational. The evolution of the Act is instructive in showing the Government's growing resolve to control the private sector. The Government was aiming at nationalization of named industries. But in each case nationalization was undertaken for specific and strictly defined objectives, not as a part of an over-all anti-private sector strategy. For example air transport was weakly organized and was taken over whereas Life Insurance was taken over in order to clean up an unusually corrupt organisation. And at no time was there any hint of confiscation. On the contrary compensation was generous. Once again, the field of petroleum and its associated industries was left untouched, where private foreign investment was allowed to continue and flourish. In fact, claims for private entry into iron, steel, and petroleum were further advanced in 1959. A special directorate, the Oil and Natural Gas Commission had been set up and plans formulated to extend the Government prospecting efforts to the Jaisalmer region in Rajasthan; the Cauvery Basin, Madras; the Jwalamukhi area of north-east Punjab; and the Borsad region, Gujarat. Russian and Rumanian crews featured largely in these plans, although, by this time, it had been found possible to hire a Canadian crew as well.

In the Second Plan period, the Nunmati Oil Refinery in Assam was set up with loans and technical aid from Rumania. The Barauni Oil Refinery in Bihar with Russian loan and technical know-how was constructed in accordance with the October 1959

Agreement between the USSR and India. In February and June 1960, the Soviets signed agreements to assist in oil production, and in July 1960 they contracted to undertake an oil survey. They also helped India to develop a Government operated oil distribution system. It is with this generous help that by 1960, India was able to produce on third of its total oil needs.

The most important Soviet oil initiative came early in 1960, when it offered crude oil at low prices. Western Oil Companies, which controlled all the refineries then operating in India, had been importing their own oil and India had been given no discount off the world market prices though the Companies were getting the discount themselves. The Soviets were willing to provide about half of India's import needs at a discount of about 20 to 25 percent. Michael Tanzer indicates that specifically the Russians offered to supply 18 million barrels of crude oil per year (about 2.5 million tons) or about half of India's crude imports at that time. 55 B. Dasgupta maintains the oil from the Soviet Union has always played an important role in the history of the oil industry of the Indian subcontinent.56 Furthermore, the Soviets were offering oil on a barter basis, thus creating a market for Indian exports and helping India conserve its hard currency reserves. In July, however, the Western Companies in a bid to retain their control over imports and to keep the prices high, informed the Indian Government that they would not refine the Soviet oil. India, therefore, had to

turn down the Soviet offer since the Government-owned refineries were not yet in operation. Perhaps India could have nationalized the Western refineries but the time was not yet ripe for such a step. India's public sector in the oil industry was still at a very formative stage of development and the Indian Government was desirous of continued assistance from the Western Oil Companies, particularly in oil prospecting. In addition the Soviets were not offering to supply India with all her oil needs and some reliance on the Western companies would still be necessary.

But this offer from the USSR brought about one distinct advantage. Although the Western Companies would not refine Soviet oil, the threat of cheap Soviet oil exports to India led them to lower their prices. After an initial reduction of about 10 percent, discounts off the Persian Gulf list price were even greater during the following four years. The amount of discount during the period 1960-65 varied and the conflicting figures offered by various sources reflects the discount at different points in time. The crux of the matter was that India received a discount after the Soviet crude oil offer of 1960, whereas, till then it had been paying the world market prices. The Companies, well aware of the nationalizations in Cuba, reached an understanding with India on the price of oil imports in order to help preserve and secure their position in the Indian oil industry.

World Petroleum asserted that Western Oil Companies in India were planning to lower their prices even before the Soviet oil offer. The Oil Companies passed on their revenue loss to the
producing countries by paying them less for their oil as the contention of some oil experts that there was an oil surplus seemed correct, but this surplus was due in part to the Soviet Union's oil offensive during the period. Western Companies wanted to keep prices as high as possible and it was only the threat of cheap Soviet oil in West European and other markets that compelled them to compete by lowering their prices.

To revert to the sequence of events, India was unable to import Soviet crude oil although by July 1960, it had arranged to import Soviet kerosene and diesel fuel. The first shipment arrived in August. The USSR supplied almost one-fourth of India's oil product imports during the years 1961-1965, and it virtually met the entire kerosene and diesel fuel demand. The Soviets raised the price of their oil in 1962, citing higher freight rates, and increased it again in 1965. However, they were still under-selling the Western Companies. The major companies in India Esso, Caltex and Burmah Shell were disturbed by the Soviet oil sales to India, because their refining profits were reduced. As India started to import Soviet oil products, its requirement for crude oil imports and the refining of this crude by the Western Oil Companies was obviously lessened. The Companies therefore resorted to pressure tactics in order to have restrictions placed on the import of Soviet oil. They intentionally held back deliveries of their own oil and disrupted the distribution of Soviet oil products, causing an artificial oil shortage. Nevertheless, India continued to import Soviet oil products, and the Government, through the Indian Oil Corporation, gradually
extended its control over the import, refining, and marketing of crude oil and its products.

In the Third Plan period, the Koyali Oil Refinery in Gujarat came up, once again with Russian aid, fulfilling the February 1961 agreement. It is evident that in the face of reluctance of the Western Countries to aid, financially and technically, the industrial projects in India, the Government welcomed such aid from the Eastern Bloc. In fact, Eastern preponderance in heavy industrial aid made the West overcome its antipathies in some cases. Till 1956, the entire oil industry in India was very much controlled by the West till the Eastern Bloc aid changed the scenario. It was the Eastern Bloc projects in oil and steel that proved invaluable in breaking the Western hold over key supplies as also in augmenting Indian production. The second major effect of Eastern Bloc aid enabled the Indian Government to weaken, or remove entirely, foreign control over key industries. None illustrates the case better than oil.

The Soviets actively continued their efforts in prospecting for oil in India. Prospecting agreements were signed in October 1963, March 1965 and later in January 1974. The focal point of exploration was the Gulf of Cambay, off Bombay coast. J.A. Naik, an Indian analyst of Soviet foreign policy maintained that the Soviets helped India to find big reserves of oil and gas in Assam, Gujarat and Punjab. The Indian oil specialists have with Soviet assistance surpassed the record of the biggest and oldest international companies. Out of 266 wells drilled as many as 149 were found to be oil bearing, 29 gas bearing and only 36
dry. Few places in the world could claim to have achieved such a high success ratio. It was only with the fourth public sector refinery at Cochin, that an alternative to Eastern Bloc aid was found. But the Government could not yet think of entering the marketing scene, while planning to have the distribution of petroleum products in the public sector. This was to be in due course and in agreement with the Oil Companies. For the moment, the new Indian Oil Corporation floated in June 1959, would limit itself to supplying the Government requirements, or about one tenth of the total. While efforts were made to bring some of the oil operations to be managed by the Government, the Companies were seeking permission to raise their throughputs. Though initially reluctant, the Government agreed to do so as clarified by K.D. Malaviya, "Only if Western Oil Companies are willing to import cheaper crude than at present and accept payment in non-convertible rupees will I consider any proposal for expansion in their refineries." However, after much deliberation, the Planning Commission recommended that the refineries be allowed to expand further by three million tonnes.

At the same time, the policy of establishing new refineries wholly in the public sector came in for liberal reinterpretation. An Agreement to build and operate a new 2.5 - 3.5 million tonne per annum (MTPA) plant at Cochin was concluded

with Phillips Petroleum of the United States in April 1963. The most significant clause in the Agreement was that the Government was to hold 51 percent of the shares. 60 This Agreement set the pattern of negotiations between the Government and some foreign companies towards the end of 1963 for the setting up of two more refineries, one at Manali near Madras and the other at Haldia near Calcutta.

The Madras Refinery was set up with 74 percent of the equity capital being held by the Government of India and 13 percent each by National Iranian Oil Company and AMOCO India Inc. of USA. It was designed to process 2.5 MTPA of crude oil imported from Iran. 61 The refinery went on stream in June 1969. The Haldia refinery for processing 2.5 MTPA of Middle Eastern crudes was set up with two sectors: one for producing fuel products and the other for lube base stocks, the cost being financed from French and Rumanian credits. The fuel sector was built by the Indian Oil Corporation with French collaboration and the lube sector with Rumanian collaboration.

Thus, an alternative to the Western aid and investment had been found. In one way or another, Eastern Bloc aid sustained the country in many of its efforts to release industries from utter dependence on tightly organised foreign private interests in the fields associated with heavy electrical equipment, drugs, dyestuffs, mining, machinery and oil.

Offers of low-priced Soviet oil to India made her less dependent on Western sources of supply. The introduction of Soviet oil to India in 1960 was primarily a political move and World Petroleum points out that the low price attached to these sales and the great distance over which the oil had to be transported made economic motivation highly unlikely. By exporting oil to India and other Third World countries, the USSR hoped to acquire political leverage; reduce the power of Western Oil Companies by providing an alternative source of oil and indirectly assisting them to divest themselves of unwanted influence. Oil sales to India served to promote a general atmosphere of political goodwill while at the same time it helped to undercut the Western oil monopolies there. Not only this, the Soviets had also explored for oil in India during the early sixties. Though foreign companies were no longer active in prospecting and in the production of crude oil (except for Burmah Oil through its half share in Oil India Ltd.), they were in 1961 in a strong position to supplement local production with imports. While refineries were being set up in the public sector, there was continuous and mounting pressure from the Companies to allow them increases in their refining throughput.

Until January 1962, when the first Government owned refinery came on stream at Gauhati in Assam, the oil refining industry was shared by four foreign plants; Assam Oil's fifty year old refinery at Digboi in Assam, Burmah-Shell's and Esso Standard's refineries at Bombay, and the Caltex refinery at Visakhapatnam. But it was in the field of oil distribution that
the foreign companies were most strongly entrenched. Until June 1959, when the Government owned Indian Oil Company was registered, the field was exclusively theirs. Burmah Shell alone had seven main ocean installations, 553 upcountry storage depots, over 3,000 retail petrol outlets nearly 6,000 agencies and showrooms, besides another 1,300 agencies and about 40,000 showrooms exclusively for kerosene.62 Even as late as in 1966, the figures showed that the oil industry was still largely controlled by foreign capital, but in which the Government was applying increasing pressure for Indian control.

Once again when the petrochemicals industry was being planned, negotiations began with the Italian ENI, with Esso Standard, and Phillips Petroleum. It was initially planned to be overwhelmingly a private sector industry, controlled from abroad, particularly at the processing end, where Esso Standard Eastern and Union Carbide were to be the major producers. Similarly though most of the construction activities were carried out by the Indian firms, it took on a strong foreign complexion in some of the more specialized aspects of its civil engineering side; particularly in the laying of the 720 mile oil pipeline between Nahorkatiya in Assam and Barauni in Bihar, which was in the hands of Burmah Oil Company (Pipelines) Ltd; main contractors for whom were Mannesmann of West Germany, and Saipam of the Italian ENI group. 63

Apart from foreign control in the case of some industries, it is to be noted that a small number of major foreign firms held a key position in a number of associated industries. For example, Burmah Oil was the sole producer of tinplate in the private sector, a major producer of cans, a shipper, civil engineering designer and contractor, besides running the largest oil refinery and marketing organization. Naturally, such companies made enormous profits.

Profits were anything between 6 and 35 percent higher in India than in U.K. or USA for firms operating in both the places. Again, just for comparison, foreign controlled firms were earning some 20 percent more than the Indian firms in the period 1957-67. While official figures minimize the difference in profitability between Indian and foreign investments, the main cause lies in the distribution of foreign capital between industries. Two-thirds of it was in the petroleum and manufacturing industries, each of which had shown a greater than average yield in the post war period.

Thus, the distribution of foreign investments by industries changed greatly after independence with petroleum, manufacturing and finance having gained as a proportion of the total compared with all other branches. Even in the petroleum sector, half of the increase in petroleum investments has been on manufacturing account; refining rather than trading. The total original investment in refineries is reported to have been between Rs. 45 crores and Rs. 55 crores. By 1961, the total

64. Kidron, *Foreign Investments in India*, p. 224.
investment in petroleum alone had reached around Rs. 150 crores.65

It was at this time that the bias towards technological advancement came about as a response to official preference for investments embodying new processes or products. Although it was not an easy task, whatever the case, technological intensity rapidly became a hallmark of new foreign investments. This then became a great incentive for technical collaboration agreements. After 1963, very few foreign ventures were undertaken without Indian participation. Of the 324 foreign associated consents for new issues granted between April 1956 and December 1964, only 15 (under 5 percent) envisaged full foreign ownership.66 The Government decided to insist on Indian participation in the expansion schemes of wholly owned foreign subsidiaries.

Thus, whereas in 1948, the Indian Government assigned to public enterprise the task only of supplementing and stimulating private enterprise, the subsequent policy was one in which a leading role in the process of development was assigned to the public enterprise in India and the stimulation of the private sector assumed secondary importance.

The result was a significant dilution in the ownership mix in foreign controlled investments. In December 1964, the average authorized foreign share of foreign controlled new issues had come down to 56 percent as compared to 82 percent in 1955.67

65. Kidron, Foreign Investments in India, p. 224.
In the late fifties, particularly after 1957, the Government insisted on joint collaboration in new ventures. An important factor being that collaboration agreements seem to give painless and immediate relief to the balance of payments by providing foreign exchange or its equivalent in imported plant and machinery. Another is the desire to graft foreign managerial and technical skills onto Indian industry. Financial collaborations apart, the vast majority of Indo-foreign joint ventures provided for technical collaboration only. The shift indicated the initial intention to harness private foreign and Indian capital. It was later recast in favour of full Government ownership with foreign technical collaboration. Oil India (Pvt) Ltd. serves an example, in which Burmah oil continued to relinquish its holding over a period of time till it became an equal partner with the Government, and later when it was finally taken over completely by the Government in 1981. But it was observed with regret by K. D. Malaviya, "that the State (Government) oil industry was forced to start from scratch because the foreign companies had failed to train one Indian technologist throughout the sixty odd years of their operations in the country."

Nevertheless, foreign collaborations continued. As a matter of deliberate policy, the Government sought to encourage investment in basic and sophisticated industries where development necessitated foreign technology. Moreover, with the growing shortage of foreign exchange, the Government found it necessary to permit financial participation by foreigners,

68. K.D. Malaviya, Minister of Mines and Oil, Lok Sabha, quoted in Hindu, April 16, 1961.
particularly where such participation did not involve majority control by the foreign partner. Even more important was the fact that a large part of the upsurge in industry has been based on technical collaboration agreements, with foreign companies with minority or no participation in capital. This has been largely the purchase of technical knowledge and has represented for Indian companies a short cut to obtaining advanced technology.

The attractiveness of a country to foreign investors is determined in part by its general economic and political conditions and in part by the policies pursued by its Government. Among all developing countries, India has been the most restrictive in controlling private enterprise (local and foreign) and limited foreign ownership to 40 percent in most cases. India barred foreigners from investing in certain industries; it also had extensive screening and licencing provisions for prospective investors.

As indicated earlier, the Government allowed the entry of foreign capital on special terms only in the case of the three oil refineries where the foreign companies had 100 percent participation. Whatever the initial degree of participation, the Government's policy was inclined towards ultimately promoting Indian control and management. Enterprises which before independence were branches or wholly-owned subsidiaries of foreign companies were gradually induced to accept Indian participation. In cases where expansion was involved or further share capital issue was envisaged, the trend in the Government policy was to use the opportunity to induce the companies to
reduce the extent of foreign participation. This became particularly true in the case of the oil industry, which until the onset of nationalisation was run by the three major foreign oil companies. Even much later, the foreign shareholders in Madras Refineries were encouraged to sell their shares to the Indian Government when the capacity of the refinery was to be increased.

The primary drive in India has always been industrialization, and collaboration agreements were generally confined to manufacturing activities. The rise in foreign collaborations led to some criticism that there had been indiscriminate import of technology, which might have impeded the development of indigenous technology. But it has been proved beyond doubt that foreign collaborations had made an important contribution to the country's industrial progress and that is the reason that till today, India has not closed its doors to foreign collaboration although now the trend and the policy of the Government is in favour of technical collaboration agreements only. Such agreements supply technology without any financial participation and in these cases no foreign control of Indian industry is involved. The main advantage has been to increase rapidly the production of items covered by the agreements, and to bridge the technological gap between India and the advanced countries. Such collaborations have been one of the main factors leading to the rapid diversification of the industrial structure in India.

There have always been conflicting forces operating on Indian attitudes towards the flow of foreign capital and the
entry of foreign enterprises. The distrust of foreign capital, initially brought about by its linkage with foreign political domination, has not disappeared totally. This fact is most clearly visible in such sensitive areas as crude oil exploration and refining, and mining. Over the years, India has broadened her own industrial base to the extent that there is no longer the same feeling of dependence on foreign enterprises as was the case thirty years ago. The Indian economy has achieved self-sufficiency in many industries, but still needs to develop the newer technology based industries, particularly in instrumentation, electronics and petrochemicals.

Quantitatively, foreign private capital has not been very significant since independence. Between July 1948 and December 1961, some Rs. 438 crores of non-banking investments from private sources flowed into India. The private flow was heavily dependent on the fortunes of two or three industries. The course of petroleum investments alone offers an almost complete explanation of its behaviour, particularly since 1954. But whatever the conclusion may be, there is no denying the fact that foreign private investment is expensive, not only in terms of profits but also in the fact that all profits are payable in foreign currency. Technical fees are enormous and the fruits of development are imparted at very high costs.

No wonder, India's attitude to foreign capital remained passive; it was more permissive than inviting. On this subject, the Indian Government vested itself with considerable discretion,

69. Reserve Bank of India Survey, 1961, Table VIII, p.34.
particularly in deciding in which industries foreign capital was to be allowed financial participation and the extent of such participation. Minority positions by foreign partners were more easily accepted.

It was becoming increasingly common for the various Governments including India to enter into partnership arrangements with private (usually foreign) investors in which ownership is divided between two parties, with the private investor providing the management. Often, but not always, the Government would take a controlling share of 51% or more. Increasingly, new foreign investment was only permitted a minority shareholding in the ventures to which it contributed, as an attempt to secure economic control. Clearly, foreign investment involved the most complete loss of control. Joint ventures were and have been advocated as a means of avoiding some of this loss of control with the Government of India holding 51% or more of the total share. Even at the height of the 1957-58 crisis, when the Government was straining every nerve to attract foreign capital - public and private - there remained spheres from which foreign private investment was excluded in practice or subjected to stringent control. This helped to profit the Indian business houses dealing with tyres, soap and rubber. When Indian private interests were not directly involved - oil is a notable example - they preferred a Government monopoly to an even more exclusive foreign one.
However, by the sixties, Indian capital had grown in size and confidence and had become used to collaborating with foreign firms and to calling on their considerable resources; it was associated with almost every important foreign venture in the country. It is interesting to note in the case of India that all foreign companies were strongly encouraged to give up more and more of their shares to domestic investors as the company developed. This was true of nearly every field of industries where foreign investments existed and became even more true in the case of the oil industry.

Once again even in the case of the special terms obtained by the oil companies in the respective Refinery Agreements, the Indian Government had the confidence to negotiate for Indian participation. At the time when these terms were applied in the case of the oil companies, these did reflect the balance of needs between the Government and the oil companies. As time passed, new terms were sought by both the parties, by the firms to expand their field of operations and by the Government to allow for Indian participation. In fact as later events show, the firms were allowed to expand the scope of their activities only after the Government had succeeded in modifying the terms of ownership to the benefit of the Indian partner.