

Standing Committee Report Summary

Allotment of Retail Outlets and LPG Distributorships

- The Standing Committee on Petroleum and Natural Gas (Chair: Mr. Ramesh Bidhuri) submitted its report on the subject ‘Allotment of Retail Outlets and LPG Distributorships’ on August 6, 2021. Key observations and recommendations of the Committee include:
 - **Allotment process:** Currently, Oil Marketing Companies (OMCs) select the dealers for their retail outlets through online applications. The Committee noted that there have been many legal cases in courts challenging the allotment process. Further, there is neither any feedback mechanism nor any study done regarding the efficacy of the process. It recommended the Ministry to develop a feedback system and conduct a study to streamline the allotment process. A simple and transparent allotment procedure should be adopted to eliminate or reduce the number of cases.
 - The Committee observed that of the 29,501 retail outlets approved since 2018, only one-third have been commissioned. It noted that the complexity of each location and delay in approvals from authorities make the allotment process tedious and cumbersome. The Committee recommended the Ministry to propose draft guidelines for state governments and set up a single window clearance system for speedy approvals.
 - The Committee noted that the guidelines for allotment of retail outlets and LPG distributorships provide reservation for the SC, ST, and OBC categories. It recommended the inclusion of the Economically Weaker Section (EWS) category in the guidelines.
 - **Marketing Discipline Guidelines (MDGs):** MDGs have been in place since 1982 to enforce a greater degree of ethics and customer service in retail outlets. The guidelines also stipulate a wide range of penal provisions such as suspension of sales/ supplies, imposition of fines, and terminations for malpractices. The Committee noted some instances when OMCs have used coercive tactics to enforce MDGs by imposing high penalties. It recommended the levy of penalties in a consistent manner across the country.
 - **Commissions of dealers:** The Committee observed that OMCs have not increased the commissions of dealers since 2017. It noted that the amendments made in MDGs in 2017, particularly on payment of wages to staff by the dealers, have become a contentious issue between dealers and OMCs. The assertion of OMCs to link dealer commissions to the hike in wages of their staff has strained their relationship. The Committee recommended that instead, a staggered system of dealership margins should be implemented, based on the cost of living, basic pay structures, economic development of various states, and retail price index.
- **Lease agreements:** The Committee noted that OMCs get into lease agreements for retail outlets, which are renewable after expiry. In case there is no renewable clause, OMCs try to negotiate with the landlord for renewal or purchase. If the negotiations fail, they seek legal actions. The Committee noted that the OMCs’ decision to explore legal actions where renewal options are not available is unreasonable. It recommended that the guidelines should be updated so that landlords may get their land back in case they do not wish to renew.
- **Litigation:** The Committee noted that several cases have been filed regarding the allotment process and guidelines, land evictions, and lease agreements in various courts. As a result, OMCs spend considerable time and money in fighting such cases. The Committee recommended the Ministry to review pending litigation and institutionalise an alternate dispute resolution mechanism to resolve cases/ disputes outside courts.
- **Location of retail outlets:** The Committee observed that the basis of selection of locations for retail outlets and LPG distributorships include economic prosperity of the location, market potential, commercial viability, and distance between two outlets/ distributors. Further, factors like inter-state borders with price advantage, truck lay bye, halting points and business hubs, lead to clustering of retail outlets in certain areas. The Committee recommended the adoption of a more scientific approach (based on vehicular density, population, emergence of smart cities, among others) for setting up retail outlets and LPG distributorships.
- The Committee noted several difficulties in setting up retail outlets in hilly and remote areas, such as low returns on investments, low availability of site land, commercial non-viability, and logistical issues. It recommended: (i) setting up of a coordinating mechanism to address the logistical issues and (ii) reviewing the possibility to incentivise the dealers in these areas by enhancing their commissions.
- **Insurance policy:** The Committee observed that the public liability insurance policy taken by OMCs cover losses when LPG is the primary cause of fire in any accident. Since the customer base has increased in recent years due to the Pradhan Mantri Ujjwala Yojana, the Committee recommended that OMCs should conduct awareness campaigns about such policies.

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