

Disinvestment of PSUs- Some home truths

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Successive governments at the Centre have been touting PSU disinvestment as a “reform” to be undertaken to uphold the public interest. Either they have a short memory of why PSUs were created in the first instance or they are oblivious of the compelling circumstances that forced the previous governments to take over private companies and convert them into PSUs.

This may be illustrated by citing the examples of Coal India Ltd (CIL) and the four oil PSUs, namely, ONGC, Indian Oil Corporation Ltd. (IOC), Hindustan Petroleum Corporation Ltd (HPCIL) and Bharat Petroleum Corporation Ltd (BPCL).

CIL:

Till 1970s, there were a large number of private coal companies engaged in coal exploration and mining in India. Most of these private companies had highly localised operations. They were unwilling to look for cheaper and easily mineable coal reserves. Their mining practices were somewhat unscientific and, as a result, they led to low ratios of coal mined vis-a-vis the deposits in place. More important that these two factors was that the private coal companies adopted highly regressive labour policies that resulted in human rights violations of the worst kind.

It was Shri (Late) Mohan Kumaramangalam, the then Union Minister in charge of Iron and Steel Mines (1971-72) [who was also in charge of coal mining at that time] to recognise these flaws in private coal mining and nationalise the same by taking over 226 private coking coal mines and 711 private non-coking coal mines. This led to the setting up of CIL in 1975. But for the creation of CIL as a PSU at that time, it would not have been possible for the subsequent governments to build the domestic coal industry into a global behemoth that, in turn, made it possible for India to have one of the largest electricity systems in the world.

In the recent times, the subsequent governments had tried to bring in the private sector once again into coal mining in the garb of “captive coal mining” activity that resulted in widespread corruption and an overall failure of the private coal mining companies.

Oil PSUs:

Prior to 1950s, India's petroleum sector was dominated by foreign oil companies. Those companies controlled by their overseas corporate groups often defied the domestic regulators. They showed little interest in exploring for domestic hydrocarbon resources in a systematic manner and reducing the country's growing dependence on oil imports.

It was against this background that Shri (Late) Keshav Deo Malaviya, the then Union Minister in charge of Petroleum, set up ONGC in 1956 as an effective affront of the foreign oil companies, to formulate a long-term plan for the exploration and development of India's hydrocarbon resources. It is ONGC and its talented staff that have given our country a pride of place among the oil producers of the world. During the last two decades, the subsequent governments have tried to bring back private oil exploration companies but their performance has not been quite satisfactory. In fact, there are reports of how a private company undertook unscientific development activity in the

Krishna Godavari Basin in AP and how it may have damaged the reservoir in its anxiety to maximise its short-term profits.

It was Shri Malaviya who felt that the only way to address the dominance of the foreign oil refining and marketing companies was by setting up a refining and marketing PSU. That thought led to the founding of IOC, initially as a marketing entity and later as an integrated refining-cum-marketing company. IOC provided stiff competition to the foreign oil companies and reduced their dominance to a large extent.

When the Bangladesh war broke out in early 1970s, India played a crucial role in supporting the freedom forces of that country. During the war and later, India provided support in terms of reviving that country's petroleum operations. When the war broke out, India faced serious problems of cooperation from the foreign oil companies who were required to import crude oil from the Middle East, refine the same in their Indian refineries and supply petroleum products, some of which were essentially required for sustaining India's role in the liberation of Bangladesh. It was in that context, immediately following the Bangladesh liberation, that a decision was taken at the highest level in India to nationalise the foreign oil companies. The first foreign oil company to be so nationalised was Esso. It was converted into HPCL in 1974. Thereafter, Burma Shell was taken over and made a PSU, Bharat Petroleum Corporation Ltd (BPCL) in 1976. Caltex, the other foreign oil company was merged with HPCL later.

The four PSUs, namely, ONGC, IOC, HPCL and BPCL, have built up the petroleum sector in India by bringing in state-of-art technologies and training lakhs of personnel into world-class professionals.

When the subsequent governments tried to bring back some corporate houses to compete with these PSUs, their performance proved to be highly unsatisfactory. The private companies rarely displayed the kind of social consciousness that the PSUs have.

Other PSUs:

Not many people know that several of the PSUs that exist today in the eastern region were originally private companies which were mismanaged. The government was forced to take them over in order to safeguard the interests of the customers and the employees.

For example, prior to 1956, there were private insurance companies operating in India. When there was a national uproar about the continuing insurance frauds, the then government brought in a law in 1956 to nationalise 154 life insurance companies, 16 foreign companies and 75 provident companies and set up the Life Insurance Corporation (LIC).

In the electricity sector, at the time of Independence, there were private licensees generating electricity and supplying the same to consumers located in limited urban clusters. Electricity being an essential intermediate input for economic development, the nation was in a hurry to take electricity to the remotest corners of the country so as to be able to trigger downstream development activity. The private licensees were not up to it.

It was in that context that the government brought in the Electricity (Supply) act of 1948 to set up State Electricity Boards (SEBs) which became the harbingers of economic development across the

length and the breadth of the country.

More recently, the government, in the guise of reform, tried to bring in corporate houses to handle electricity distribution in some States. In Odisha, the private distribution companies could not deliver and they recently quit the scene. In Delhi, the local government felt that the private companies were overcharging the consumers.

Some issues relating to PSU disinvestment:

PSUs represent the crown jewels among the assets of the public. They represent an enormous storehouse of talent and professionalism built assiduously as a result of the vision of nation building displayed by Pandit Jawaharlal Nehru, Keshav Deo Malaviya, Mohan Kumaramangalam, C. D. Deshmukh and others. Many PSUs have strategic roles in the defense and the other strategic sectors where it is not desirable to involve the private sector.

The present NDA government and its predecessors lack clarity on disinvestment. For example, the NDA government recently indicated that “profitable” PSUs would be disinvested, little appreciating that “profit” and “loss” are indices that depend on the pricing policies in vogue and the vagaries of the market. Dredging Corporation of India (DCI) which is now proposed to be disinvested earns profits but its activities are strategic. Therefore, to disinvest DCI will be highly imprudent, as pointed out by several Parliamentary Committees.

There are PSUs that use mineral raw materials which are scarce and which need to be processed efficiently and prudently. It is undesirable to disinvest such PSUs.

The experience in the case of PSUs sold to private companies has also not been satisfactory. For example, the private company that acquired a dominant interest in HZL has literally closed down HZL's Vizag unit, dis-employed its personnel, polluted the surroundings and has since proposed to strip that unit of its valuable land to the extent of around 300 acres which was originally acquired from farmers for a “public purpose”!

Since the assets of the PSUs belong to the nation, disinvestment is a matter on which the Parliament should discuss and debate. Often, it is the political executive that takes decisions unilaterally.